13 February 2025
ESMA74-2119945925-2205

Reply Form

Consultation Paper on the Amendments to the RTS on Settlement Discipline

Responding to this Consultation Paper

ESMA invites comments on all matters in this Consultation Paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **14 April 2025.**

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in this reply form.
- Please do not remove tags of the type < ESMA_QUESTION_CSDC_0>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP1_ CSDC_nameofrespondent.

  For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA_CP1_ CSDC_ABCD.
- Upload the Word reply form containing your responses to ESMA's website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at *www.esma.europa.eu* under the heading *'Your input - Consultations'.*

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Data protection'.

Who should read this paper?

All interested stakeholders are invited to respond to this consultation paper. In particular, ESMA invites market infrastructures (CSDs, CCPs, trading venues), their members and participants, other investment firms, credit institutions, issuers, fund managers, retail and wholesale investors, and their representatives to provide their views to the questions asked in this paper.

1 General information about respondent

Name of the company / organisation	Association of Financial Markets in Europe (AFME)
Activity	Other
Are you representing an association?	☒
Country / Region	Europe

2 Questions

3.1.1 Timing of allocations and confirmations

Q1 Do you agree with the proposed amendments to Articles 2(2) and 3 of CDR 2018/1229?

<ESMA_QUESTION_CSDC_1>

We do not agree with the proposed amendments to Articles 2(2) and 3, since we consider that the EU should follow the same approach as the US and the UK and set out a single unified deadline by the end of trade date for sending out allocations and confirmations. We recommend that orders executed after 16:00 CET should not be exempted from this requirement regardless of timezone.

Therefore, we do not support retaining the current wording, and propose that the requirement to send allocations and confirmations should be "… by close of business on trade date", as we believe that referencing the Trade Date offers a simpler and more standardised approach.

Whilst we recognise Article 2.2(i) today offers an alternative deadline for sending written allocations and confirmations where clients are in a time-zone with a difference of more than 2 hours, we note that there are a number of issues in doing so, most notably, in a T+1 environment, as such discretion will mean that the allocation and subsequent confirmation and settlement instructions by both parties to the trade will take place after ISD settlement processing has commenced (most notably after the night time batch has taken place). This could have a negative impact to both trading parties, namely:

- The Buyer may not have been able to arrange / book an FX or arrange funding to settle the trade.
- The Seller will be unaware of where the Buyer wants to receive the securities and therefore may not be able to realign the securities into the delivering depot in time for timely settlement.
- Should the broker have a market leg to settle, not having both sides of the transaction in the overnight could mean pushing settlement of the market leg into the RTS, which could have a knock-on impact to the wider settlement chain (horizontal), including the CCPs.
- If the Broker ultimately fails to the client, it risks an SEFP and/or LMFP in the event an amendment to the trade is required, and/or interest claim.

Beyond the impacts to the trading parties we note that AFME members are concerned of how this will be monitored in practice. One of the weaknesses of Article 2 today is that there is no transparency as to its effect, adherence and hence success. Should bifurcated deadlines ultimately be adopted, there will need to be a way to monitor that only parties to the trade outside of the European time zone are allocating and confirming to the later deadline of 10:00am CET.

Furthermore, we observe that the US and Canada, who both operate night time settlement processes had deadlines for allocations and confirmations prior to the start of settlement, as will the UK, and we recommend that the EU should do the same.

<ESMA_QUESTION_CSDC_1>

Q2 Would you see merit in introducing an obligation for investment firms to notify their professional clients the execution details of their orders as soon as these orders are fulfilled (in a way that allows STP)? If yes, should it be cumulative to the proposed amendments to Articles 2(2) and 3 of CDR 2018/1229?

<ESMA_QUESTION_CSDC_2>

We note that Article 59 of the MiFID II Delegated Regulation (EU) 2017/565 already sets out a requirement for investment firms to provide clients with essential information on the execution of their orders as soon as possible, but no later than the next business day after execution. Therefore, we do not consider that it is necessary to incorporate any additional mandate in CSDR.

However, we suggest that the EU T+1 Industry Committee's Legal & Regulatory workstream looks into Article 59 of MiFID II to ensure that this provision is fit for purpose in a T+1 environment.<ESMA_QUESTION_CSDC_2>

Q3 If you support an obligation for investment firms to notify their professional clients the execution as soon as the orders are fulfilled, do you think that clients should be allowed a maximum number of business hours for the allocations and confirmations from the moment of notification by investment firms, instead of having fixed deadlines? If yes, how many hours would be necessary for that?

<ESMA_QUESTION_CSDC_3>

We consider that this is something that the EU T+1 Industry Committee should consider as a recommendation to ensure an effective allocation/confirmation –hence booking process–, allowing both trading parties to ensure they are able to uphold settlement efficiency objectives in a T+1 environment.<ESMA_QUESTION_CSDC_3>

Q4 Should CDR 2018/1229 further specify the term 'close of business' for the purpose of Article 2(2)? If yes, how should this take into account the business day at CSD level?

<ESMA_QUESTION_CSDC_4>

We do not believe that CDR 2018/1229 should further specify the term 'close of business' in Article 2(2). The definition of 'close of business' varies across markets, participants, and asset classes, reflecting differences in market structure and operating hours. As such, prescribing a regulatory definition could introduce unnecessary rigidity and potential misalignment with industry practices.

Instead, we recommend that this should be guided by market-driven initiatives, allowing flexibility for participants to align with changing operational and technological developments while ensuring efficient and timely processing at the CSD level.

<ESMA_QUESTION_CSDC_4>

Q5 Should the 10:00 CET deadline for professional clients in different time zones and retail clients be brought forward to 07:00 CET on T+1, to be aligned with the UK deadline?

<ESMA_QUESTION_CSDC_5>

It is important to highlight that this provision in the consultation paper refers to the UK Accelerated Settlement Taskforce's (AST) agreed deadline for sending settlement instructions, not allocations/confirmations.

We note that section SETT01 of the UK AST's report recommends that allocations and confirmations should be completed "…no later than 23:59 on trade date" and SETT02 recommends for all settlement instruction submissions to the CSD to be sent *"…no later than 05.59 UK time on T+1*", that is, by 06:59 CET. We do not support the introduction of regulatory deadlines for the submission of settlement instructions; unequivocally, an instruction could still be submitted on T+1 and settle on time.

Furthermore, we note that one of the rationales behind the 06:59am CET deadline in the UK AST's Implementation Plan seeks to encourage sending instructions before the UK CSD's (CREST) settlement day commences (there is no Night Time Settlement in the UK market), with settlement instructions to be received in the CREST system ahead of the start of settlement, referred to as the 'peak settlement period', which runs between 7-9am CET; inbound messages received during that time would incur on a £0.60 surcharge.

Therefore, as referred in our response to Q1, we consider that the deadline for sending out written allocations and confirmations should be by the end of trade date, recommendations to be issued by the EU T+1 Industry Taskforce on the optimal times for allocations and confirmations to be concluded under market practice. <ESMA_QUESTION_CSDC_5>

Q6 Can you suggest any other means to achieve the same objective? If yes, please elaborate

<ESMA_QUESTION_CSDC_6>

N/A

<ESMA_QUESTION_CSDC_6>

3.1.2 Means for sending allocations and confirmations

Q7 Do you agree to make the use of electronic and machine-readable format that allow for STP mandatory for written allocations?

<ESMA_QUESTION_CSDC_7>

We are fully supportive of the mandatory use of electronic and machine-readable formats that allow for Straight-Through Processing (STP) in written allocations, in line with the recommendations of the EU T+1 Industry Task Force.

We understand that "machine-readable" refers to data or information that is structured in a format that can be easily processed and understood by computers without human intervention. This typically involves the use of standardised formats such as XML, JSON or CSV. We believe that the exchange of information via email or Bloomberg chats, despite being sent in an electronic format, cannot be considered as "machine-readable". We recommend that ESMA

provides clarification on what is understood to be an electronic and machine-readable format, which could be done at Level 3 Q&As.

Our longstanding position – as noted in the AFME paper on Settlement Efficiency – has been supportive of ensuring that allocations are communicated in a standardised, electronic format, which can bring several benefits:

- Reduction of settlement fails by minimising manual intervention and any discrepancies in trade details; this will contribute to higher settlement efficiency and it will also bring allocation and confirmation processing closer in line with settlement instructions, as the former should inform the latter.

