



Just in Time

Accelerating Settlement

*Potential Impacts of T+1 on European
Settlement Cycle*

December 2024

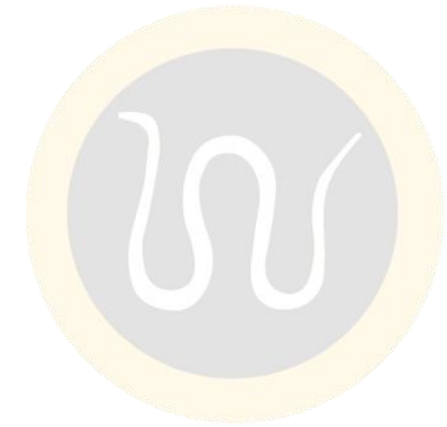


Executive Summary

- Research on **post-trade settlement cycles** shows the **crucial role** that efficient and timely processes have in **reducing systemic risks** and creating **resilient financial markets**. **Reduction of counterparty risk**, increase in **liquidity**, and **decrease in failure rates** can all be achieved with **shorter settlement cycles**
- Considering this, in May 2024 **US** and **Canada** adopted a **T+1 post-trade cycle**, shifting from the classic T+2 framework, with several benefits in terms of **reduction of failure rates** and **margin requirements**
- Following these examples, other countries, for instance, the **UK** and **Switzerland**, have started to **consider** the beneficial impacts of **adopting a shorter post-trade cycle** that also aligns with the US cycle
- In this context, the **European T+1 Industry Task Force** published in October 2024 the “**High-Level Roadmap for Adoption of T+1 in EU Securities Markets**” which outlines the **recommendations** for the adoption of the **T+1 settlement cycle** for the **European** market. The following analysis outlines the **results** of **Task Force** work analyzing the potential **benefits** of a **shorter post-trade cycle** for **Europe**



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Keywords: Settlement, Clearing, Financial Markets

