



TOPICS:

Market risk

SOURCE

European Stability Mechanism

ESM: Post-trade Settlement Fragmentation and the Case for a Unified Ledger

- **European capital market integration is hindered by fragmentation in post-trade securities settlement.** The EU currently operates with 28 central securities depositories (CSDs), in stark contrast to the single CSD system in the United States. This dispersion, driven by divergent national securities and tax laws, results in complex and costly cross-border settlements, reducing investor access and limiting liquidity.
- To address these issues, **the EU has pursued initiatives** like the Target2-Securities (T2S) platform, launched in 2015 by the European Central Bank. T2S connects national CSDs and facilitates settlement in central bank money. However, its reliance on bilateral links between CSDs limits its effectiveness. A 2024 report recommended granting T2S its own CSD status, which would require further legal harmonisation across Member States. Despite some progress through initiatives like the FASTER Directive, fragmentation in areas such as shareholder rights and insolvency law persists.
- **The emergence of distributed ledger technology (DLT) offers an alternative approach.** A unified DLT-based digital ledger for securities settlement could eliminate the need for multiple national CSDs, reduce settlement times, and lower liquidity and operational costs. Pilot projects across Europe - including the Banque de France's wholesale CBDC, Banca d'Italia's TIPS-based infrastructure, and the Bundesbank's Trigger solution - explore various technical implementations of DLT-based settlement in central bank money. However, the lack of consensus on a technical standard remains a barrier.
- Given the current geopolitical climate and global trade uncertainties, **advancing integration through digital settlement solutions is increasingly urgent.** DLT offers a viable path to consolidating EU capital markets, fostering cross-border investment, and reinforcing Europe's strategic financial autonomy.

FOLLOW US!

