15th December 2023

Swiss Securities Post-Trade Council
c/o
SIX (Risk, Security & Compliance)
Pfingstweidstrasse 110
8005 Zürich
Switzerland

ESMA
201-203 Rue de Bercy
75012 Paris
France

ESMA Call for Evidence on Shortening the Settlement Cycle

High level Remarks of the Swiss Securities Post-Trade Council (swissSPTC)

The Swiss Securities Post-Trade Council (swissSPTC) is an autonomous and independent market council for the Swiss market. The swissSPTC deals with issues for the entire securities post-trade area and, in close coordination with the market, develops the foundations for decision-making to be formally documented through swissSPTC resolutions. The swissSPTC communicates such resolutions to the market and drives forward their implementation. Resolutions are thus considered as firm recommendations which commit market participants to use them as guidelines.
The swissSPTC is composed of various market participants (i.e. banks, Swiss market infrastructure and representatives of issuers) of the Swiss securities value chain and representatives of Liechtenstein banks, reflecting the diversity of the home market.

Call for Evidence (CfE) – swissSPTC and Swiss market

Introductory Remark
The views provided below relate mainly to the shortening of the cycle to T+ 1, not however to T+0. This is because the shortening to T+0 would require a change in the basic market organisation and the sequencing of processes. In addition there is uncertainty to which of the possible T+0 models markets would tend to transition to. Although the Swiss market encompasses SIX Digital Exchange (SDX), which already supports atomic settlement due to the nature of the underlying technology, an overall assessment on T+0 cannot be carried out at this point in time.
The information and views below focus on the post-trade processes under the remit of the swissSPTC.

The swissSPTC welcomes the opportunity to respond to ESMA's call for evidence on shortening the settlement cycle in the European Union. The swissSPTC strongly believes that a reduction of the settlement cycle from T+2 to T+1 should be coordinated amongst regulators, market participants and financial market infrastructures (FMIs) and be extended beyond the EU, at least including Switzerland and the UK. This will be key for reasons of operational risk minimisation and for achieving efficiency gains as a potential T+1 settlement cycle will impact a wide range of business processes in the post-trade area in both the domestic markets and especially cross-border: e.g. settlement, fails management, securities lending, corporate actions, cash and collateral management and asset servicing.
The swissSPTC is committed to the competitiveness of European capital markets and supports the European harmonisation and efficiency initiatives in the area of securities post-trade processing.

The Swiss market, its securities business and related processes are strongly interlinked with the EU market's developments and in the post-trade area basically applies the same principles and standards. The Swiss CSD is a participant of T2S and member of the T2S harmonisation bodies. The same is valid for SIX (FMI) and the European Trade Associations such as ECSDA, EACH and further standard bodies in Europe.

This note sets out at a high-level the swissSPTC's shared positions:

- Moving to T+1 in European markets is more challenging than the earlier move to T+2. The overall readiness in the markets in terms of having implemented all measures for operational efficiency in the T+2 environment may still be lacking. It is difficult to estimate to which degree settlement improvements will have been realised at the potential point in time of a future move to T+1. Thus with a move to T+1 we foresee **a high negative impact on settlement efficiency with increased settlement fails and cash penalties for an intermediate period**. The impact is expected to be even higher in cross-border transactions.

- A successful migration to T+1 settlement will require a well-coordinated industry effort and communications between all actors operating and investing in the European's securities markets. **SwissSPTC participants propose a coordinated approach across EU, Switzerland and the UK**.

- At this point in time the swissSPTC finds it **difficult to estimate all the benefits and costs as long as a profound impact analysis in Europe** and any lessons learnt from the US/CA/MX migration are not yet available. Nevertheless the swissSPTC considers that the **benefits of a reduction of the settlement cycle to T+1 may not offset the costs** of the project to manage this change by the industry (at least not in a short/medium term).

- In terms of various asset classes or types of instruments and a potentially different migration time, the swissSPTC community strongly believes that **a migration should be conducted with an identical migration point in time for all assets** to avoid any further operational complexity, especially in the cross-border area. Even if specific asset classes are more challenging to move to a shorter cycle, they should be moved at the same time.