- Enhanced operational resilience: Automation would lower the risk of errors and delays, thus improving overall market resilience and reducing costs associated with manual processing, reconciliations and exception management. It will also ensure that there is a full audit trail with time stamping which is important for settlement fails investigations and evidencing in the event of a cash penalty dispute.

- As EU markets evolve towards T+1, fully automated post-trade processes will be essential for meeting the accelerated settlement timelines.

We recommend ESMA ensure that implementation is aligned with existing industry standards and global best practices to maximise efficiency and avoid fragmentation. AFME and its members stand ready to support further discussions on implementation to ensure a smooth transition for all market participants.<ESMA_QUESTION_CSDC_7>

Q8 Would you see merit in introducing optionality for investment firms to set deadlines based on whether an electronic, machine-readable format of the communication is used? In such case, do you agree that an earlier deadline could be set for non-machine readable formats, so clients are disincentivised to use them? Which should be such deadline?

<ESMA_QUESTION_CSDC_8>

We do not support introducing optionality for investment firms to set deadlines based on the format of communication. Allowing participants the choice to send non-machine-readable formats risks reinforcing fragmentation in communication standards and non-STP, which could potentially lead to more mismatches, processing delays, and inefficiencies in settlement processes.

We consider that the industry should prioritise the adoption of structured, electronic, and machine-readable formats to improve automation, reduce manual intervention, and enhance overall settlement efficiency. Creating an earlier deadline for non-machine-readable formats may act as a disincentive, but it could also introduce unnecessary complexity and operational challenges without fully addressing the root cause which is the continued use of non-standardised formats..<ESMA_QUESTION_CSDC_8>

Q9 Please provide quantitative evidence regarding the use of non-machine readable formats for written allocations and confirmations.

<ESMA_QUESTION_CSDC_9>

AFME has run a survey across members on approximate volume of allocations and confirmation messages that are exchanged in non-machine readable formats, having received the following feedback:

- Instructions sent via email: 6%
- PDF/scanned documents: 4%
- Excel sheets: 7%
- Word documents: 0%
- Phone calls / voice messages: 3%

We note that this anecdotal evidence reflects that still a considerable volume of allocation and confirmation messages are transmitted in a non-standardised way, which consequently results in delays and inefficiencies.<ESMA_QUESTION_CSDC_9>

Q10 Would it be necessary to introduce a similar obligation in other steps of the settlement chain? If yes, please elaborate.

<ESMA_QUESTION_CSDC_10>

While we do not see any need to introduce a similar obligation in other steps of the settlement chain since processes are mostly already full STP, we would see merit in setting out a baseline regulatory framework in regard to the storage and exchange of SSI information. Such a

requirement should ensure that vendor platforms supporting the storage and exchange of SSIs are fully interoperable and STP.

This point is developed in more detail in our response to Q39.

<ESMA_QUESTION_CSDC_10>

Q11 Can you suggest any other means to achieve the same objective? If yes, please elaborate

<ESMA_QUESTION_CSDC_11>

We consider that industry-led initiatives and the continued adoption of best practices in automation and standardisation should be the primary drivers of efficiency.

We note that a number of steps in the settlement chain are already moving towards greater use of structured, machine-readable formats; this is largely being driven by operational benefits and industry preparation works for T+1 rather than regulatory mandates.

The introduction of additional regulatory obligations could add unwanted complexities without necessarily addressing the root causes of inefficiencies. A more effective approach would be to encourage market participants to adopt and align with existing standards, fostering improved straight-through processing (STP) and settlement efficiency through cross-industry collaboration rather than regulation.

<ESMA_QUESTION_CSDC_11>

3.1.3 The use of international open communication procedures and standards for messaging and reference data to exchange allocations and confirmations

Q12 Do you agree with the proposed amendment to Article 2 of CDR 2018/1229?

<ESMA_QUESTION_CSDC_12>

We do not agree with the proposed changes to the wording, whereby investment firms would have to require their professional clients to send written allocations and confirmation messages using international communication procedures and standards.

This change would place an additional burden on investment firms by imposing a prescriptive approach to communication that may not be necessary or suitable for all client relationships. Furthermore, the practical implementation of this requirement raises concerns regarding how it would be monitored and enforced, potentially leading to operational complexities and compliance challenges.

We believe that the decision on how investment firms receive allocation and confirmation messages should remain a matter of agreement between the firm and its clients, provided that the chosen method ensures Straight-Through-Processing (STP) and is sent in a machine-readable format.

<ESMA_QUESTION_CSDC_12>

Q13 Do you agree that settlement efficiency would improve if all parties in the transaction and settlement chain used the latest international standards, such as the ISO 20022 messaging standards, in particular whenever A2A messages and data are exchanged? If not, please elaborate. How long would it take for all parties to adapt to ISO20022?

<ESMA_QUESTION_CSDC_13>

Settlement efficiency depends on the consistency and clarity of data exchanged between all parties in the transaction and settlement chain. We recommend that rather than mandating a specific messaging standard, the priority must be around standardisation of the key data fields that need to be exchanged. This would ensure consistency across systems whilst allowing firms the flexibility to use the most appropriate communication methods for their operations.

We note that ISO 20022 is not suited for allocation and confirmation messages, and we consider that a hypothetical regulatory imposition to require its use on settlement messaging is unnecessary. While ISO 20022 is one available messaging standard, it should not be seen as the only solution. Market participants have invested in different infrastructures, and other formats, such as ISO 15022, FIX or CTM protocols, continue to serve their needs effectively.

Most allocations and confirmations currently utilise FIX, CTM, and other existing protocols. The focus should be on improving automation by leveraging the existing technologies rather than imposing the use of certain messaging standards.

Enforcing ISO 20022 across the board could have unintended consequences, such as limiting competition by effectively mandating a particular vendor solution and it would place a huge imposition on the investment community. We therefore reiterate that ISO 20022 should not be

considered within the context of sending allocations and confirmations. Any estimated timeline for full adoption of ISO 20022 across all market participants would vary widely, depending on infrastructure, costs, and business priorities.<ESMA_QUESTION_CSDC_13>

Q14 Can you provide figures (by number and type of financial entities, jurisdictions) regarding the current use of international open communication procedures and standards such as: a) ISO 20022, b) ISO 15022, c) others (please specify)?

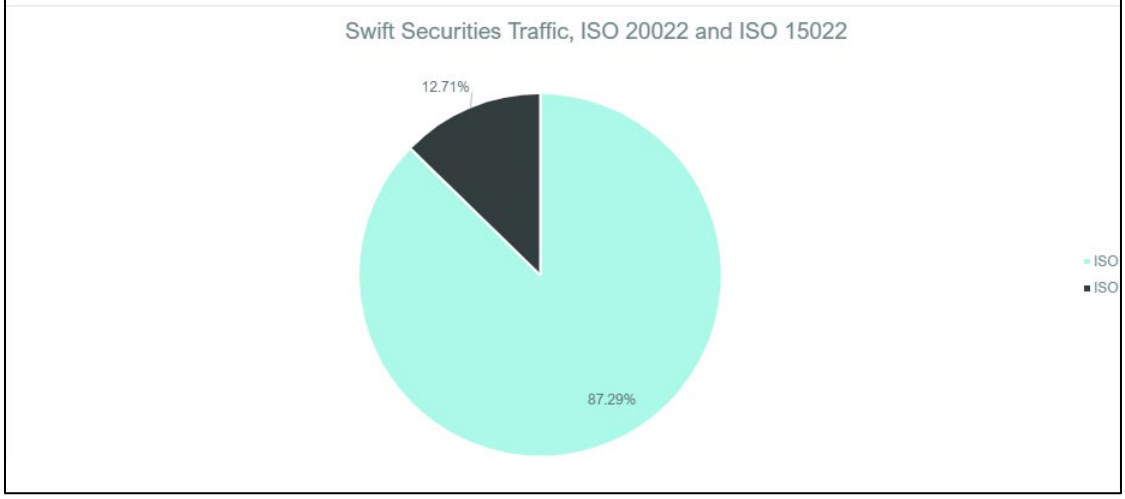
<ESMA_QUESTION_CSDC_14>

AFME reached out to SWIFT and requested some figures to inform the response to this question. We note that these are SWIFT network numbers only, thereby do not represent all financial communications in the securities space. Figures correspond to the period of February 2025.