01

European Settlement Environment

Genesis and Evolution of a Pan-European Settlement
System

Target-2-Securities: How Does it Work

Benefits of T2S

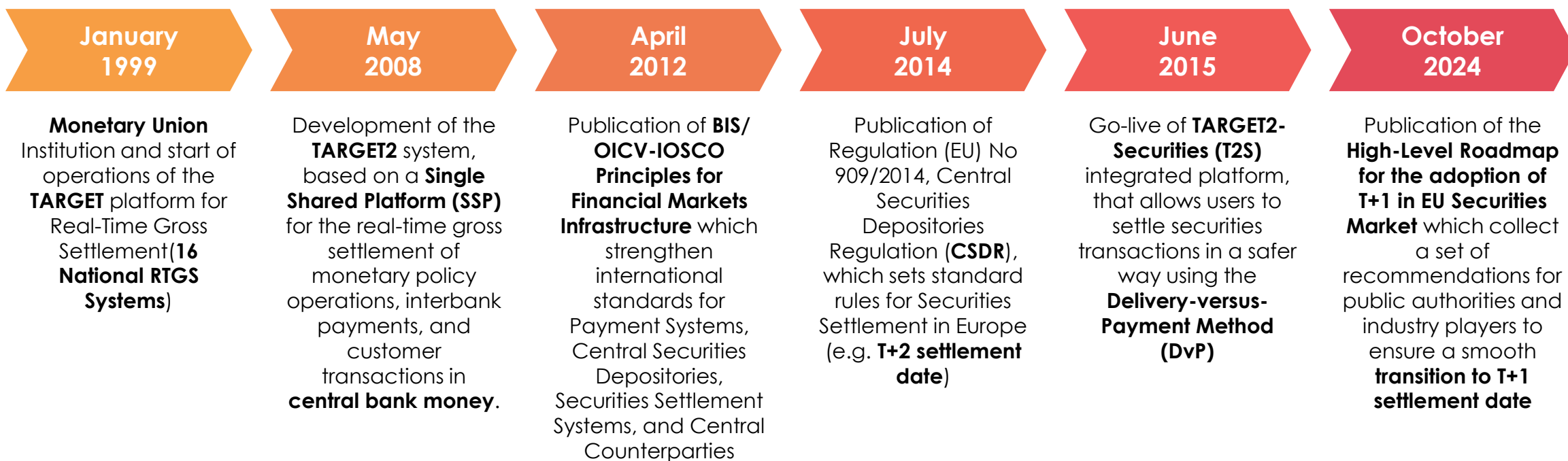


European Settlement Environment 1/3

Genesis and Evolution of a Pan-European Settlement System

The **integration** process of **European Financial Markets** took its first steps as early as the creation of the **Monetary Union** in January 1999 with the implementation of the **TARGET System** (*Trans- European Automated Real-Time Gross Settlement Express Transfer System*). TARGET, on the one hand, made it possible to transfer funds between the different banking systems of the EU while also ensuring the transmission of monetary policy; on the other hand, it laid the foundation for a harmonized system for the settlement of financial instrument transactions.

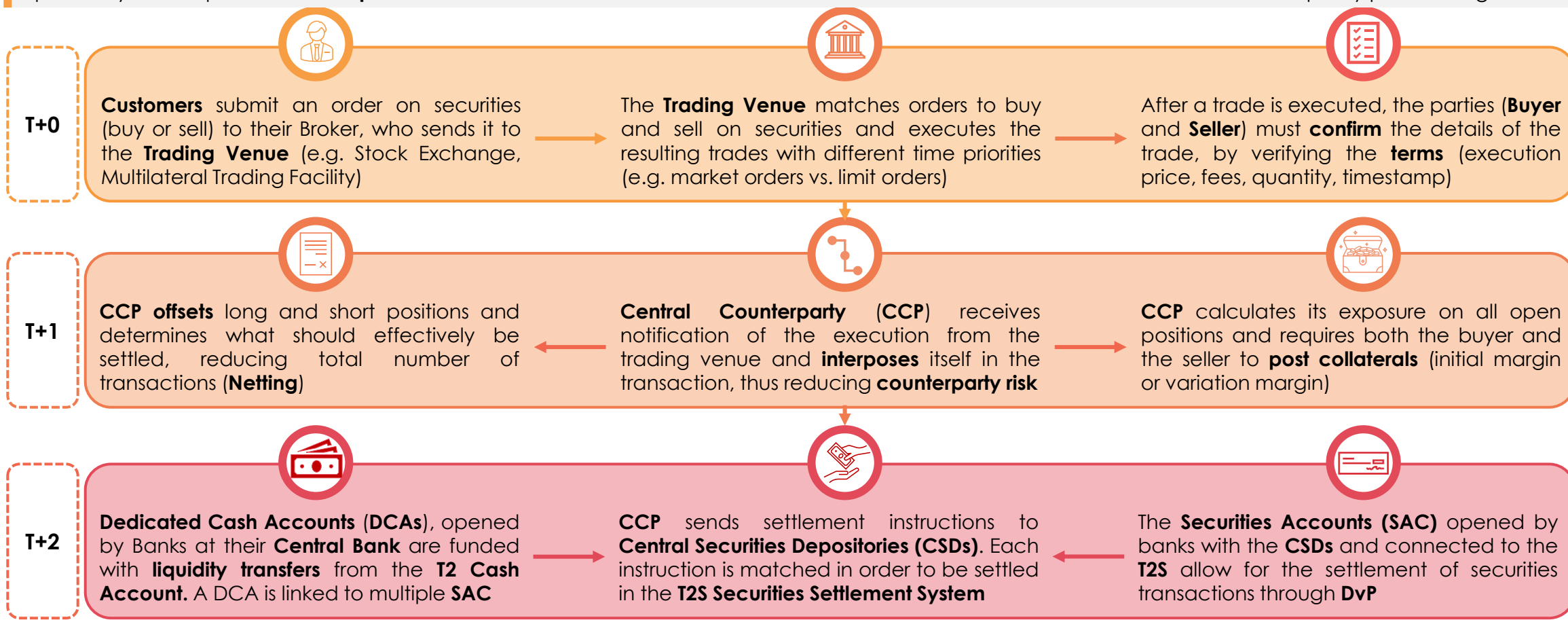
The joint work of the **Eurosystem** as a technical-operational player and the **European Commission** as a regulatory player led to the implementation of the **TARGET2-Securities (T2S)** platform in 2015, the first integrated platform for the management of securities transactions in central bank money.