- As regards settlement cycle and **CSDR**, currently regulated by Article 5 of CSDR, the swissSPTC considers it as vital that the l**egal text is drafted in a way that an equal and identical transition among all member states can be ensured.** Such a transition seems key for the swissSPTC from a harmonisation perspective and in order to avoid operational fragmentation and risks.

- The swissSPTC is committed to European harmonisation and believes that a **harmonisation of settlement cycles between different jurisdictions would be advisable** to avoid further complexity in post-trade processes, specifically between the EU, Switzerland and UK. The swissSPTC considers a market standardisation within Europe or, otherwise, amongst different jurisdictions to be key to avoid further inefficiencies in the cross-border area with a result that costs may rise. Due potentially to the need for manual interventions, operational risks may also increase and jeopardize CMU objectives (e.g. harmonised and integrated markets).

- A clear majority of the swissSPTC members is of the opinion that the change to **T+1 in the US/CA/MX would not be a significant competitive advantage for these markets vis-à-vis Europe,** even though the competitive arguments are not yet totally clear.

- The swissSPTC considers a move to T+1 at short notice as not advisable. An appropriate timeframe for all parties involved is required to implement the necessary technical and operational changes based on an industry-wide assessment. A rushed or uncoordinated approach of European markets may result in increased risks, inefficiencies and costs in European capital markets. **A medium term move (2027 – 2029) has been assessed by the post-trade community of the swissSPTC as a more appropriate timeframe** to undertake this migration, whilst 2029 would be considered as rather late.

- **Corporate Actions key dates and multi-listed Securities**
  We would like to evaluate/review in more detail, i.e. Corporate Actions “Key Dates” in the context of multi-listed securities with potentially two different settlement cycles.

  - In a **T+2 environment**, the current convention foresees three different dates which facilitate the management of corporate events not only related to securities positions on stock but also for securities on flow as follows:
    Ex-Date (D)
    (First trading date without entitlement (dividend)/rights attached to it, whereas intermediaries may calculate entitlements/rights on a contractual settlement basis on Ex-Date)
    Record Date (D+1)
    (Date on which the entitlements (dividend)/rights are struck on settled positions in the CSD’s books at close of business)
    Payment Date (D+2)
    (Date on which the entitlements (dividend)/rights are paid/distributed)

  - In the **T+1 environment,** the Ex-date and the sequence of these dates would have to be re-convened. I.e. the Ex-date and the Record date are on the same date (D), the date prior to the entitlement/dividend payment, Payment date (D+1).

  - For the **multi-listed securities**, European industry associations are in discussion to come to a common understanding and solve the problem of settlement cycle bifurcation between the US and Europe for what concerns Corporate Actions key dates. Corporate Actions experts in the Swiss market discussed the issue in view of four alternatives identified that aim to solve the issue:
    1. Alignment on the Ex-date
    2. Alignment on the Record date (with different Ex-date),
    3. Alignment of both dates (Ex- and Record-date), date prior to payment date
    4. Alignment on Ex-date and Payment-date with different Record-date

    Each of these solutions has its drawbacks and potentially violates the existing European key dates convention. The European industry need investigate further which of those alternatives would be the most acceptable. The **Swiss market’s experts are clearly in favour of alternative 4 with an alignment on Ex-date and Payment-date based on the T+2 environment.** In the context of the key dates referring to other European Corporate Actions Standards (e.g. mandatory reorganisations), the same principle is proposed to be addressed.

    Rationale for alternative 4 (primarily from a bank and client/beneficial owner perspective):
    - With same Ex-date the possibility of transaction arbitrage with cum/ex is minimised; equal treatment of banks/clients;
    - With same Payment-date, equal treatment of all banks/clients, all banks/clients get the entitlement at the same time;
    - Home market principle of the issuer will prevail: alternative 4 is proposed to be valid for issuers of the Swiss market and potentially the EU of which the securities are dual listed in the US; the issuer agent, which is in this case a Swiss or potentially EU company, is responsible for the key dates to be provided to the CSD; thus the issuer agent can ensure that the key dates are processed along alternative 4.
      We are aware that this proposal cannot be imposed to US companies that are listed/traded on European exchanges.

***