Figures on the use of ISO 15022 vs ISO 20022:

February 2025 Data:

Swift Securities Traffic, ISO 20022 and ISO 15022	
Period no.	202502
Category	**Sum of Traffic Sent**
ISO 15022	87.29%
ISO 20022	12.71%
Grand Total	**100.00%**



Source: SWIFT

Figures on the use of ISO 20022 and ISO 15022, with breakdown based on i) geographic region, and ii) financial entity type

ISO 20022 details – February 2025

ISO 20022 Swift Securities Traffic, split by Geo Region

Period no.	202502

My Geo Region	Sum of Traffic Sent
Europe - Euro Zone	43.94%
North America	19.85%
Europe - Non Euro Zone	16.62%
Asia-Pacific	11.25%
Other	5.75%
Africa	1.09%
Middle East	0.91%
Central & Latin America	0.60%
SWIFT	0.00%
IMI & Related Copies	0.00%
Grand Total	**100.00%**

ISO 20022 Swift Securities Traffic, split by Segment Level 1

Period no.	202502
Category	ISO 20022

My Segment Level 1	Sum of Traffic Sent
Market Infrastructure	72.87%
Bank	15.79%
Funds Player	5.32%
Investment Manager	3.66%

(delta with 100% = 2.35% : category "others")

ISO 15022 details – February 2025

ISO 15022 Swift Securities Traffic, split by Geo Region

Period no.	202502
Category	ISO 15022

My Geo Region	Sum of Traffic Sent
Europe - Euro Zone	46.06%
North America	20.47%
Europe - Non Euro Zone	17.91%
Asia-Pacific	12.62%
Africa	1.24%
Middle East	1.01%
Central & Latin America	0.68%
IMI & Related Copies	0.00%
SWIFT	0.00%
Grand Total	**100.00%**

ISO 15022 Swift Securities Traffic, split by Segment Level 1

Period no.	202502
Category	ISO 15022

My Segment Level 1	Sum of Traffic Sent
Bank	59.30%
Market Infrastructure	29.04%
Broker/Dealer	6.83%
Investment Manager	3.42%
Funds Player	0.94%

(delta with 100% = 0.48% : category others)

Source: SWIFT

<ESMA_QUESTION_CSDC_14>

Q15 Do you agree with the proposal of the EU Industry Task Force whereby allocation requirements should be aligned with CSD-level matching requirements? If not, please elaborate.

<ESMA_QUESTION_CSDC_15>

In line with the views expressed by the EU T+1 ITF, we believe that information provided early in the Post Trade process should remain constant to ensure consistency throughout the settlement flow. Therefore, we support for allocation requirements to be aligned with the matching criteria at CSD level.

Indeed, paragraph 47 in the consultation paper, elaborated in 'footnote 22' references 'existing requirements in the current RTS' and demonstrates significant overlap between the fields in allocations and settlement instructions. Including (h) the total amount of cash to be delivered or received which would be improved by referencing the need for this to align with the tolerances expressed in Article 6 of the RTS and (j) and (k) the identifier and entity where the securities and cash are held. Feedback from members suggests that this is not adhered to creating issues 'downstream' at the settlement level.

We therefore recognise and support the benefits of synchronising allocation requirements with CSD-level matching to improve settlement efficiency. However, we note that there are complexities around monitoring and enforcing such alignment across different market participants and infrastructures, therefore we believe that a requirement in the RTS for industry best practices to support the existing regulatory mandate in Article 6 of CDR 2018/1229 would offer a more practical approach to ensure there is adherence to this important requirement.

<ESMA_QUESTION_CSDC_15>

Q16 Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA_QUESTION_CSDC_16>

N/A

<ESMA_QUESTION_CSDC_16>

3.1.4 Onboarding of new clients

Q17 Do you agree with the proposed regulatory change to introduce an obligation for investment firms to collect the data necessary to settle a trade from professional clients during their onboarding and to keep it updated? If not, please explain.

<ESMA_QUESTION_CSDC_17>

We do not support the proposed change mandating investment firms to collect trade settlement data during the onboarding process.

We note that mandating the collection of client data during the onboarding process could lead to the use of outdated information by the time the first trade is executed. This is because the KYC and client onboarding processes often take place well in advance of any actual trading activity. As a result, the data collected during the onboarding process may become stale or outdated by the time the client engages in their first transaction. For example, key details such as client identification, financial status, or regulatory compliance information might change during the period between onboarding and the first trade, thus rendering the initially collected data inaccurate or incomplete.

To address this issue, investment firms typically request and verify trade settlement data at the time of the first trade, rather than relying solely on the information gathered during the onboarding process. This ensures that the data that will be used for settlement is current, accurate, and reflective of the client's status at the time of the transaction. By updating and validating client information at the point of the first trade, financial institutions can mitigate the risks associated with outdated data, such as settlement failures, compliance breaches, or operational inefficiencies.

We recommend that the compilation of all relevant KYC information is carried out through the development of industry-driven best practices. These could include mechanisms to ensure that the information captured at the firm’s systems remains up to date, such as periodic data reviews or trigger-based updates where client information is refreshed at key milestones (e.g., before the execution of the first trade or when significant changes occur in the client’s profile) or at the point of the trade’s lifecycle when new sub-accounts or funds are required.

The use of an electronic SSI repository adhering to an agreed formatting standard should also be encouraged for ongoing immediacy and accuracy. Whilst we strongly support such an approach, we recognise that cost may be a barrier for some firms and therefore we recommend that this is developed through market practice rather than regulation.

.<ESMA_QUESTION_CSDC_17>

Q18 Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA_QUESTION_CSDC_18>

N/A

<ESMA_QUESTION_CSDC_18>

3.1.6 Partial settlement

Q19 Do you agree with the proposed amendment to Article 10 of CDR 2018/1229? If not, please elaborate.

<ESMA_QUESTION_CSDC_19>

Our longstanding position has been supportive of partial settlement as one of the essential tools for improving settlement efficiency in the EU, as it helps mitigate settlement risks by exposure to market and credit risks associated with delayed or failed settlements whilst optimising firms' inventory which in turn optimises market liquidity. Partial settlement can streamline the settlement process by facilitating the timely completion of transactions, reducing the operational burden on market infrastructures, clearing houses, and intermediaries. In the context of cross-border securities transactions within the EU, partial settlement mechanisms can facilitate the efficient and timely settlement of transactions involving securities issued in different jurisdictions, thus promoting market integration and liquidity.

AFME's proposal

We support the idea of mandating through regulation that CSDs provide partial settlement and partial release functionality, along with a mandate for market participants to accept partial deliveries within certain parameters.

We recommend that CSDs should apply the T2S partial settlement default thresholds:

- Cash values: 10,000 EUR for equity instruments and 100,000 EUR for non-equity instruments.
- Quantity: based on the Minimum Settlement Unit of the ISIN

We note that non-T2S CSDs should align with the T2S thresholds to ensure consistency across the market.

We recommend that ESMA should introduce a mandate for the development of industry best practices to drive consistency in the use of partial settlement functionality and the CSDs application of the referred thresholds.

Making partial settlement mandatory could effectively counteract the increase in fails that could occur as a consequence of a compressed settlement cycle, such as the EU's adoption of T+1; it will also align the OTC flow with the CCP flow where 'partialling' exists today, thereby ensuring a uniform approach throughout the settlement chain preventing securities from being 'held up' by an uneven application of partial settlement.

We note that the existing optionality for partial settlement provided in the CSDR regulatory framework has diminished, so far, the degree of effectiveness of this measure. A majority of AFME members consider that optionality could be introduced only when **both** parties to the instruction explicitly opt out, that is, when both parties enter the 'NPAR' flag within the Partial Settlement Indicator field. However, we do not consider that the Partial Settlement Indicator field should become a matching criterion, as it would likely increase the number of unmatched trades.

We recommend that Article 10 CDR is amended as follows:

Article 10 of CDR 2018/1229

Partial settlement

CSDs shall allow for the partial settlement of settlement instructions. Matched settlement instructions shall be eligible for partial settlement, unless ~~one of the participants opts~~ **both participants opt** out from partial settlement or a settlement instruction is put on hold.

We note, however, that this position was not unanimously supported across all AFME members, with some firms noting that a requirement for both parties to opt out could be too restrictive and burdensome given that auto-partialling may not be optional for all transaction types (notably, in Securities Financing Transactions). Even where some member firms were opposed to both parties having to opt-out, there was agreement that the switch to auto-partialling being the default position was a positive step, as there is wide agreement on the benefits of increased use of auto-partialling on settlement efficiency.