European Settlement Environment 2/3

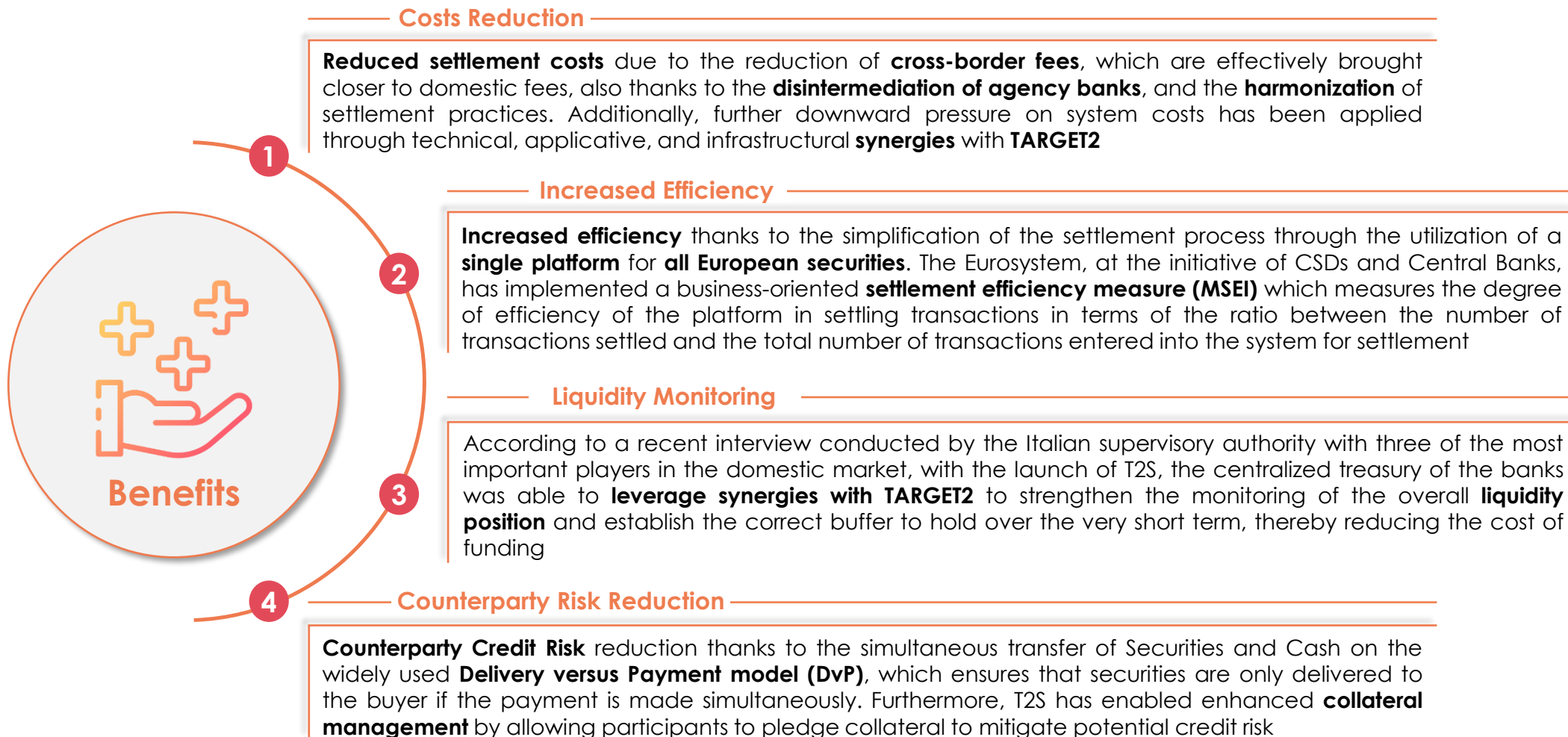
Target-2-Securities: How Does it Work

Since its Go-Live in 2015, **T2S** now counts **24 CSDs** (Central Securities Depositories) connected to the platform from **23 European Countries**. For its proper operativity, **T2S** requires close **cooperation** between **CSDs**, **Banks**, and **Central Banks**, as well as a **connection with TARGET2** for liquidity provisioning.



