International
Capital
Market
Association

ICMA

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To: **Patrick Pearson**, European Commission, Head of Financial Markets Infrastructure

Copy: **Jennifer Robertson**, European Commission, Deputy Head of Financial Markets Infrastructure
Verena Ross, ESMA, Executive Director
Rodrigo Buenaventura, ESMA Head of Markets Division
Andrew Hausser, Director, Markets Strategy, Bank of England, and Chair of Securities Lending and Repo Committee
Marc Bayle, ECB, T2S Project Manager
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Re: **ICMA ERC report on the successful migration of the European bond markets to T+2**

Dear Mr. Pearson

On behalf of the ICMA European Repo Council, I am pleased to report that the initial feedback from our members and operations working groups is that the transition to T+2 for the European fixed income markets has been largely successful with few issues. This can be attributed to the significant efforts made by the relevant market trade bodies, the regulated markets (RMs), the multilateral trading facilities (MTFs), and data vendors to ensure a harmonized migration, both on trading venues and in the over-the-counter (OTC) markets, and to raise awareness and preparedness amongst market participants.

As you will be aware, in April the ICMA updated its Rules and Recommendations for the Secondary Market to change the standard settlement for “ICMA markets” (transactions in international securities, intended to be traded on an international cross-border basis through an international central securities depository) from T+3 to T+2, unless otherwise stated, effective from October 6th 2014. At the same time, the ICMA ERC and Operations Group made great efforts to communicate the potential impact of a shorter settlement cycle for related financing and repo markets. Whereas the fixed income markets had previously enjoyed a two-and-a-half day window for funding positions and the associated collateral and liquidity management after close-of-business, in a T+2 environment this window would be shortened to just one-and-a-half-day. This is especially challenging when moving securities across different central securities depositories (CSDs) and international securities depositories (ICSDs) that lack interoperability, with different settlement cycles and cut-off times. From an operational perspective this increases the need for much more timely and efficient affirmation and confirmation processes for both the underlying cash transactions and securities financing transactions (SFTs).

As we approached October 6th, the ICMA and ERC redoubled its efforts to ensure that members were informed of the required changes and possible impacts. The ICMA Regulatory Help Desk fielded numerous calls related to the regulatory scope of the initiative, and on September 22nd, ICMA held a T+2 informational call for its members for which over 300 member firms registered. In September, the ERC Operations Group published a paper, *The impact of T+2 settlement on the European repo market,* which outlines the various financing and collateral and liquidity management challenges arising out of the of the move to T+2.

The efforts of ICMA, AFME, ASIFMA, EMTA, and other industry bodies and representatives, including the RMs, MTFs, and data vendors, have proved to be successful in ensuring a smooth and orderly transition to T+2 for the European fixed income markets.

From an operational perspective, the migration was successfully supported by advanced market focus on pre-matching, trade affirmation, and early allocation of trades. Feedback from the ICMA and ERC membership suggests that there were very few issues or incidents on the migration settlement date of October 8th. Netting and pair-offs across trades transacted on October 3rd and 6th meant that settlement volumes on the 8th only increased by around 50%. Market-wide efforts to ensure timely affirmation and allocations resulted in only around 1% of total traded volumes mismatching and subsequently requiring post-trade repair. Settlement efficiency levels have remained high during the migration, with only a negligible uptick in settlement fails on October 8th, and there have been no observable issues with agent and clearing funding, bottlenecks, and settlement cycle events.

Additionally, and critically, there were no market wide issues with the technical updates to reference data over the transition weekend. Wholesale data updates were made to several million instruments for settlement date, which were subsequently translated cleanly into electronic platforms and firms' databases. The industry work with the data vendors to harmonize the approach was effective, leading to a broad understanding of the jurisdictions being adjusted and subsequent translation into production processing. Specifically, the use of ISIN pre-fixes in defining scope has proved to be a useful reference point.

There still remains an edge population of non-European currency denominated internationally traded securities that settle both on in-scope and out-of-scope CSDs, and where T+3 may remain the most liquid, and therefore practical, default settlement date. These currently include US Reg-S issues, non-European Emerging Market bonds, and a number of Asian-Pacific securities. ICMA will continue to work closely with AFME, ASIFMA, EMTA, and other industry bodies and representatives, as well as with the RMs, MTFs, and data vendors, to help resolve these issues and to achieve consensus best practice in the coming weeks and months.

From the perspective of the repo markets, the shorter-settlement cycle for underlying securities, and the migration of liquidity for most financing trades from T+2 to T+1, has not posed any immediately observable issues, although the ERC will continue to monitor the situation closely, particularly the impact of increased volumes in same-day collateral and liquidity management.

The move in bond markets to T+2 has also necessitated a change in best practice for notifications related to open repo trades. Around 7% of outstanding repo transactions in Europe are on open, and open trades are particularly common for funding corporate and emerging market bonds. In line with the move to T+2 for most European currency denominated bonds, the ERC has updated its Best Practice Guide to set a deadline of 1pm CET on T+1 for notification on recalls, returns, and rerates for open repo transactions in these securities. With regards non-European currency denominated securities, such as USD denominated corporates and emerging market bonds that trade internationally and settle on both in-scope and out-of-scope CSDs, the ERC will base its best practice guidance for open trade notification on the agreed standard settlement date for the underlying securities, as and when these are determined. Again, the ERC will continue to engage with the various industry bodies, RMs, MTFs, and data vendors to help resolve these issues, while also monitoring the impact of T+1 notification deadlines on securities that are transacted and settled across multiple time-zones.

As the Commission and ESMA will be well aware, perhaps the most unfortunate and unexpected impact on the European repo markets of the implementation of CSDR Article 5 is the restriction of executing repos on electronic trading platforms with start-settlement beyond T+2. This may prove to be especially problematic around quarter-end reporting dates, particularly as we approach year end (although these issues are not exclusive to reporting dates). We are aware that the various impacted trading platforms have written to the Commission expressing their concerns, and I would like to take this opportunity, on behalf of the ERC, to convey my sincere hope that a practical solution can be found to avoid this regrettable outcome.

In conclusion, it is safe to say that the migration to T+2 has been a success, and largely as a result of the cross-market work and communication in identifying and mitigating the associated challenges. A number of issues remain to be resolved, but the ICMA and ERC will continue to work closely with their members, the various international market bodies, RMs, MTFs, and data vendors to reach agreed standards and practical solutions. We will also continue to monitor closely the ongoing effect on settlement efficiency, both for outright cash trades and SFTs, not least as other regulatory initiatives begin to impact these markets.

Kind regards,

Godfried De Vidts
Chair, ICMA European Repo Council