Whilst AFME is fully supportive to increasing the use of partial settlement, we note that cost has historically proved a major barrier to the adoption. Current CSD fee structures disincentivise partial settlement, where full DVP settlement charges are often applied per partial, not per trade. Messaging costs (e.g., MT54x series, ISO 20022 equivalents, etc.) can

also accumulate with each partial. This makes auto-partialling costs significant, especially for smaller trades or highly fragmented positions. In some CSDs, a settlement instruction that settles in three partials could generate three times the settlement cost of a single complete instruction.

The regulatory aim of CSDR is to reduce settlement fails, and partial settlement is a proven tool to achieve this; however the misalignment of cost incentives could result in firms opting out of partials to avoid additional CSD charges, even if technically feasible.

The unpredictable nature of partial settlement charges (varying by number of partials, size, timing, etc.) creates budgeting and control issues for firms. CSDs (both T2S and non-T2S) vary greatly in how partials are charged; some apply a partial cap (e.g., fee for up to 4 partials only) while others apply per-instruction charges regardless of context or netting.

We believe that a public revision of CSD fee structures is required. Therefore, we urge ESMA and NCAs to promote industry-wide harmonisation and cost-capping mechanisms to ensure that the economic cost of partial settlement does not discourage its use. For example, this could consider introducing, where appropriate, a cap or banded pricing model (e.g., first partials charged, subsequent ones free) or incentivising partials via discounts or rebates where settlement fails are prevented.

Our proposal to Article 10 is predicated on the above points and that further review and action on both the SFTs exemption, referred to in our response to Q22, and the CSD fee structures. This will help to limit any unintended consequences of this change, whilst still creating an environment with a better setup to improve settlement efficiency in the EU.

Considerations on operational practices

From an operational standpoint, it must be underlined that the need, and use, of partial release plays a decisive role for partial settlement to be used by settlement intermediaries –such as custodians– managing omnibus accounts due to their need to operate with strict safeguarding requirements when administering clients' assets. Therefore, 'partial release' should be a mandatory functionality offered by all CSDs in the EU, which alongside 'hold and release' will ensure clients' assets are protected whilst optimising settlement efficiency.

It is also worth emphasising that the procedures governing the way the "Hold" is managed cannot and should not be modified as far as settlement intermediaries are concerned, which, outside of the aforementioned asset safety obligations, would increase the need for segregated accounts for any party to the trade looking to offer and receive partials. An influx of segregated accounts could impact system capacity due to the need to maintain more accounts at the securities settlement system/T2S, but also would increase the cost for investors transacting in

EU securities markets, since segregated accounts do not benefit from the 'economies of scale' offered by omnibus accounts.

Furthermore, we note that, in the event of an increase in cash penalty rates, there could be an incentive for some market participants to not accept a partial delivery and instead profit from receiving the income from the higher penalties. A regulatory mandate to accept partial settlement of securities would neutralise these scenarios.

.<ESMA_QUESTION_CSDC_19>

Q20 Do you agree with the deletion of Article 12 of CDR 2018/1229? If not, please elaborate.

<ESMA_QUESTION_CSDC_20>

We fully support the deletion of Article 12 of CDR 2018/1229, since it provides an exemption for certain CSDs from the requirements to provide a hold and release mechanism. The practical limitations for a participant not being able to instruct on hold, outside of partial settlement – as explained in our response to Q19– is the inability for the trading party, or their service provider, to match and learn of exceptions. In a T+1 environment the ability to instruct and match on hold will be essential if the region is to avoid increased settlement fails, as the time compression will not allow the time to identify and resolve exceptions. We therefore recommend that Hold and Release is mandatory with market standards to be drafted for its use by all relevant sectors of the industry.

Moreover, the existing derogation in Article 12 is contrary to the objectives of harmonisation as it creates an uneven playing field by allowing certain markets to deviate from standardised asset safety and settlement optimisation requirements. Furthermore, such provisions undermine the European Commission's Saving and Investments Union (SIU) objectives, as it enables CSDs to operate under lower standards rather than adhering to a consistent, industry-wide benchmark.

We reiterate our position reflected in the AFME report 'Improving the Settlement Efficiency Landscape in Europe' where we recommended for all CSDs to offer auto-partial settlement and hold and partial release functionalities as a means for optimising the settlement of the available inventory whilst upholding asset safety objectives.

<ESMA_QUESTION_CSDC_20>

Q21 Do you have other suggestions to incentivise partial settlement? If yes, please elaborate.

<ESMA_QUESTION_CSDC_21>

We recommend the development and promotion of industry best practices to encourage the use of partial settlement functionality. These best practices should focus on:

- Providing operational guidance on when and how partial settlement should be utilised to optimise settlement efficiency.

- Improving transparency around the benefits of partial settlement, including the reduction of penalties and optimisation of liquidity.Moreover, CSDs need to encourage and support partial settlement in the interest of market efficiency. Therefore we recommend that CSDs fee structures are revised in order to minimise costs associated with the processing of partials.

AFME has been actively engaging with buy-side participants as part of its review of the existing 'AFME Recommendations for Partial Settlement'[1]. Based on these discussions, AFME intends to publish an updated version of the guidelines in the near future, incorporating feedback from market participants to further incentivise the use of partial settlement.

.<ESMA_QUESTION_CSDC_21>

Q22 Do you think that some types of transactions should not be subject to partial settlement? If yes, could you provide a list and the supporting reasoning?

<ESMA_QUESTION_CSDC_22>

As mentioned in our response to Q19, AFME members have raised concerns that there could be unintended consequences from the implementation of a blanket approach of partial settlement functionality across all transaction types.

There was broad consensus that securities financing transactions (SFTs) and collateral-related instructions should be considered for exemption from the partial settlement requirement, on the basis of the following arguments:

[1] https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Recommendations%20for%20Partial%20Settlement.pdf

- Operational complexity: Agent lenders often face challenges in managing partials due to recall processing, allocations, and collateral implications.

- Liquidity risks: Forcing partials could reduce market liquidity if lenders restrict availability to avoid settlement complications.

- Downstream impacts: Cash market settlement could suffer if SFT market participation declines due to increased risk or inefficiency.

We note that that these exemptions should be implemented by having the industry participants correctly populating the transaction type codes in instructions (i.e., counterparties must correctly identify SFTs/collateral in their messaging for the exemption to apply).

.<ESMA_QUESTION_CSDC_22>

3.1.7. Auto-collateralisation

Q23 Do you agree with the introduction of an obligation for CSDs to facilitate the provision of intraday cash credit secured with collateral via an auto-collateralisation facility? If not, please elaborate.

<ESMA_QUESTION_CSDC_23>

We support the proposed amendment of Article 11 to incorporate the mandate for CSDs to facilitate intraday cash credit via an auto-collateralisation facility in central bank money. In addition to the requirement for CSDs to incorporate the technology to facilitate this functionality, we recommend to introduce an obligation for National Central Banks (NCBs) to provide intraday cash credit.

Auto-collateralisation represents an efficient way to create additional intra-day liquidity, thereby supporting overall market stability and efficiency. Furthermore, in T2S markets auto-collateralisation is a well-established mechanism that helps participants meet their intraday liquidity needs in a streamlined manner, therefore extending this as a broader obligation would assist with driving consistency across CSDs.

We note that intraday cash credit is typically provided by the NCBs of the Eurosystem. This credit is secured by collateral, normally held of managed within the CSDs or via links with CSDs. In markets where the CSD is connected to T2S, the NCBs provide central bank money in T2S to settle the securities, and T2S offers auto-collateralisation against securities held in

participating CDs. In non-T2S markets, cooperation is required between the local NCB and the CSD in order to facilitate the service.

In this respect, T2S CSDs could leverage the existing T2S functionality, whilst CSDs outside of T2S should align by having a similar mechanism in place in central bank money.

.<ESMA_QUESTION_CSDC_23>

Q24 Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA_QUESTION_CSDC_24>

N/A

<ESMA_QUESTION_CSDC_24>

3.1.8 Real-time gross settlement versus batches

Q25 Should CDR 2018/1229 be amended to require all CSDs to offer real-time gross settlement for a minimum window of time of each business day as well as a minimum number of settlement batches? Please provide arguments to justify your answer.

<ESMA_QUESTION_CSDC_25>

We support introducing a regulatory requirements for all CSDs to offer real-time gross settlement (RTGS) for a minimum period of time each business day, alongside a minimum number of settlement batches. This would further enable market participants to settle high priority transactions in real time, thus reducing liquidity and counterparty risks. Moreover, having a structured mix of RTGS and batch settlement cycles would ensure that settlement risks (e.g., bottlenecks during periods of high activity) are minimised, thus improving overall market stability.