European Settlement Environment 3/3

Benefits of T2S



02

Settlement T+1: The US Experience

Genesis and Evolution

Highlights & Results



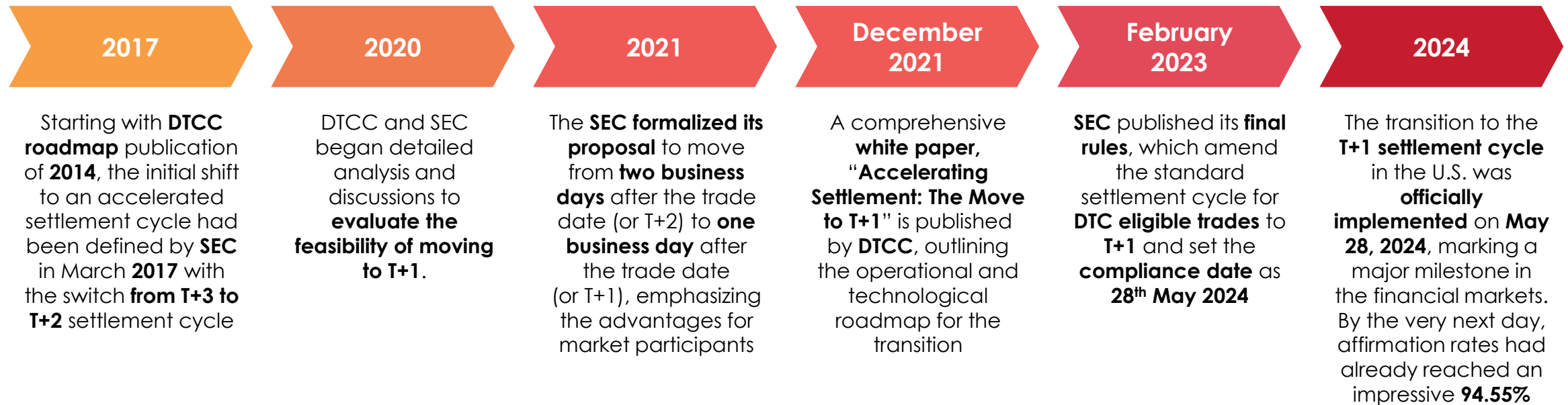
Settlement T+1: The US Experience 1/2

Genesis and Evolution

The transition to T+1 settlement in the **U.S.** financial markets represents a significant milestone aimed at creating a more efficient, resilient, and cost-effective trading environment. This shift was primarily driven by the need to **reduce counterparty risk**, **enhance market liquidity**, and **align with evolving global standards**.

This transformation has required significant operational adjustments across the industry. Firms have needed to upgrade or adopt automated systems like **TradeSuite ID** or **CTM** and implement advanced **Straight-Through Processing (STP)** solutions to meet new affirmation deadlines and minimize delays.

Despite the complexities introduced by the compressed timeline and the demands of achieving international alignment, this transition highlights the U.S. market's dedication **to driving innovation**, **enhancing operational efficiency**, and **maintaining its leadership** in global financial systems.



Settlement T+1: The US Experience 1/2

Highlights & Results



Introduction of a stricter **trade affirmation deadline**, requiring trades to be affirmed by **9:00 PM ET on the trade date (T)**, reducing the risk of settlement failures.

