Just in Time

Accelerating Settlement

Potential Impacts of T+1 on European Settlement Cycle

December 2024

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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**

At a Glance

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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

Just in Time

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.

January 1999

Monetary Union Institution and start of operations of the **TARGET** platform for Real-Time Gross Settlement(**16 National RTGS Systems**)

May 2008

Development of the **TARGET2** system, based on a **Single Shared Platform (SSP)** for the real-time gross settlement of monetary policy operations, interbank payments, and customer transactions in **central bank money**.

April 2012

Publication of **BIS/ OICV-IOSCO Principles for Financial Markets Infrastructure** which strengthen international standards for Payment Systems, Central Securities Depositories, Securities Settlement Systems, and Central Counterparties

July 2014

Publication of Regulation (EU) No 909/2014, Central Securities Depositories Regulation (**CSDR**), which sets standard rules for Securities Settlement in Europe (e.g. **T+2 settlement date**)

June 2015

Go-live of **TARGET2-Securities (T2S)** integrated platform, that allows users to settle securities transactions in a safer way using the **Delivery-versus-Payment Method (DvP)**

October 2024

Publication of the **High-Level Roadmap for the adoption of T+1 in EU Securities Market** which collect a set of recommendations for public authorities and industry players to ensure a smooth **transition to T+1 settlement date**

European Settlement Environment 2/3

Target-2-Securities: How Does it Work

Just in Time

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.

T+0

Customers submit an order on securities (buy or sell) to their Broker, who sends it to the **Trading Venue** (e.g. Stock Exchange, Multilateral Trading Facility)

The **Trading Venue** matches orders to buy and sell on securities and executes the resulting trades with different time priorities (e.g. market orders vs. limit orders)

After a trade is executed, the parties (**Buyer** and **Seller**) must **confirm** the details of the trade, by verifying the **terms** (execution price, fees, quantity, timestamp)

T+1

Central Counterparty (**CCP**) receives notification of the execution from the trading venue and **interposes** itself in the transaction, thus reducing **counterparty risk**

CCP calculates its exposure on all open positions and requires both the buyer and the seller to **post collaterals** (initial margin or variation margin)

CCP offsets long and short positions and determines what should effectively be settled, reducing total number of transactions (**Netting**)

T+2

Dedicated Cash Accounts (**DCAs**), opened by Banks at their **Central Bank** are funded with **liquidity transfers** from the **T2 Cash Account.** A DCA is linked to multiple **SAC**

The **Securities Accounts (SAC)** opened by banks with the **CSDs** and connected to the **T2S** allow for the settlement of securities transactions through **DvP**

CCP sends settlement instructions to **Central Securities Depositories (CSDs).** Each instruction is matched in order to be settled in the **T2S Securities Settlement System**

European Settlement Environment 3/3

Benefits of T2S

1 Costs Reduction

Reduced settlement costs due to the reduction of **cross-border fees**, which are effectively brought closer to domestic fees, also thanks to the **disintermediation of agency banks**, and the **harmonization** of settlement practices. Additionally, further downward pressure on system costs has been applied through technical, applicative, and infrastructural **synergies** with **TARGET2**

2 Increased Efficiency

Increased efficiency thanks to the simplification of the settlement process through the utilization of a **single platform** for **all European securities**. The Eurosystem, at the initiative of CSDs and Central Banks, has implemented a business-oriented **settlement efficiency measure (MSEI)** which measures the degree of efficiency of the platform in settling transactions in terms of the ratio between the number of transactions settled and the total number of transactions entered into the system for settlement

3 Liquidity Monitoring

According to a recent interview conducted by the Italian supervisory authority with three of the most important players in the domestic market, with the launch of T2S, the centralized treasury of the banks was able to **leverage synergies with TARGET2** to strengthen the monitoring of the overall **liquidity position** and establish the correct buffer to hold over the very short term, thereby reducing the cost of funding

4 Counterparty Risk Reduction

Counterparty Credit Risk reduction thanks to the simultaneous transfer of Securities and Cash on the widely used **Delivery versus Payment model (DvP)**, which ensures that securities are only delivered to the buyer if the payment is made simultaneously. Furthermore, T2S has enabled enhanced **collateral management** by allowing participants to pledge collateral to mitigate potential credit risk

02

Settlement T+1: The US Experience

Genesis and Evolution

Highlights & Results

Settlement T+1: The US Experience 1/2

Genesis and Evolution

Just in Time

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.