We recommend that all CSDs in T2S should have the same time period for RTGS and should offer the same number of settlement batches. Non-T2S CSDs should also be required to operate a RTGS and a minimum number of settlement batches with CSDs interoperating with

T2S providing sufficiently aligned batches to ensure that cross-border settlement is optimal and seamlessly maximises the flow of inventory without delay.

<ESMA_QUESTION_CSDC_25>

Q26 What should be the length of the minimum window of time of each business day for real-time gross settlement and the minimum number of settlement batches that should be offered, per business day? Please provide arguments to justify your answer.

<ESMA_QUESTION_CSDC_26>

We note that any decision about operational timings should consider the future EU move to T+1. Furthermore, we consider that having a standardised timetable across European CSDs (T2S and non-T2S) reduces fragmentation, enhances interoperability, and supports the vision of a Single European Settlement Area. This aligns with the EC's Saving and Investments Union objectives.

In regard to a minimum period for real-time gross settlement (RTGS), we note that all CSDs should align their RTGS window with the operational timetable of T2S, ensuring it spans the core business day to facilitate cross-border and intra-CSD settlements.

With respect to the number of settlement batches, we consider that an optimum business day model should at least include:

- As a first step of the "Settlement day", an optimisation sequence equivalent to the T2S technical netting during the NTS settlement;
- if possible two night-time batch cycles (timing to be aligned with T2S) to optimise settlement results and reduce daytime congestion while benefitting from technical netting of all eligible instructions and partial settlement;
- and a daytime RTGS including technical netting

We note that night time batches maximise settlement rates by leveraging optimisation tools such as T2S's technical netting, while daytime RTGS ensures liquidity and flexibility. Technical netting for fails during RTGS further improves settlement efficiency. Having synchronised windows would mitigate settlement delays, which will be especially critical in T+1 where time constraints could amplify operational risks. Cross-border transactions would also benefit from the alignment of cut-offs.

We recommend that ESMA should mandate adherence to common principles (e.g., batch + RTGS for all CSDs) while allowing flexibility in implementation details (e.g., sequence of batch cycles).

Considerations on alignment with T2S Standard 5

We recommend that T2S CSDs should align with T2S standard 5 (T2S schedule for the settlement day). The T2S market/CSD operational model should ensure that:

1) The CSDs' securities accounts in T2S are available for bookings (credits, debits, realignment, etc.) until the FOP cut-off and the NCBs' dedicated cash accounts in T2S are available for bookings until the last cash sweep of the relevant currency;

2) Settlement efficiency in T2S is not affected – for example, the T2S market/CSD will participate in the start-of-day processes and in the timely processing of corporate actions in a systematic manner;

3) All other T2S daytime (operating hours) and cut-off times are respected (delivery-versus-payment cut-off, etc.);

4) Directly connected parties (DCPs) with authorisation (granted by their respective CSD) for connecting to T2S have access to T2S throughout the settlement day.

We understand this standard does not expressly include a requirement for all T2S CSDs to participate in the NTS batch settlement. Therefore, we recommend that ESMA should mandate all T2S and non-T2S CSDs to adhere, as outlined in this response.

<ESMA_QUESTION_CSDC_26>

Q27 Can you suggest any other means to achieve the same objective? If yes, please elaborate.

<ESMA_QUESTION_CSDC_27>

N/A

<ESMA_QUESTION_CSDC_27>

3.1.9 Reporting top failing participants

Q28 Do you agree with the proposed amendments to Table 1 of Annex I of CDR 2018/1229? If not, please elaborate.

<ESMA_QUESTION_CSDC_28>

We generally support the proposed changes to the CSDs' reporting of top failing participants for proprietary activity (i.e., where the CSD participant is the party to the trade). Incorporating the view of a participant's share of settlement fails relative to the total volume and value of settlement instructions processed by the CSD will provide a more proportional and meaningful assessment of the settlement performance. The data should be relative to the business flow and comparative to a similar peer, and it would need to be weighted accordingly to the levels of business for each market and CSD.

However, where the CSD participant is an intermediary operating 'client designated accounts', we disagree with this proposal, which presents the same drawbacks as the existing regime. We note that a CSD participant operating as an intermediary in the settlement chain cannot influence the trading patterns or resources (securities or cash) of its clients and thus cannot necessarily prevent settlement fails. Therefore, the CSD participant cannot be held fully responsible for settlement failures due to its clients' trading or settlement practices. Consequently, we note that introducing the 'relative' approach may not necessarily assist the NCAs getting an accurate view of the settlement landscape, and it will require development works for the CSDs, which could result in added costs for their participants.<ESMA_QUESTION_CSDC_28>

Q29 Should top 10 failing participants be reported both in absolute terms (current approach) and in relative terms (according to the proposed amendments to Table 1 of Annex I of CDR 2018/1229)?

<ESMA_QUESTION_CSDC_29>

We generally support incorporating the proposed amendments (reporting of CSDs' top failing participants in relative terms) in addition to the current reporting methodology (in absolute terms). However, as mentioned in response to Q28, we reiterate that the reporting of top failing participants does not provide a meaningful value of information when the CSD participant is an intermediary operating 'client designated accounts'. Therefore, we recommend that ESMA seeks the view from the NCAs with respect to the utility of the proposed approach. Industry participants will not necessarily benefit from the report but will likely pay for the developments.

<ESMA_QUESTION_CSDC_29>

Q30 Do you have additional suggestions regarding the requirements for CSDs to report settlement fails data specified in Annex I and Annex II of CDR 2018/1229? If yes, please elaborate.

<ESMA_QUESTION_CSDC_30>

We note that there are significant disparities between the information on settlement fails that the CSDs report to public authorities (Annex I and Annex II of CDR 2018/1229) with regards to the information that is currently available for public disclosure under Table 1 Annex III of CDR 2018/1229. While regulatory authorities receive detailed participant-level data, the publicly disclosed information is more aggregated, limiting transparency for market participants, which makes it difficult for the industry to address settlement inefficiencies.

We request ESMA to provide a more regular publication of more detailed information regarding settlement efficiency rates and trends, incorporating the data that CSDs report to their National Competent Authorities –and is subsequently shared with ESMA– under the provisions of Article 14 of CDR 2018/1229. We note that publicly available data on settlement efficiency rates, such as those published in ESMA's 'Trends, Risks and Vulnerabilities' Report (TRV) or the ECB's T2S Annual Report, remains limited in scope and granularity.

We recommend that the ESMA TRV report could be enhanced to offer deeper insights into settlement efficiency. Introducing a 'dashboard' of key statistics summarising the main settlement issues for a certain period would be highly beneficial. This dashboard should provide sufficient detail to identify trends across different financial instruments, transaction types, specific CSDs and other relevant indicators.

In addition, judging from the information made available by CSDs to their participants, it is evident that current fail reporting parameters and the methodology deployed differs across the CSD community, even between CSDs belonging to the same group. Collectively, this leads to ambiguity and a distorted view of settlement fails.

We request that ALL CSDs should be providing consistent data and outputs. All data on settlement fails should be collated, measured and presented in the same standardised formats thus allowing for direct comparison and contrast. <ESMA_QUESTION_CSDC_30>

3.1.10 Reporting the reasons for settlement fails

Q31 Do you agree with the proposed amendments to Article 13(1)(a) of CDR 2018/1229? Or can you suggest alternative options so that CSDs have visibility of the root causes of settlement fails at participants level?

<ESMA_QUESTION_CSDC_31>

We do not support the proposed changes requiring CSD participants to provide information on the root causes of settlement fails in the absence of CSD's visibility. We consider these will impose an onerous burden on the participants of the CSD, who rarely have full visibility into the reasons behind settlement fails.

Settlement processes often involve multiple intermediaries, each with their own systems and operational workflows. Participants may only have visibility into their specific segment of the custody chain and lack insight into upstream or downstream issues that can contribute to settlement fails.

We note that CSD participants do not always have access to detailed or accurate information about the root causes of fails, which can happen due to gaps in their internal systems, reliance on third-party service providers, or incomplete data from counterparties or from the CSDs reporting to them (e.g., NMAT for a transaction that has a price difference). CSDs offer the 'golden source' of settlement matching data, therefore we encourage all CSDs to support all relevant ISO fail codes to provide participants and their clients with the required insights to determine the course of action to resolve.

Even when participants are willing to provide information, collecting, processing, and analysing this data can be resource-intensive and may not always be accomplished in a timely manner and would likely differ from one participant to another due to different terminology or classification, creating confusion rather than increasing transparency.