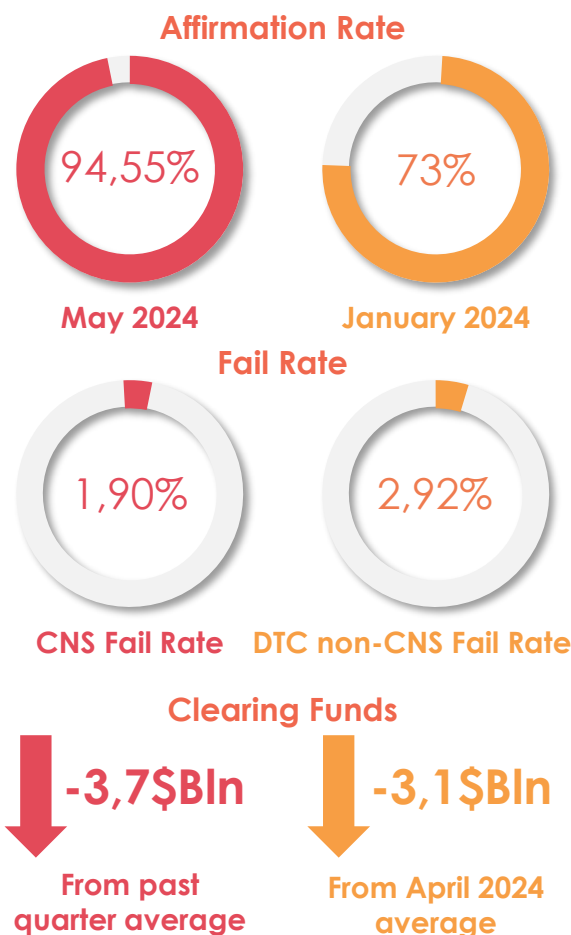


To support this tighter timeline, the industry embraced **technological advancements**. Key systems, such as **TradeSuite ID** and **CTM Match to Instruct (M2i)**, were upgraded to enable greater automation and reduce manual intervention. At the same time, firms adopted enhanced **Straight-Through Processing (STP)** protocols, developing robust policies and procedures to **facilitate seamless trade settlement**.



Collaboration played a pivotal role in the success of this initiative. The **T+1 Industry Steering Committee**, comprising **DTCC**, **SIFMA**, and **ICI**, offered comprehensive guidance and best practices to market participants. One of their key recommendations was to **complete trade allocations** by **7:00 PM ET** on the trade date to effectively meet **affirmation deadlines**.

KEY RESULTS



On the end of the 29th of May 2024, the total **affirmation rate** showed an **increase** of **+21,55%** compared to the ones observed in January 2024. Considering specific market segments, the same comparison outlined:

- **Prime Broker Affirmation Rate:** 98,6% (+17,6%)
- **Investment Manager Auto Affirmation (central match) Rate:** 97,5% (+5,5%)
- **Custodian or Investment Manager (self) Affirmation Rate:** 84,29% (+33,29%)
- **CNS Fail Rate:** On the 29th of May 2024 the CNS Fail Rate was **1,90%**, while the **average fail rate** on May for the **T+2** cycle was **2,01%**
- **DTC non-CNS Fail Rate:** On the 29th of May 2024 the DTC non-CNS **fail rate** was **2,92%**, while the **average fail rate** on May for the **T+2** cycle was **3,24%**
- **-3,7\$Bln:** Compared to the **average amount** of the previous quarter the NSCC Clearing Found showed a **29% decrease** in May 2024
- **-3,1\$Bln:** Compared to the **average amount** of April 2024 the NSCC Clearing Found showed a **25% decrease** in May 2024

03

Analysis of European T+1 Settlement

Scope & Goals

Recommendations

Conclusion



Roadmap for Adoption of T+1 in EU Securities Markets 1/6

Scope & Goals 1/2

WHO



The **Report** was drafted by the **European T+1 Task Force** and published in October 2024. The **Task Force** was established in 2023 to bring together a group of stakeholders who would be impacted by a potential move to a **T+1 securities settlement cycle**.

The Task Force includes:

- **19 Full Members:** trading & settlement intermediaries, market infrastructures, specialist segments
- **3 Additional Observers**
- **317 member experts** from the associations represented on the Steering Committee
- **8 Sub-groups** (Trading, Matching, Clearing, Settlement, Corporate Sections, Funding, Securities Financing, Funds)

WHY



The "**High-Level Roadmap for Adoption of T+1 in EU Securities Markets**" report aims to provide a **preliminary analysis** of the **regulatory, technical, and operational changes** required to ensure a smooth, safe, and efficient **transition to a T+1 settlement cycle**.

