



EUROPEAN CENTRAL BANK

EUROSYSTEM

CSG 10th market settlement efficiency workshop

Outcome from 6
November 2024 meeting

AMI-SeCo meeting
4 December 2024

ECB-UNRESTRICTED



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Background

- The 10th market settlement efficiency (MSE) workshop took place on 6 November 2024
- Its main objectives were to:
 1. Provide a new set of indicators on settlement efficiency and failed transactions for June and July 2024, in line with the CSDR requirements, and make an in-depth analysis of negative peaks days on data already analysed for the 9th MSE workshop (February and March 2024)
 2. Provide an update on the usage of partial settlement in T2S
 3. Provide an analysis of settlement efficiency at NTS from the Settlement Optimization Analysis (SOA) report following the platform settlement efficiency (PSEI) methodology and the results of an ad-hoc analysis focusing on T+1 issues with the objective of defining what additional analysis should be pursued in view of preparing to T+1 from a settlement efficiency perspective

Summary of discussion I

Tour de table

- Most participants reported a **regular engagement with their markets and clients**, also supported by data evidence, to discuss drivers and improvements of settlement efficiency
- General effort to **educate customers in using features supporting settlement efficiency** (e.g., partial settlement - being implemented in some communities, institutions - and partial release) and to **properly handle processes and procedures** to avoid the emergence of fails
- Concerns were expressed by one participant in relation to the connection between the T2S market and the ICSDs. **Limitations to move securities in and outside T2S** may become an issue in view of T+1, especially for what concerns the repo market that should move to T+0
- In general, the preparation to **settlement in T+1** should be seen as a priority for the group

Summary of discussion II

CSDR settlement efficiency (SE) at EOD

Jul-2024	CSDRSEI without LM	CSDRSEI with LM	MSEI	PSEI
Volume	94.33%	93.75%	93.82%	98.38%
Value	98.34%	98.05%	97.86%	99.26%

- Improvement of CSDRSEI in value compared to one year before, no significant change in volume - likely due to the exclusion of FOP in value; the gap with PSEI indicates that fails seem primarily market-driven and there is no technical issue in T2S
- The analysis of negative settlement efficiency peaks revealed that they are mostly driven due to customer-specific issues. Additional in-depth analysis of end-of-quarters would be beneficial to detect possibly recurring problems during peak periods (e.g., linked to specific ISINs)
- “On Hold” increased its importance as fail reason during the Jun-July 2024 period in volume (4.06% compared to 2.83% during the Feb-Mar period). Hold and release is a risk management functionality mainly needed for omnibus accounts; the increase could be driven by a customer-specific problem
- In value “lack of securities” remains the highest reason for fail rate (1.08%), slightly decreasing from the Feb-Mar period. SOVR are driving the vast majority of these fails

Summary of discussion III

CSDR settlement efficiency (SE) at NTS

Jul-2024	CSDRSEI	MSEI	PSEI
Volume	61.13%	59.97%	84.13%
Value	50.58%	48.73%;	67.08%

- While CSDRSEI remains at low levels, it strongly increased in value compared to Jun-July 2023 period and slightly decreased in volume
- It shall be investigated if instructions at NTS are on-hold due to the lack of securities, waiting to be settled at RTS, or they are not inserted in T2S
- Cash is not an issue for the time being during NTS; going forward, a shorter settlement cycle (i.e., move to T+1) could put pressure on central bank liquidity
- In general, settlement efficiency is very important in view of T+1. It would be therefore important to optimize settlement in the current environment since with a shorter settlement cycle the efficiency could deteriorate
- Improving interactions with ICSDs could help in view of T+1 (e.g., aligning schedule, connect to T2S). While the MSE is not the appropriate forum, the topic could be brought to other market fora, e.g., AMI-SeCo or ECSDA

Summary of discussion IV

Partial settlement

- The share of transactions eligible for partial settlement (63%) remained largely stable in volume compared to 2023 but decreased in value (from 73% in 2023 to 70% in Feb/Mar 2024 and 66% in Jun/Jul 2024). The same is true for the share of transactions subject to partial settlement
- Partial settlement is mainly used in big CSDs in volume, while in medium CSDs is mainly used in value
- Transactions eligible to partial settlement have a higher settlement efficiency rate in value, while the same does not happen in volume
- Only a minority of transactions eligible to partial settlement are subject to it during the day (7% in volume and 30% in value). Of those, roughly 70-80% are fully settled at the end of day. Important to understand eligibility along the business day and how partially settled transactions are classified depending on their settlement status
- The group was debriefed on the incipient SEG discussion on continuous partial settlement in T2S and agreed that it could provide substantial contribution to this discussion

Key takeaways

- Workshop **participants keep strongly appreciating analysis and discussion** and find it important to support the continued discussion with their national communities and customers. Progresses have been made in promoting good market practices
- CSDR **settlement efficiency has improved in value**, while remained stable in volume
- Further in-depth analysis of end-of-quarter periods may shed additional light on **potential recurrent fail drivers** behind the negative peaks
- **Partial settlement contributes to improving T2S settlement efficiency**, however its usage is still limited to big participants although an effort is made to extend it. Useful to **better understand its usage** along the T2S business day also in view of its possible extension
- Gain a **better understanding of the activity during NTS in view of T+1**. In particular, the **CCP activity** related to the repo market should be better analysed
- **Simulations** could be run in view of supporting the preparation to T+1 and the discussion on continued partial settlement
- **Cross-border settlement and the interaction with ICSDs** could be an area for improvement to consider in the appropriate fora in view of T+1

Proposal for next steps

The CSG is invited to take note of the following points:

- Main outcome of the MSE workshop analysis:
 - Slight improvement of settlement efficiency indicators and usage of partial settlement
 - Negative peaks are mostly driven by market/customer issues
 - Keep monitoring and analysing partial settlement usage
 - More analysis needed on NTS, especially on CCP related transactions
 - Extend and improve analysis in view of T+1 and continued partial settlement, possibly considering also the usage of simulations
- A written procedure among MSE participants will be run to agree on:
 - Topics for the next MSE workshops

Thank you for the attention!

Questions?