



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Settlement cycle harmonisation

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# Introduction

- Outcome of the DIMCG 27 January: ECB team to draw up list of documents steps to be taken for syndicated deals between final allocation / pricing and settlement
- The following slides focus on the scenario applicable for the initial case study of the DIMCG i.e. drawdowns under an established MTN programme for frequent public issuers with an European perspective
- The slides include the outcome of the 27 January DIMCG call as well as following written comments by DIMCG members on their considerations of a shorter settlement cycle for syndication

# Timeline

Settlement of syndicated issuances takes normally 5 days to take place

**What happens in this period?**



**Launch / fixing date** (closing of the order book, final allocation and price communicated to investors)

**Closing date / Issue date / date of settlement** (i.e. date on which the issue proceeds are paid to the Issuer and the securities are created and distributed to investors)

# Issuance documentation

- Normally the time between T and T+5 is used to finalise and agree on all relevant documentation, a number of these documents are drawn up / drafted before T but their finalisation and signing takes place between T and T+5
- The signing of transaction documents usually takes place as soon as practicable after the pricing and prior to closing. The following table shows all the most relevant key documents to be finalised between T and T+5
- Frequent issuers / issuers using programmes can have better prospects of saving time in the finalisation / closing phase (and hence could be better prepared for a shorter cycle) than non-frequent issuers

# Issuance documentation

ECB-UNRESTRICTED

Document / activity name	Description	Latest date or moment in time for its completion / finalization
(Base) Prospectus / Offering Circular	Finalising base document of disclosure to the public on the offering of securities (by issuer or issuer agent)	Pre-launch <i>(can happen after T)</i>
ISIN / common code allocation request	Official request from the issuer's agent to the numbering agency (often the issuer CSD, depending on market) to allocate ISIN (arranged by issuer agent)	Launch (T) <i>(can happen before T)</i>
Listing request	Official request to trading venue / stock exchange for listing the issue (arranged by issuer agent)	Launch (T) <i>(can happen before T)</i>
Dealer / subscription agreement	Signing of final agreement between issuer and managers that sets out the the terms and conditions upon which the managers agree to subscribe the securities	Launch (T)
Final terms / pricing supplement	the document that, together with the offer document, sets out the terms and conditions of the issue. Used to set the commercial terms which includes the actual pricing of the transaction	Launch (T)
Confirmation to managers	Communication sent by a lead manager to the co-managers confirming their participation	Launch (T)

# Issuance documentation

ECB-UNRESTRICTED

Document / activity name	Description	Latest date or moment in time for its completion / finalization
ECB eligibility (if applicable)	Requesting ECB eligibility / providing documents to NCB of place of listing to assess eligibility for Eurosystem collateral and/or asset purchase programme purposes	Closing (T+5)
Agreement among managers	Signing of final agreement among managers which defines the amount each manager agree to subscribe and the distribution of commissions	Closing (T+5)
Agency agreement	Signing of final agreement between Issuer and its agent (can be a trustee via Trust deed or fiscal agent via fiscal agency agreement) – <i>(not needed for issuance under existing programme)</i>	Closing (T+5) (
Conditions precedent	Package that includes Comfort letter, legal opinion and certificate signed by SM or the issuer. Documentation prepared by issuer's auditors and legal counsels to be provided to the dealers	Closing (T+5)
Issuer-Issuer CSD agreement	Signing of agreement between issuer and the issuer (I)CSD (generally arranged by issuers agent) – <i>(not needed for issuance under existing programme)</i>	Closing (T+5)
Global note / certificate	Finalise, authenticate and deliver global note (where relevant) to Issuer CSD or common depository / safekeeper (usually arranged by issuer agent)	Closing (T+5)

# Preparation for settlement

- Preparation for settlement has to be carried out after the launch and final allocation as it is only at that point that the settlement instructions can be prepared
- For frequent issuers the use of SSIs between the LM / issuer agent and the allottees help but are not always available or up-to-date
- After communicating the final allotments the LM / issuer agent has to prepare and send settlement instructions (cash and securities) to the issuer CSD / payment banks and the allottees have to do the same to allow matching
- Allottees have to arrange settlement with final investors (similarly often resulting in settlement instructions to CSD / custodians and payment banks). All instructions are conditional on fulfilling all conditions precedent for the transaction and the issuer's final green light
- In non-dematerialised markets settlement also involves preparing, authenticating and depositing the final global note

# Managing / collecting liquidity

- Time is required between launch and closing to collect / build up liquidity or engage in liquidity management transactions by investors after final allocation is communicated
- Non-sophisticated investors may need more than 2 business days to make liquidity arrangements
- Need to pre-fund (intraday) depends on issuer CSD arrangements
- Fails (cash-side) in primary market transactions are not common but the consequences are severe (low risk / high impact) for both issuers and investors (CSDR settlement discipline rules will also apply to primary market transactions)



# Considerations on benefits / drawbacks of shorter settlement cycle

- Potential advantages of shorter settlement cycle:
  - Lower counterparty (settlement) risk to parties (between dealers and investors, issuer is shielded via underwriting arrangement)
  - Could make ALM and cash management for issuers easier, as timing mismatches between lending and funding could be reduced, especially for smaller funding transactions
  - Limiting grey market activity – speculative and opaque market segment with no robust underpinning and no integration in mainstream (secondary) market
  - Might help hedging related to transactions (repos, derivatives geared towards standard settlement cycles)
- Potential drawbacks of shorter settlement cycle:
  - Trade off between shortening settlement cycle and operational risk
  - Not clear whether issuers or investors would strongly prefer shorter settlement cycle, no major complaints or issues in the market
  - T+5 is common practice also in other regions (outside Europe, e.g. US)

# Summary

- The key bottleneck to shorten primary market settlement cycle for syndicated Euro MTN transactions today according to most DIMCG members are the finalisation of issuance documents (incl. the global note) between launch and closing
- There is no full consensus among DIMCG members on whether the potential benefits of a shorter settlement cycle would outweigh the potential implied risks and efforts to change – majority sees no pressing issues with current practice
- Potential shortening could organically follow from harmonisation / streamlining of the steps of the issuance process (instead of being an objective in itself)
- More efficient / harmonised data exchange and digitalisation of documents are perceived as the key enablers for such potential progress

# Thank you for the attention

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