The main objectives are:

- **Coordinating** all stakeholders involved to enhance efficiency
- **Minimizing risks** associated with an unplanned transition to T+1
- **Aligning European market practices** with international standards

WHAT



The Report provides **recommendations** for **public authorities** and **industry players**, including:

- **Required Implementation Steps:** Regulatory updates, review of market standards, and FMI rulebook revisions
- **Measures to Support Settlement Efficiency:** Adjustments aimed at reducing the likelihood of settlement fails or the loss of other efficiencies when transitioning to T+1, such as improvements in pre-settlement processes, optimizing resource management, and standardizing settlement instructions
- **Analysis of Post-Trade Barriers:** To assess the efficiency of the settlement process and adjustments that might be required to support T+1

Roadmap for Adoption of T+1 in EU Securities Markets 2/6

Scope & Goals 2/2

The report also includes considerations on the **timing of the EU's transition to T+1**:

- **Phased approach**: a timeline of **24-36 months** after the firm **transition date** is **set**, to ensure adequate preparation and the implementation of operational and regulatory changes ahead of **the T+1 transition**, thus avoiding **rapid** and **potentially disruptive changes**.
- Avoid **critical periods**, when market activity and operational challenges may be **intensified**, such as the end of the quarter or the end of the year.



In order to avoid jurisdiction misalignment, the **H2 2027**, the date for the **UK transition to T+1**, has also been considered a **feasible implementation date** even for the **EU**



September and October were considered the **most preferable period** in the second half of the year to conduct the migration



A **regular two-day weekend** is preferable, avoiding quarter end, summer holidays, and year-end

FOCUS - TRANSITION PERIOD								Suggest Transition Period			
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
		High Dividend Period for European Equity				Summer Holidays				SWIFT Update	Tech Freeze

Roadmap for Adoption of T+1 in EU Securities Markets 3/6

Recommendations 1/2: Public Authorities & Regulatory Adjustments

Update CSDR Article 5

1

To ensure uniform adoption of the **T+1 settlement cycle**, **Article 5** of **CSDR** should be **updated** to require that **transactions** in transferable securities are **booked** with a **settlement date no later** than the **first business day after trading** (T+1).

The **amendment** of **CSDR Article 5** will **enforce** the **transition** through a clear **regulatory mandate** guaranteeing **consistency across EU jurisdictions**. Also, making the T+1 settlement a regulatory standard will **ensure** the **alignment** within other **international jurisdictions** that have already moved to a T+1 cycle (e.g., the US and Canada)

Temporary Suspension of CSDR Cash Penalties

2

The **Task Force** recommends that public authorities consider a **temporary suspension** of the **CSDR cash penalties** mechanism during the **migration period**, in fact, the reduction of the settlement cycle to **T+1** could lead to an **increase** in settlement **fails**, at least in the **first stages** of the **process**.

While **penalties** would still be **reported**, they would **not** be **collected** or credited by **CSDs** until '**normal levels**' of settlement **efficiency** are **restored**. It is **important** that public authorities **avoid** making any **modifications** to the **penalty system** **before** the **T+1 transition** to prevent introducing additional operational risks or inefficiencies

Update RTS Article 2

3

To improve operational efficiency and transaction timeliness, **Article 2** of the **CSDR Settlement Discipline RTS** must be **updated** to ensure that **allocations** and **confirmations** are **completed on the business day before** the intended **settlement date** (T+0 for T+1 transactions).

Also, the task force suggests a reduction of the current **confirmation extension** for **counterparties** located in **different time zones** from **12:00 CET** of the following day **to 10:00 CET** in order to **minimize delays** and support a faster settlement cycle. Other than that, **Article 2** should be **amended** to encourage the use of **automated matching** and **confirmation systems** to reduce delays and mismatches during the pre-settlement process

International Coordination

4

Coordination with the **UK** and **Switzerland** is crucial to ensure a **unified** approach to the **T+1 transition** and to **avoid misalignments** in **settlement cycles** (T+1 vs. T+2), which could create **inefficiencies** for **cross-border financial instruments** such as increased costs, reduced efficiency, lower liquidity, wider spreads, and higher operational risk, negative impact on investor confidence. The US experience, where European funds investing in US securities saw higher costs and lower returns, highlights the risks of such misalignments. It is recommended to **establish joint working groups** between authorities and industry participants to **identify** and **address operational challenges** of T+1 implementation

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Just in Time

Recommendations 2/2: Industry Participants

1

Improvements to messaging standards

To improve operational efficiency and accelerate processes, the task force recommends a set of **technical improvements** like adopting a fully **automated messaging** process using the **STP** (straight-through processing) method for **allocation**, **confirmation**, and **settlement** instructions to eliminate **manual interventions** and to reduce the risk of errors; improving the **message standardization** to reduce **delays** (e.g. inclusion of the "Place of Safekeeping" field in messages to enhance visibility on where securities are held); **harmonizing** the **transaction type codes** used by CSDs to ensure recognition between cross-border depositories

