Shortening of the settlement cycle: primary market aspects

On 31 October 2024, ICMA submitted its response to the *Draft Recommendations Report & Consultation* of the UK Accelerated Settlement Taskforce's Technical Group.

ICMA's response dealt mainly with secondary trading and repo aspects (covered in the Secondary Markets section of this Quarterly Report), but also touched on some primary market aspects. ICMA:

(i) welcomed the non-inclusion of primary markets in T+1 scope, which is consistent with the effective position in the US (where it was expected that there would be extended settlement under SEC Rule 15c6-1(d) as per prior market practice);

(ii) welcomed the acknowledgement that there are constraints/risks in shortening the primary market settlement period;

(iii) acknowledged voluntary shortening of the primary market settlement period (following secondary market moves to T+1) may be conceivable in some cases, though it is currently difficult to predict what these might be;

(iv) noted the existing Euroclear process, set up in anticipation of voluntary shortening of the primary market settlement period following the US move to shorter settlement in April, does not seem to have been much used so far – and that any need for a similar process regarding potential voluntary shortening of the primary market settlement period in the UK is consequently unclear;

(v) queried the appropriateness and proportionality of mandating availability of a specific commercial identifier (the FIGI) upon the "launch" of any debt issue, bearing in mind also that back-office systems generally remain set up for ISINs only; and

(vi) noted some of the above may be academic for now to the extent that Eurobonds are proposed to remain on T+2 settlement until the EU moves to T+1.

Distinctly on 18 November, ESMA published a report assessing settlement cycle shortening in the EU. Whilst again mainly focused on secondary markets (covered in the Secondary Markets section of this Quarterly Report), the ESMA report noted some potential primary market relevance in the specific context of ETF shares (a very different context from new bond issuance) but concluded that it is for industry to find solutions to increase settlement efficiency. More generally, the report noted that nothing seems to indicate that a specific deadline for the settlement of primary market transactions is required at this stage. It also noted that in some cases such a deadline could have a negative impact, citing in this respect a December 2021 report of the ECB's Debt Issuance Market Contact Group.

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