



EUROPEAN CENTRAL BANK

EUROSYSTEM

CSG T2S market settlement efficiency workshops

Debriefing from 2023
meetings

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AMI-Seco meeting

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Introduction

- The CSG market settlement efficiency (MSE) workshop has the main objectives to:
 - Exchange views with the market on settlement efficiency developments, discuss any possible actions taken within national communities to improve the fail rate.
 - Monitor the developments of settlement efficiency and failed transactions in T2S and of the usage of the partial settlement and release functionality.
 - Discuss proposals on possible measures to improve settlement efficiency in T2S.
- CSG had two MSE workshops in 2023:
 1. In July, to discuss a broad set of indicators of T2S settlement efficiency in line with CSDR requirements, also compared to other settlement efficiency measures, and of partial settlement usage.
 2. In October, to deep dive on specific developments identified during the first workshop and discuss other topics and proposals around settlement efficiency in T2S.

Summary of discussion I

Introduction and tour de table

- General positive developments of settlement efficiency were confirmed in several communities.
- Continued engagement with markets and clients supported by data evidence and regular monitoring plays an important role. Analysis coming from T2S very important to this end.
- Effort to promote market practices (e.g. shaping, partialling) and to educate customers having gaps in the usage of some functionalities and lack of automation. Importance of the settlement life-cycle.
- Fails can be reduced by increasing partial settlement and partial release. Attention in particular to the behaviour on the buy side.
- Discussions and preparations for new EU issuance, settlement in T+1, CSDR re-fit, participant suspension

Summary of discussion II

4CB analysis of CSDR settlement efficiency (SE)

- **CSDR SE rate at EOD:** 93.74% in volume (MSEI 94.40%, PSEI 98.37%) and 96.57% in value (MSEI 95.83%, PSEI 98.34%) in Jun-Jul 2023. CSDR SE was 93.25% in volume and 95.87% in value in Mar-Apr 2023.
- **CSDR SE rate at NTS:** 61.43% in volume (MSEI 61.26%, PSEI 84.32%) and 44.34% in value (MSEI 41.98%, PSEI 59.49%) in Jun-Jul 2023. CSDR SE was 61.17% in volume and 43.39% in value in Mar-Apr 2023.
- **General improvement of CSDR SE** compared to 2022. Increase in value continue in 2023, volume more stable. MSEI is lower than CSDR SE in value, while in volume they are more in line.
- The inclusion of **FOP** only in the volume likely contributes to the different developments in the CSDR SE in volume and value. Reflecting need to calculate a new measure of CSDR SE in volume excluding FOP.
- **On-hold** remains the largest “reason” for fail in volume (61%), followed by lack of securities (29%), while lack of securities is the main reason in value (64%). Behind the usage of on-hold there could be a lack of securities.
- **Lack of securities** in value is mostly impacting sovereign bonds in value (80%), shares in volume (43%).

Summary of discussion III

4CB analysis of partial settlement

- **Standard partial settlement** is used in 13 CSDs and is higher, for most of them, in volume and definitively **higher** in value **than partial release**. The latter is used in 10 CSDs.
- Constant and **progressive increase of the transactions eligible to partial settlement** in volume, more volatile in value but increasing since 2021 (65% in volume and 72% in value in Jun-Jul 2023). Some differences across CSDs.
- Transactions **subject to partial settlement also generally increased, however remaining a small share**. (5.12% in volume and 20.73% in value in Apr-May 2023).
- **Notable difference between FOP and non-FOP transactions**, with the latter being mostly FOP non-eligible to partial settlement.
- Among all transactions non-eligible to partial, **ineligibility is requested mostly by both parties** (73% in volume, 59% in value), while when set only by one party there is **no notable difference between buyer and seller** (no difference in volume, although a bit more on the delivery side in value).

Proposals to improve settlement efficiency: ICMA survey and ABN suggestions

- **ICMA survey** results from March 2023 show there is still room for improvement in the usage of tools supporting SE (i.e. shaping, auto-partialling and auto-borrowing). Some respondents suggested shaping and auto-partialling could be mandated by regulation.
- Further **ideas to improve SE proposed by the market**: enabling partial settlement for linked trades, harmonising cross-border settlement and realignments, introducing asymmetric penalties for receiving parties using NPAR, always enabling receipt instructions of partial settlement.
- Although some of the discussed functionalities would require changes in T2S, some **pending change requests** can already support some of these functionalities, e.g. CR 797 would remove some limitations to realignments between two CSDs partially addressing the cross-border issue. The CR should be given high priority.

Debriefing ESMA Settlement Efficiency workshop

- Workshop participants were debriefed about the main takeaways of the ESMA Settlement Efficiency workshop, encouraging all industry actors about the need to make further efforts to improve SE.

Key takeaways

- Workshop **participants keep strongly appreciating SE analysis** to support continued discussions with their national communities and the market. Effort to **educate and promote market practices**.
- **CSDR SE generally improved in the last years**; trend **more evident in value**, less in volume in 2023. Negative impact of FOP transactions on the latter, to be further investigated.
- In general, the **entry into force of the penalty mechanism seems to have had a positive impact**.
- Constant and **progressive increase of share of transactions eligible to partial settlement**, but **only small part subject to partial settlement**, especially in volume. Counterintuitive evidence of setting transactions non eligible to partial from buy and sell side.
- **T2S generally works well when resources are available**. Some factors that are external to T2S, e.g. movement of resources with ICSDs, can also play a role on settlement efficiency.
- To further improve SE, important to **improve partial settlement usage**, possibly with concrete measures. Further suggestions from the market, some of which (e.g. shaping) could lead to **CRs**.
- **Ongoing engagement with regulators**, i.e. ESMA, encouraging all industry actors on the need to make further efforts to boost settlement efficiency.

Thank you for the attention!

Questions?