2

Standard Settlement Instructions (SSI)

SSIs (Standard Settlement Instructions) determine how a securities transaction should be settled, but there are currently **no standardized** methods for storing and exchanging SSIs. This lack of standardization can lead to inefficiencies, errors, and delays. The task force recommends defining a **common, machine-readable format** for **SSIs**, creating **Centralized Repositories** to store SSIs, ensuring faster and more efficient management, and **aligning SSIs** with **International Best Practices** to improve settlement efficiency

3

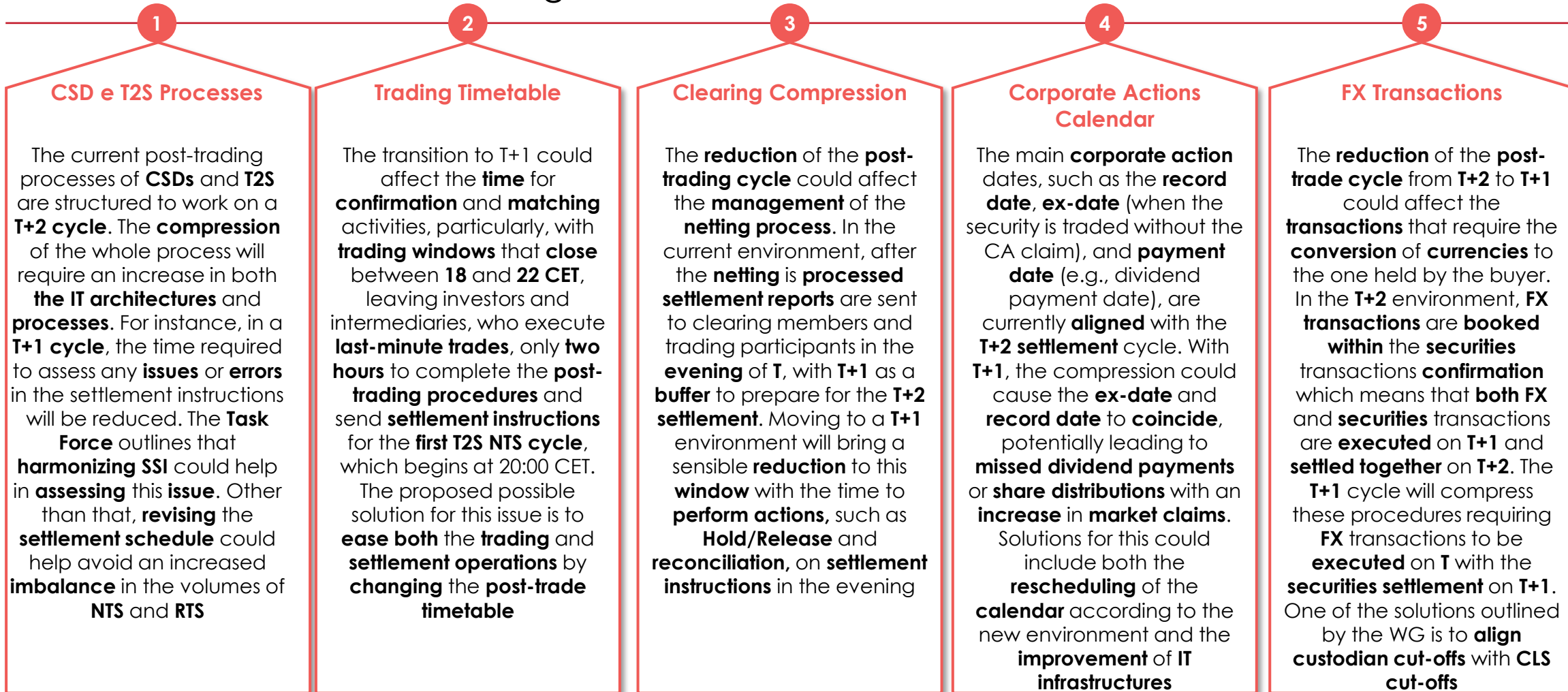
New 'daily timetable'

The transition to a T+1 settlement cycle imposes **significant time constraints** on post-trade processes. To ensure the system operates smoothly, a **revised daily timetable** for **trading**, **clearing**, and **settlement** is required. Key aspects include:

- **Adjustment** of the **NTS windows** to accommodate the compressed timeline and complete post-trade processes within tighter deadlines
- **Implementation** of a "**Trade Date Rollover**" mechanism to address ambiguity for late trades, fixing a cutoff (e.g., 18:00 CET). Trades executed after a specified cutoff could automatically be classified as T+1 trades, avoiding confusion and ensuring alignment with operational workflows.