<ESMA_QUESTION_CSDC_31>

Q32 Based on the experience since the implementation of the settlement discipline regime under CSDR, please describe the main root causes of settlement fails identified so far. Please specify the relevant categories in more granular terms, going beyond "lack of securities", "lack of cash" and "instructions put on hold".

<ESMA_QUESTION_CSDC_32>

We understand that the outlined categories of "lack of securities", "lack of cash" or "instructions put on hold" do not reflect the root causes leading to settlement fails, but the outcomes which

are resulting from the actions of market participants (i.e., a fail due to “lack of securities” is contingent on a broader chain of failing transactions involving intermediaries, CCPs, etc.).

In 2023, AFME conducted a comprehensive review on the main causes responsible for driving settlement fails, which were outlined in AFME’s report ‘Improving the Settlement Efficiency Landscape in Europe’. The main categories identified were:

Inventory management

There can be several possible reasons behind the seller being unable to deliver the securities. This may be due to a lack of trading-level liquidity in the instrument, for example where a market-maker is unable to source the securities. However, it may also be as a result of internal operational issues, such as a failure to realign securities between different locations or accounts in sufficient time, or external factors, including scenarios where the seller’s delivery was contingent on the settlement of a separate receiving transaction on the same instrument.

Data quality

The post-trade ecosystem is a complex network of interconnected market participants, exchanging large amounts of information necessary to process and settle transactions. Ideally, reference data should be sourced by all parties from a common, central data source to minimise the risk of a mismatch between two parties. Issues can arise across the trade lifecycle on a variety of types of information. Common examples include:

- Changes in Standing Settlement Instructions (SSIs) not being communicated or updated in relevant systems in good time.

- Delays relating to instrument static data – e.g. new ISINs not being available in trade capture systems.

- Incorrect mappings in internal systems resulting in mismatches – e.g. a system not configured to identify a market settlement holiday resulting in transactions being processed with the wrong settlement date.

- Incorrect or incomplete static data resulting in incorrectly formatted instructions, leading to rejections at the Swift gateway or by an intermediary or the CSD.

- Lack of clarity over whether an instrument should be settled in “units” or “nominal”.

Counterparty behaviour

Information that is necessary for the timely processing and settlement of a transaction is provided by the counterparty: in a non-standard format; in an incomplete or inaccurate manner; or late.

Anecdotal evidence suggests that, for most firms, a small number of counterparties have an outsized impact on levels of straight-through-processing (STP) in a timely manner. Whilst the majority of transaction volumes can be processed on time and in an automated manner, requiring minimal intervention, issues can typically arise from two types of counterparty:

- “Manual” counterparties who are typically less-sophisticated market participants with relatively low levels of market activity. Issues can typically arise at the allocation and matching stage, where allocations are not provided in an STP format or through standard channels (e.g. via email).

- “Non-domestic” counterparties who are located in a different timezone, specifically the Asia Pacific region, and often are only able to provide allocations on T+1, leading to processing delays.

Workflow management

Delays or fails attributed to internal workflow inefficiencies, non-straight through processing (STP) processes, manual booking errors or technology issues that occur within an internal system.

Market standards and regulation

Delays or fails that could be resolved by the creation of new market standards / regulation, or enhancements to existing market standards / regulation.

Structural issues (i.e. matters out of the direct control of market participants)

Despite significant effort having been made to reduce the barriers to post trade integration in the region, there are still a number of barriers that exist that challenge timely settlement. At a high-level these issues include:

- Lack of harmonised CSD standards / practices.
- Misaligned: batch times, instruction input and / or settlement cycle cut-offs including misalignment between DVP and FOP batch times which result in fails and inventory not being maximised
- Derogation for certain CSDs under CSDR Level 2 Article 12 to offer partial settlement and hold & release

- Partial release not offered by all CSDs which is an essential tool for partial settlement to be used in omnibus accounts
- Differing use and acceptance of ISO transaction types by CSDs in settlement instruction messages results in settlement instructions being rejected at the CSD's SWIFT gateway
- Differing SWIFT message templates used by CSDs including different formats for cross-border settlement creates a myriad of templates required to settle instructions in EEA CSDs
- Lack of instrument interoperability - certain ISINs are not eligible to settle in every EU CSD
- Different CCP cut-offs
- Market liquidity constraints

Case study: Broker predicament

The nature of how trades are executed means that the broker sits in-between the 'market leg' which could be executed on venue(s) potentially in multiple shapes, from another broker or via a borrow. This means that the total position required to deliver to the buy-side client will be contingent on numerous settlements, potentially from numerous sources, including from CCPs which may settle in different CSDs to where the buyside client wants to take receipt.

The outcome is that the broker will be dependent on the purchases settling in order to deliver to the buyside client. If any of its purchases fail to settle in full or in part it might look, on the surface, that the broker is short when technically speaking it is not. The broker may also end up sitting on inventory that it is unable to turn around if the buyside client does not or is unable to accept a partial.

Furthermore, if the position is sourced by a borrow which settles FOP there is a risk that the borrow settles after the DVP cut-off at the relevant CSD. This results in the broker being left with a position that it is unable to turn around incurring costs it can't pass on in the process.

<ESMA_QUESTION_CSDC_32>

Q33 According to Article 13(2) of the CDR, CSDs shall establish working arrangements with their top failing participants to analyse the main reasons for settlement fails. Do you believe that this provision has proven useful in

analysing the root causes of fails and in preventing them? Do you have suggestions on other actions which CSDs could take with respect to top failing participants?

<ESMA_QUESTION_CSDC_33>

Although the requirements of Article 13(2) have provided some insight into settlement inefficiencies, their effectiveness has been inconsistent across CSDs, largely due to variations in fail reporting methodologies and engagement approaches. We also reiterate that where CSD participants act as intermediaries within the custody chain they do not have any influence over their clients' trading patterns or the ability to entirely prevent settlement fails. Consequently, CSD participants owning 'client designated accounts' cannot be held solely responsible for settlement fails resulting from their clients' trading or settlement practices.

We therefore suggest that CSDs should define their working arrangements with top failing participants by differentiating between client-designated accounts and proprietary-designated accounts. This would provide greater clarity on where settlement issues originate and allow for more targeted remediation efforts.

Moreover, we recommend that CSD User Committees continue discussions on how to enhance working arrangements with top failing participants.

<ESMA_QUESTION_CSDC_33>

3.1.11 CSDs' public disclosure on settlement fails

Q34 Do you agree with the proposed amendments to Table 1 of Annex III of CDR 2018/1229 to include information on the breakdown of the settlement fails per asset class? If not, please elaborate.

<ESMA_QUESTION_CSDC_34>

We agree with the principle to require CSDs to provide more data as part of their public disclosure on settlement fails. To this extent, we believe it is crucial that high-quality, granular information about current settlement efficiency rates is made publicly available. Published information should not disseminate any interference to competition in the market. Therefore, it should be aggregated so that one cannot decipher which CSD participant the published information relates to.

A higher degree of public information being available to market participants will enable the industry to better identify current areas of inefficiency, and ensure that initiatives are targeted accordingly. <ESMA_QUESTION_CSDC_34>

Q35 Do you think that CSDs should publish additional information on settlement fails? If yes, please specify.

<ESMA_QUESTION_CSDC_35>

We recommend that, in addition to the proposed breakdown of settlement fails by asset class, CSDs should include the following data points when publishing their stats on settlement fails:

- Breakdown of settlement instructions by age of settlement fail;
- Breakdown of settlement instructions by instrument type based on MIFID II classifications;
- Breakdown of settlement instructions by transaction type;
- Breakdown of settlement instructions by all ISO fail reasons;
- Breakdown of settlement instructions by country of issuance of the security
- Breakdown of settlement instructions by settlement location;
- Breakdown of settlement instructions by "matching time" (highlighting cases of 'late instructing' and 'late matching');
- Breakdown of cancellation instructions relating to both matched (bilaterally cancelled) and unmatched (unilaterally cancelled) per asset class, per transaction type, per settlement location, etc;
- Comparison of settlement rates for domestic instructions vs cross-border instructions;
- Total and average volume and value of CSDR cash penalties issued per day
- Breakdown of CSDR cash penalties by type (LMFP vs SEFP), with segregation by asset class, transaction type, settlement location, etc.

