Post-trading improvements to support CMU – this time for real?

The European Commission adopted its first Capital Markets Union (CMU) Action Plan in 2015 in order to strengthen Europe's economy and stimulate investment to create jobs. Stronger capital markets will complement Europe's strong tradition of bank financing. Progress has been made since. The availability of data to market participants through the agreements on a European Single Access Point (ESAP) and a consolidated tape (CT); increased retail participation and investor protection; and enabling the single market through simplifying cross-border services. Unfortunately, there is still a lot to do as well. As the Letta Report highlights[1], the CMU needs to strengthen the European competitiveness, break down existing barriers, and promote consolidation and growth. In this contribution, the focus is on potential improvements for the post-trading landscape.

Over the last year, there has been much discussion on whether to move to a shorter settlement cycle in the EU, so-called T+1 settlement. The United States recently moved to T+1, with the UK stating they will follow before 2027. A joint UK-EU-Swiss move would be preferable, and the EU needs to make up its mind soon. There are many benefits, for example, shorter settlement cycles lead to less counterparty credit risk, less need for collateral and thus less capital locked up in capital requirements, and cash and securities becoming available sooner for end investors. Whilst all these are all tangible benefits, they are not likely to lead to more consolidation or integration of EU post-trading. A shorter settlement cycle could however serve as a catalyst for more automation of the post-trading processes, which in turn could help improving the efficiency of EU capital markets. In the current world of "instant everything", and with the technical possibilities to facilitate this, it would be a missed opportunity not to go ahead with the move to T+1 settlement, staying aligned with other economies like the US and the UK.

Besides moving to T+1, the most recent conversations as regards enhancing post-trade in the CMU relates to updating the European Market Infrastructure Regulation (EMIR). This EMIR review is relevant from the perspective of enhancing the attractiveness of the European clearing landscape, while at the same time preserving financial stability of clearing in the EU. By simplifying and shortening procedures for EU CCPs and addressing some of the previous shortcomings, such as specific measures for non-financial companies, a clear improvement has been achieved compared to existing EMIR rules. However, more could be done to enhance the attractiveness and competitiveness of clearing in the Union further. Not by directly increasing prudential incentives for clearing members to move from third country CCPs to EU CCPs, but through constructive and pragmatic steps forward. For example, by increasing the range of EU CCPs' clearing product offerings: increasing and diversifying liquidity pools could greatly benefit the clearing landscape in the EU. Given that this is difficult for policymakers to achieve on their own, CCPs could step up their game to broaden their product base where needed. It takes two to tango when enhancing the attractiveness of clearing in the Union. This could even make the new active account requirements under EMIR 3.0 less 'operational', as clearing members could decide to move a bigger part of their clearing activities from third countries to the EU.

As market conduct supervisor, the AFM sees merit as well in further improving Europe's supervisory architecture, especially if this goes together with the afore mentioned goal of attracting more clearing activity towards the EU. As we wrote in our CMU position paper earlier this year[2], we deem the CCP and CSD environment as suitable areas for further centralization of supervision. It would break down barriers creating by potentially different supervisory practices and interpretations across Member States. In that regard, the outcome of the EMIR review has been somewhat disappointing

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[1] https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
[2] https://www.afm.nl/en/sector/actueel/2024/februari/position-paper-cmu

and can only be perceived as an intermediate step, as the cross-border characteristics of the post-trade markets could benefit a lot from further increasing supervisory convergence. If cleared volumes would increase in the period ahead, cross-border and systemic risks can be better managed if supervision takes place on a more pan-European level.

In summary, these are three potential areas to improve the post-trading landscape to support the CMU: moving to T+1, increasing the attractiveness of clearing within the EU, and centralizing supervision of post-trade infrastructure where appropriate. With the global political landscape evolving, the CMU needs to become both more resilient and competitive. It is not option, but a necessity. These three areas would be a good starting point.

Key phrase*: For a true CMU & integration in the post-trading area, shorter settlement cycles are not enough*

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