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Conclusions 1/2: Main Challenges



Roadmap for Adoption of T+1 in EU Securities Markets 6/6

Conclusions 2/2: Main Benefits

Reduction of Counterparty Risk

Shortening the post-trade cycle to **T+1** will consequently **reduce** the **time** between **trading** and **settlement** of a **transaction** and so will **shorten** the **window** of exposure to **counterparty risk**. Less time between trading and settlement means **market participants** are **less vulnerable** to **market changes** that could adversely **affect trades not yet settled**. This will lead to an increase in market stability **lowering** the probability of **default events** between trades and **ensuring transactions** from **high fluctuation** of values between execution and settlement of the positions

1

Reduction of Margin Requirements

The transition to **T+1** will guarantee a **reduction** of the need to maintain **margins** at **CCP** **lowering** the overall **collateral requirement** to cover market positions. This will lead to **smaller costs** associated to maintaining high **capital reserves**, **improving** the **competitiveness** of **operators** and the **efficiency** of the **CCP** due to a lower operative load. Through a Call for Evidence (10/2023-12/2023) EMSA has reported the potential effect of a **shorter post-trade cycle** could lead to a **42% reduction** of margin **requirements** which could represent almost **2,4bn€ not collected** on a daily basis by **CCPs**

2

Increasing Liquidity

The **reduction** in **margin requirements** generated by a shorter **post-trade cycle** will lead to a **reduction** of resources **locked** as **collateral** with so a consequential **increase** in overall **market' liquidity**. Market operators could use these new resources to perform **new trading activities** fostering the **asset rotation** within the market. Thus, the effects on the **liquidity** of the **T+1 cycle** will **stimulate** the operativity of **market operators** thanks to a **new liquidity injection** that will improve the overall **efficiency** and **stability** of the **market**

3

Reduction of Failures

Fostering a **T+1 cycle** will need an increase in both the **standardization** and **harmonization** of market practices, such as **SSI**, and the improvement of **automation** of **processes**. These improvements could support the **reduction** of **failures** and related costs (in 2023, the monthly average value of settlement fails at the EEA level was **2,5bn€**) thanks to more efficient processes and controls. Also, the development of a more structured environment could help to **reduce** the **failure penalties** (monthly average in 2023 was **127Mln€**) paid by market operators **fostering system liquidity**

4

Alignment within Markets

Actually, the **US** and **Canada** already **rely** on a **T+1 cycle**, while other countries like the **UK** and **Switzerland** are already **planning** to **move** to a **T+1 environment**. In this context, it is clear that **harmonizing settlement cycles** across markets could **reduce** the **need** for **synchronization** between different jurisdictions while market participants would **benefit** of a single **standardized process** for **all T+1 markets**. Fostering the harmonization of EU and other markets will guarantee a more **stable** and **efficient** post-trade process **lowering barriers** for **international operators** and bringing more **liquidity** to European markets

5

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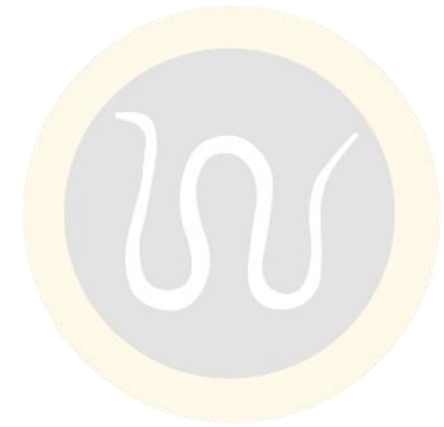
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This document was prepared in collaboration with Martina Arcodia and Nicola Mazzoni who at the time were working for Iason Consulting.

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