Furthermore, we consider that it would be beneficial to request each CSD to publish information on the use of partial settlement functionality, recording: the percentage of

settlement instructions by transaction type, by asset class, in which the CSD participants have enabled partial settlement in accounts designated as a participant's own account or a participant's client account (and if available, as individual vs omnibus client accounts).

<ESMA_QUESTION_CSDC_35>

Q36 Should the frequency of publication of settlement fails data by CSDs increase? Which should be the right frequency?

<ESMA_QUESTION_CSDC_36>

We believe that the frequency of publication of settlement fails data by the CSDs should be increased to be conducted at least monthly.

A prime example of the need for more frequent reporting is the T2S outage on 27 February, which had a significant impact on settlement activity across multiple markets. From an operational resilience perspective, more frequent fail data reporting would provide greater visibility into how such disruptions affect settlement efficiency.

Additionally, monthly reporting aligns with cash penalty cycles and the need for continuous monitoring of settlement trends, helping to identify systemic inefficiencies before they escalate.

<ESMA_QUESTION_CSDC_36>

3.2.1 Unique transaction identifier (UTI)

Q37 Do you agree that the use of UTI should not be made mandatory through a regulatory change?

<ESMA_QUESTION_CSDC_37>

We agree that the use of Unique Transaction Identifiers (UTIs) should be encouraged through industry best practice rather than being mandated through regulation. Imposing a regulatory requirement to use UTIs would introduce excessive complexities and could pose risks to settlement efficiency in the hypothetical case of becoming a matching criterion.

As noted in the consultation, the use of UTIs has been primarily developed in the context of regulatory reporting under a number of regulations (e.g., EMIR, SFTR). However, we believe

that further assessment is required in the settlement space in order to support a wider adoption of UTIs across the industry, including the need for standards to support its operational use, which should cover themes such as who generates the UTI and when, and for which transaction types.

However, we would see merit in ESMA taking the initiative to facilitate industry-wide discussions and workshops to encourage voluntary adoption. Therefore we would welcome for ESMA to formalise a dedicated group focused on UTI adoption, perhaps with a target date of 2 years after T+1 go-live.

We note that conducting a mass industry adoption of UTIs will be a significant undertaking that will require international cooperation and the need for all vendor platforms to support its use and transmit it uniformly, which will require greater vendor interoperability. One of the main challenges will therefore be in regard to overall consistency, as it will require all actors in the trading and settlement chain –including CCPs and CSDs– to be able to support the UTI and send it on to the next party; otherwise, the value of the concept and its business case for implementation will be undermined.<ESMA_QUESTION_CSDC_37>

Q38 What are your views on the use of UTI in general and in the case of netted transactions specifically?

<ESMA_QUESTION_CSDC_38>

We note that in 2024 a dedicated working group of AFME members started having discussions on how to incentivise a wider use of UTIs across the industry. AFME is looking to publish a thought-leadership paper on this topic later in 2025.

Anecdotal feedback received from AFME members suggests that, by providing a standardised reference for each transaction, UTIs would significantly reduce exceptions by ensuring that all parties refer to the same identifier throughout the trade lifecycle. General consensus states that UTI would not be a ‘silver bullet’ that will fix all settlement problems, but it will enable improved traceability and identification of exceptions, allowing for quicker reconciliation and reducing the time required to resolve discrepancies. This will be critical in a T+1 environment with a shortened operating processing window.

Furthermore, wider use of UTIs would enhance the accuracy of matching on both sides of a trade for certain flows, avoiding the risks of ‘cross-matching’ whilst providing certainty and enabling faster resolution of breaks. This increased efficiency would not only strengthen operational resilience but also support any regulatory reporting and industry-wide efforts to improve settlement efficiency.

For netted transactions, the application of Unique Transaction Identifiers (UTIs) introduces additional complexities. Currently, there are no universal industry standards on how UTIs should be managed in a netting scenario. Key questions that need to be addressed include whether each netted transaction should retain its own UTI, whether a new 'parent' UTI should be assigned to the netted position, or how best to maintain traceability between the two.

We recommend that further industry assessment is required for the development of market practices. This should incorporate participation from all stakeholders involved in the transaction and settlement chain across buy-side, sell-side and FMIs communities to ensure uniformity in UTI adoption across all actors within the settlement chain.<ESMA_QUESTION_CSDC_38>

3.2.2 SSIs format

Q39 Should the market standards for the storage and exchange of SSIs be left to the industry or is regulatory action at EU level necessary?

<ESMA_QUESTION_CSDC_39>

We recommend the introduction of a baseline regulatory framework for the storage and exchange of SSIs, which should set out the requirement for this to be done "in an electronic and machine-readable format".

As noted in our response to Q7, we understand that "machine-readable" refers to data or information that is structured in a format that can be easily processed and understood by computers without human intervention. We reiterate that the exchange of information via email, despite being sent in an electronic format, cannot be considered as "machine-readable".

Industry best practices can play a key role in supporting market participants in achieving efficient and effective compliance with regulatory requirements by establishing clear recommendations and standardised methodologies for the secure and automated exchange of SSIs.

These best practices could include the development of standardised data formats, interoperable protocols, and secure communication channels that enable automated processing and validation of SSIs. Additionally, industry-driven governance frameworks and certification mechanisms could help ensure adherence to these standards, reducing inconsistencies in implementation across market participants.

<ESMA_QUESTION_CSDC_39>

3.2.3 Place of settlement (PSET) as mandatory field of written allocations

Q40 How can the PSET contribute to improve settlement efficiency and reduce settlement fails? Do you have suggestions on how to make the use of PSET more consistent across the market? If yes, please elaborate.

<ESMA_QUESTION_CSDC_40>

We note that the Place of Settlement (PSET), despite being a non-economic field, plays a critical role in ensuring accurate and timely settlement. In the 2023 AFME report 'Improving the Settlement Efficiency landscape in Europe', we identified that data quality issues –such as PSET and SSIs data– remain of the most common causes behind settlement fails.

When applied consistently, PSET can significantly enhance settlement efficiency and reduce the risk of settlement fails by ensuring that instructions are correctly routed to the appropriate settlement location. We recommend that PSET should be a mandatory matching field in all allocations, confirmations and pre-settlement matching tools and that the CSDR RTS should mandate this, supported by market standards to ensure a uniform application across all sectors of the industry.

Moreover, the pre-settlement criteria used on central matching platforms or in bilateral exchanges should be reviewed to ensure it is consistent with CSD-level settlement matching criteria, including PSET, SSIs and cash tolerances. We note that until vendor platforms align with the CSD-matching criteria –which should be seen as the only standard– the industry risks processing friction and disparity across the various post trade matching processes, which will ultimately lead to settlement fails and associated costs.<ESMA_QUESTION_CSDC_40>

Q41 Do you agree that the PSET should not be made a mandatory field of written allocations under Article 2(1) of CDR 2018/1229? If you have a different view, please elaborate.

<ESMA_QUESTION_CSDC_41>

We believe that PSET should become a mandatory field for sending written allocations, under the provisions of Article 2(1), as its correct and consistent use is essential for improving settlement efficiency and the reduction of fails. This would ensure an early provision of accurate information in trade instructions, which will be critical in a future T+1 environment

where the operating processing time will require to promptly address any mismatches. It will also help to prevent settlement fails, particularly in cross-border scenarios where settlement location discrepancies often contribute to processing breaks.

To support this transition, we recommend that the industry develops clear market practices illustrating how to correctly populate and utilise PSET in written allocations. These guidelines should provide practical examples and best practices to ensure consistency across all market participants.<ESMA_QUESTION_CSDC_41>

3.2.4 Place of safe keeping (PSAF) and place of settlement (PSET) as mandatory fields of settlement instructions

Q42 Do you agree that the decision to use the PSAF and the PSET in the settlement instructions should be left to the industry?

<ESMA_QUESTION_CSDC_42>

We agree that the usage of PSAF and PSET should be developed by the industry through established market practices, including the requirement for custodians to populate the PSAF in all MT535 ‘statement of holdings’ reporting to clients, to give the client the definitive line of sight of where its securities are held, which will help with allocation and confirmation of PSET accuracy.

<ESMA_QUESTION_CSDC_42>

Q43 What are the current market practices regarding the use of PSAF and PSET, in particular in the case of netting along the trading and settlement chain?

<ESMA_QUESTION_CSDC_43>

We note that many market participants have PSAF and PSET for specific ISINs ‘hardcoded’ to the issuer CSD within their systems. This rigid configuration effectively limits their ability to facilitate cross-CSD settlement and represents an inefficiency to the settlement process. The ECB AMI-SeCo Securities Group (SEG) –which AFME is part of– has been working on the production of a report on barriers to Post Trade integration in the EU, and has identified the production of industry best practices as one of the key initiatives for improving settlement efficiency and tackle fragmentation.

