



EUROPEAN CENTRAL BANK

EUROSYSTEM

CSG 6th market settlement efficiency workshop

Debriefing from the
meeting on 28
September 2022

1 December 2022
AMI-SeCo meeting



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Background

The **main objectives** of the 6th market settlement efficiency (MSE) workshop were to:

1. provide a set of indicators about settlement efficiency and failed transactions in T2S in line with the CSDR requirements, also comparing them with alternative settlement efficiency measures;
2. monitor the developments of the settlement efficiency after the implementation of the Settlement Discipline Regime (SDR); and
3. exchange views with the market on settlement efficiency developments and share experiences in relation to the impact of the penalty regime on settlement efficiency.

Summary of discussion I

Introduction/Tour de table

- Settlement efficiency data shared with respective markets to promote discussions and best market practices, as well as understand pain points and sequence of process.
- General interest in provision of data to continue fostering market discussions, support participants and allow benchmarking. More granularity, common metrics and methodology would be useful.
- Penalty regime did not appear to have a clear positive impact on settlement efficiency; improvement in the first months due to market operators and participants being alerted and carefully checking their activity, then deterioration also due to market volatility.
- Overall the T2S engine works well, settlement fails mostly related to market behaviour.
- Asymmetries in the processing sequence between buying and selling side lead to sub-optimal use of partial settlement, to late matching and to penalties.

Summary of discussion II

Introduction/Tour de table

- Changes/additional features could be considered in T2S: making partial settlement mandatory (although it will bring performance issues), having more partial features on the buy side, or introducing shaping (after careful analysis) which can be done through partial release.
- Penalty fees collected by participants do not create incentives to improve settlement efficiency; impact would need to be investigated.
- According to some market participants, settlement efficiency at NTS is too low and puts excessive pressure on intraday liquidity.

Summary of discussion III

4CB analysis of CSDR settlement efficiency (SE)

- **CSDR SE rate at EOD:** 91.54% in volume (DATF 98.10%, PSEI 97.70%) and 94.96% in value (DATF 93.30%, PSEI 97.40%) in Apr-Mar 22. 89.57% in volume and 94.21% in value in Feb-21.
- **CSDR SE rate at NTS:** 59.42% in volume (DATF 67.34%, PSEI 83.55%) and 42.15% in value (DATF 38.98%, PSEI 58.32%) in Apr-Mar 22. 60.40% in volume and 46.31% in value in Feb-21.
- Improvement in CSDR SE level compared to Feb-21, particularly in volume at EOD, and a decrease in the On-Hold. Overall lower impact of late matching instructions on settlement efficiency compared to last year. Reasonably, the improvement is partially related to the introduction of the penalty mechanism.
- Some breakdowns by instruction/asset/securities transaction code show a structurally lower SE:
 - PFOD lowest rate in value, FOP in volume at EOD (strong negative peak on 31/03 due to CA)
 - ETFS lowest rate in volume and value at EOD
 - SECU lowest rate in value, DEBT in value at EOD
- Breakdown by fail reason shows that main reason in volume is usage of Hold functionality, while in value it is lack of securities. More investigations on other reasons for fails would be needed.

Summary of discussion IV

CSDR settlement efficiency (SE)

- It was recalled that “on-hold” is a liquidity management feature, not a fail reason. Behind it are other reasons, e.g. lack of cash. It is important to investigate further on “on-hold”, as misuses could also occur.
- Discussion took place on the inclusion of corporate actions in the calculation of the indicators. Consider to report them separately, as they are relevant for settlement efficiency.
- The report could be improved with additional/more detailed information. For example, it would be important to understand the correlation between top participants and worst participants.
- NTS could be relevant for the assessment of settlement efficiency, a more detailed analysis would be needed also in view of future discussions on T+1.

Key takeaways

- Workshop participants appreciate analysis on SE and find it important to support the discussion with their national communities and in the market in general.
- The provided analysis should be enhanced with additional indicators and breakdowns, in particular on reasons for fails, to better support addressing pain points.
- The T2S platform is overall performing well when resources are available. Consider to improve partial settlement and release features.
- Some factors that are external to T2S, e.g. movement of resources with ICSDs, can also play a role on settlement efficiency.
- NTS settlement efficiency shows room for improvement. Make more in-depth analysis, also in view of T+1.
- Investigate further on the usage on the “on-hold” functionality, possibly issuing a new survey.
- Consider if more resources are needed to provide the requested analysis.

Proposal for next steps

- The CSG took note of the outcome of the MSE workshop, in particular:
 - General interest of workshop participants on enhanced analyses.
 - More information needed on reasons for fails, e.g. usage of the on hold functionality.
 - Need to further investigate on (low) settlement efficiency at NTS.
- The CSG also took note of the ongoing discussions with the ECB and 4CB on an agreement for the regular repetition of the MSE workshop, that should take place twice a year.
- Finally, the CSG discussed the possibility to launch a survey on the usage on the “on-hold” feature and have the results presented at the next MSE workshop.

Thank you for the attention!

Questions?