2017	2020	2021	December 2021	February 2023	2024
Starting with **DTCC roadmap** publication of **2014**, the initial shift to an accelerated settlement cycle had been defined by **SEC** in March **2017** with the switch **from T+3 to T+2** settlement cycle	DTCC and SEC began detailed analysis and discussions to **evaluate the feasibility of moving to T+1**.	The **SEC formalized its proposal** to move from **two business days** after the trade date (or T+2) to **one business day** after the trade date (or T+1), emphasizing the advantages for market participants	A comprehensive **white paper, "Accelerating Settlement: The Move to T+1"** is published by **DTCC**, outlining the operational and technological roadmap for the transition	**SEC** published its **final rules**, which amend the standard settlement cycle for **DTC eligible trades** to **T+1** and set the **compliance date** as **28th May 2024**	The transition to the **T+1 settlement cycle** in the U.S. was **officially implemented** on **May 28, 2024**, marking a major milestone in the financial markets. By the very next day, affirmation rates had already reached an impressive **94.55%**

Settlement T+1: The US Experience 1/2

Highlights & Results

Just in Time

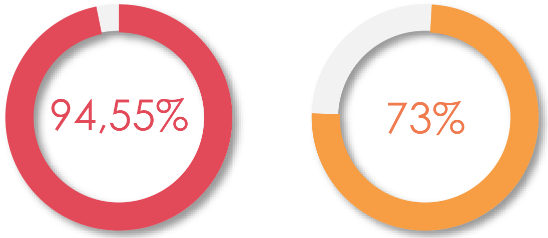
Introduction of a stricter **trade affirmation deadline**, requiring trades to be affirmed by **9:00 PM ET on the trade date (T)**, reducing the risk of settlement failures.

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

Affirmation Rate

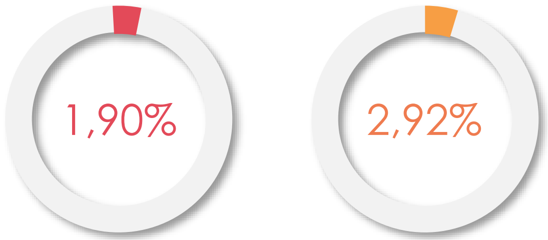


May 2024 | January 2024

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%)

Fail Rate



CNS Fail Rate | DTC non-CNS Fail Rate

- **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%**

Clearing Funds

-3,7$Bln From past quarter average

-3,1$Bln From April 2024 average

- **-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

Just in Time

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 Market**s" 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

Just in Time

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.

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**

MONTH

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

DAY

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

Just in Time

Recommendations 1/2: Public Authorities & Regulatory Adjustments

1 Update CSDR Article 5

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)

2 Temporary Suspension of CSDR Cash Penalties

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

3 Update RTS Article 2

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

4 International Coordination

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

Roadmap for Adoption of T+1 in EU Securities Markets 4/6

Recommendations 2/2: Industry Participants

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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.

Roadmap for Adoption of T+1 in EU Securities Markets 5/6

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Conclusions 1/2: Main Challenges

1 CSD e T2S Processes

The current post-trading processes of **CSDs** and **T2S** are structured to work on a **T+2 cycle**. The **compression** of the whole process will require an increase in both **the IT architectures** and **processes**. For instance, in a **T+1 cycle**, the time required to assess any **issues** or **errors** in the settlement instructions will be reduced. The **Task Force** outlines that **harmonizing SSI** could help in **assessing** this **issue**. Other than that, **revising** the **settlement schedule** could help avoid an increased **imbalance** in the volumes of **NTS** and **RTS**

2 Trading Timetable

The transition to T+1 could affect the **time** for **confirmation** and **matching** activities, particularly, with **trading windows** that **close** between **18** and **22 CET**, leaving investors and intermediaries, who execute **last-minute trades**, only **two hours** to complete the **post-trading procedures** and send **settlement instructions** for the **first T2S NTS cycle**, which begins at 20:00 CET. The proposed possible solution for this issue is to **ease both** the **trading** and **settlement operations** by **changing** the **post-trade timetable**

3 Clearing Compression

The **reduction** of the **post-trading cycle** could affect the **management** of the **netting process**. In the current environment, after the **netting** is **processed settlement reports** are sent to clearing members and trading participants in the **evening** of **T**, with **T+1** as a **buffer** to prepare for the **T+2 settlement**. Moving to a **T+1** environment will bring a sensible **reduction** to this **window** with the time to **perform actions**, such as **Hold/Release** and **reconciliation**, on **settlement instructions** in the evening

4 Corporate Actions Calendar

The main **corporate action** dates, such as the **record date**, **ex-date** (when the security is traded without the CA claim), and **payment date** (e.g., dividend payment date), are currently **aligned** with the **T+2 settlement** cycle. With **T+1**, the compression could cause the **ex-date** and **record date** to **coincide**, potentially leading to **missed dividend payments** or **share distributions** with an **increase** in **market claims**. Solutions for this could include both the **rescheduling** of the **calendar** according to the new environment and the **improvement** of **IT infrastructures**

5 FX Transactions

The **reduction** of the **post-trade cycle** from **T+2** to **T+1** could affect the **transactions** that require the **conversion** of **currencies** to the one held by the buyer. In the **T+2** environment, **FX transactions** are **booked within** the **securities** transactions **confirmation** which means that **both FX** and **securities** transactions are **executed** on **T+1** and **settled together** on **T+2**. The **T+1** cycle will compress these procedures requiring **FX** transactions to be **executed** on **T** with the **securities settlement** on **T+1**. One of the solutions outlined by the WG is to **align custodian cut-offs** with **CLS cut-offs**

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

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Conclusions 2/2: Main Benefits

1. 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

2. 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**

3. 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**

4. 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**

5. 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

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