AFME has been involved in preliminary discussions with buy-side industry participants for the development of industry best practices on the use of PSAF and PSET. Given the move to a shorter settlement cycle in October 2027, both at an industry level and individual firm level, a call for standardisation has gained momentum as firms have been reviewing strategies on how they can instruct transactions at the correct location on the first time round.

AFME will be pursuing further engagement with relevant industry stakeholders for the production of industry best practices on the use of PSAF and PSET whilst taking onboard the recommendations from the Ami-SeCo.<ESMA_QUESTION_CSDC_43>

3.2.5 Transaction type

Q44 Do you agree that the transaction type should not become a mandatory matching field under Article 5(4) of CDR 2018/1229?

<ESMA_QUESTION_CSDC_44>

We agree that the Transaction Type should not become a matching criterion.

We note the lack of harmonisation around transaction types, whereby not all transaction type codes are supported across all the CSDs. Making the type of transaction a mandatory matching field would be detrimental to settlement efficiency and would trigger several issues: additional T2S/CSDs/internal implementation costs and an increase of late matching and/or matching discrepancies leading to an increase on settlement fails.

We strongly recommend that CSDs enhance and update their systems to ensure a full and harmonised support for all transaction type codes across all markets. This will be essential to reducing fragmentation, enabling consistent interpretation, and fostering greater automation in the processing of settlement instructions in addition to implementing any changes to the scope of the Settlement Discipline Regime and for more accurate and meaningful CSD fail reporting.

Furthermore, we recommend that ESMA should map the CSDR taxonomies of transaction types to the corresponding ISO standard codes to improve clarity and consistency across CSDs. <ESMA_QUESTION_CSDC_44>

Q45 Do you think the lists mentioned in Article 2(1)(a) and Article 5(4) of CDR 2018/1229 should be updated? If yes, please specify.

<ESMA_QUESTION_CSDC_45>

We note that further harmonisation is required before considering an update to the lists mentioned in Article 2(1)(a) and Article 5(4) of CDR 2018/1229.

For example, the last taxonomy in both Articles 2(1) and Article 5(4) refer to *"Other transactions which can be identified by more granular ISO codes as provided by the CSD"*. This category offers too much room for interpretation and highly depends on which ISO codes are supported by the CSD.

Therefore, as mentioned in our response to Q44, we recommend that ESMA should take the lead on mapping the existing CSDR transaction types with the corresponding ISO codes before conducting an update..<ESMA_QUESTION_CSDC_45>

3.2.6 Timing for sending settlement instructions to the securities settlement system (SSS)

Q46 What are your views on whether market participants should send settlement instructions intra-day rather than in bulk at the end of the day?

<ESMA_QUESTION_CSDC_46>

We agree with the recommendations issued by the EU T+1 Industry Taskforce in regard to participants sending instructions intra-day as close to real-time as possible, rather than in bulk at the end of the day.

Sending settlement instructions throughout the day provides the ability to identify mismatches and resolve them in a timely manner thus allowing for their correction, which will be critical in a T+1 environment with a reduced processing window. We note that intra-day submissions distribute the workload more evenly, allowing firms to detect and resolve discrepancies early, thus mitigating operational and counterparty risk.

Whereas conversely, end-of-day bulk submissions can create operational bottlenecks and increase the likelihood of settlement failures, pushing the identification of exceptions into the following business day. End-of-day bulk submissions are also more vulnerable to processing delays and system congestion, which could mean settlement instructions miss the CSD cut-offs.

As the EU continues to push for faster and more efficient post-trade processes, intra-day submission as close to real-time as possible should be considered best practice to ensure smoother settlement.<ESMA_QUESTION_CSDC_46>

Q47 Do you consider it necessary to introduce a deadline for the submission of settlement instructions through a regulatory amendment to CDR 2018/1229? If yes, what should be such a deadline? Please provide arguments to justify your answers.

<ESMA_QUESTION_CSDC_47>

We do not support introducing a regulatory deadline for the submission of settlement instructions through an amendment to CDR 2018/1229.

A regulatory deadline may impose unnecessary rigidity, whereas market-driven best practices allow participants to optimise processes in response to evolving industry needs. Furthermore, CSDR already mandates timely and efficient settlement, and imposes penalties for late matching and fails. Introducing an additional regulatory deadline would create another layer of complexity without clear evidence that it would materially improve settlement efficiency.

Therefore, we consider that the introduction of deadlines for sending settlement instructions should be delimited at the scope of industry best practices, which would allow for more flexibility and the ability to accommodate to changes in the operating environment. <ESMA_QUESTION_CSDC_47>

3.2.7 Alignment of CSDs' opening hours, real-time/night-time settlement and cut-off times

Q48 Do you agree that CSDs' business day schedule should be left to the industry? If not, please elaborate.

<ESMA_QUESTION_CSDC_48>

We agree that CSDs' business day schedules should remain a topic for industry discussion and agreement rather than be delimited by regulatory prescription. Leaving the industry to determine the business day schedules ensures that they reflect the specific needs of market participants, trading venues, and post-trade infrastructures whilst allowing to adjust to market developments.<ESMA_QUESTION_CSDC_48>

Q49 What would be, in your view, the ideal business day schedule for CSDs taking also into account real-time settlement, night-time settlement and cut-off times? Should they be aligned? Please provide arguments.

<ESMA_QUESTION_CSDC_49>

In relation with our response to Q26, we consider there should be a harmonisation for timelines/cut-off across the CSDs, different cut-offs for different processes, currencies etc,. Sometimes, only one side of the transaction can be completed (conversions, realignment, cross-border), whereas the other side will fail due to a different cut-off time.

Considering the EU move to T+1 we believe that harmonisation across the CSD will reduce the number of fails. In our view, CSDs' business day schedules should be fully aligned with T2S operational timings.<ESMA_QUESTION_CSDC_49>

3.2.8 Shaping

Q50 Do you agree that shaping should be adopted as best practice? If you do not agree and believe that it should be adopted as regulatory change, please indicate which should be the most adequate size to shape transactions per type of financial instrument.

<ESMA_QUESTION_CSDC_50>

We support the development of Shaping through industry best practices rather than regulatory mandates. Market standards should define the appropriate conditions for Shaping, including at what point in the trade lifecycle (e.g., at the trading venue / trade booking or at the CSD), as it is essential that such introduction is uniform across all markets and platforms to prevent fragmented processes and increased friction, in addition to when and how it is implemented.<ESMA_QUESTION_CSDC_50>

3.2.9 Automated securities lending

Q51 Do you see the need for a regulatory action in this area? If yes, please elaborate.

<ESMA_QUESTION_CSDC_51>

We do not see a need for a regulatory requirement for the provision of automated securities lending facility by CSDs, and we support the views expressed by ISLA on this regard.

<ESMA_QUESTION_CSDC_51>

3.2.10 Other proposals regarding settlement discipline measures and tools to improve settlement efficiency

Q52 Do you have other proposals regarding settlement discipline measures and tools to improve settlement efficiency in areas not covered in the previous sections? Please give examples and provide arguments and data where available. If relevant, please also include the specific proposed amendments to CDR 2018/1229.

<ESMA_QUESTION_CSDC_52>

N/A

<ESMA_QUESTION_CSDC_52>

3.2.11 Costs and Benefits

Q53 For all the topics covered in this CP please provide your input on the envisaged costs and benefits using the table below. Please include any operational challenges and the time it may take to implement the proposed requirements. Where relevant, additional tables, graphs and information may be included in order to support the arguments or calculations presented in the table below.

ESMA or respondent's proposal		
	Qualitative description	**Quantitative description/ Data**
Benefits		

Compliance costs: **- One-off** **- On-going**		
Costs to other stakeholders		
Indirect costs		

<ESMA_QUESTION_CSDC_53>

We note there are difficulties in quantifying costs/benefits at this stage, therefore we provide some high-level qualitative considerations as part of our response to this question.

- Benefits: Reducing trade processing errors, promoting market interoperability, and enhancing global integration. Alignment with T+1 frameworks. Cash management improvements.

- Costs: System upgrades and operational adjustments. Workflow adaptations for custodians and intermediaries. Regulators may require infrastructure for enhanced monitoring.

<ESMA_QUESTION_CSDC_53>