



EUROPEAN CENTRAL BANK

EUROSYSTEM

4th CSG Workshop on Market Settlement Efficiency

Debriefing from
08 October 2020

AMI-SeCo teleconference
3 December 2020



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Main points of discussion at the Workshop

- **CSDR settlement efficiency (SE)**
- **Update on late matching**
- **Partial release & usage of partial settlement in T2S**
- **Results of the 4CB/NBB-SSS pilot on settlement efficiency.**

Summary of discussion

CSDR settlement efficiency (SE)

- The CSDR SE rate stood at 90.75% in volume (DATF 94.93%, PSEI 97.08%) and 94.29% in value (DATF 94.59%, PSEI 97.57%) in February 2020
- Some of the presented breakdowns show a structurally lower SE
- Breakdown by fail reason were analysed, on Hold and CoSD on Hold; on Hold is a risk management tool, but reasons behind are not available in T2S
- Current limits in the methodology for CSDR SE rate identified: (i) exclusion of FOP value; (ii) treatment of PSET transactions; (iii) impact of LM

Late matching (LM)

- Largest concentration of LM with a delay of 1 day (61.07% in value, 69.10% in volume)
- Impact of LM on DATF SE of ~1% in value; similar impact estimated for CSDR SE
- Discussed need to identify reasons for LM on local level, which is not available in T2S, also in view of regulation.

Summary of discussion

Partial settlement & partial release usage

- Usage of partial settlement increased in the first period, then decreased; partial release follows similar pattern
- Simulation suggest that partial settlement eligibility of all transactions may not lead to an improvement in SE
- Need for further in-depth analysis (e.g. impact of omnibus account usage), also with methodology in line with CSDR assumptions

4CB/NBB-SSS pilot on settlement efficiency

- Proof of value for 4CB mathematical and statistical models, complemented by business elements and knowledge from CSD
- Results can add value for CSDs, especially for cross-border transactions, but required a significant time investment
- Simulations can help answer what-if questions and the impact of changed parameters on SE in T2S

Proposal for next steps

Hold at least another Market Settlement Efficiency workshop, the aim being to:

- improve the quality of the CSDR rate (methodology),
- calculate SE (i) on delivering/receiving side considering only relevant reasons; (ii) at different times (e.g. RTS/NTS); (iii) for worst 10 CSD participants
- conduct the assessment in further months after the main impact of market turbulences & after the COVID-19,
- do another partial settlement analysis (longer and in another period of time),
- obtain feedback from communities about actual reasons that are behind Late Matching and “on hold”.

Thereafter, the CSG could explore to raise a CR for a CSDR settlement efficiency and explore further the use of simulator

Impact of CR-691 on settlement efficiency

- 4CB prepared a preliminary analysis of the impact of CR-691 (recycling period of 60 business days for matched instructions) on settlement efficiency

	Efficiency Volume EOD	Efficiency Value EOD	Efficiency Volume NTS	Efficiency Value NTS
Average pre CR691	96,93%	97,79%	82,74%	62,04%
Average post C691	98,17%	98,18%	85,55%	62,43%
Delta	1,24%	0,39%	2,81%	0,39%

Note: the average pre-CR691 goes from 2020/07/01 to 2020/10/04; the average post-CR691 goes from 2020/10/05 to 2020/10/23.

- The data show a clear improvement in particular in volume terms.
- It is expected that the one-shot cancellation of “aged” unsettled transactions and the continuous cancellation of “new aged” unsettled transactions will have a stable positive impact on settlement efficiency.

ICMA ERCC request for T2S data

- The ICMA European Repo and Collateral Council (ERCC) is currently discussing intraday liquidity topics and the usage of night-time settlement.
- To support the work, the ERCC has approached the ECB to receive a set of T2S settlement statistics on:
 - Evolution of value efficiency through the day, focusing in particular on fixed income/debt and, if possible, on CCP-cleared trades
 - Share of settlement fails by fail reason and due to instructions On Hold, share of settlement instructions smaller/larger than EUR 50 million in size for fixed income.
 - Settlement fail rate by ISD
- Since the request has a similar focus and synergies with the SE workshop analysis, it will be prepared and discussed in view of the next CSG workshop on Market Settlement Efficiency.