

# T+1 settlement: next steps and impacts on SIU

## 1. Roadmap for T+1 settlement implementation and next steps

### 1.1 Approach to the implementation of T+1 in the EU securities market

The chair stated that ESMA published a report in November 2024 recommending a move to T+1 settlement by 11 October 2027. Following this, ESMA, in collaboration with DG FISMA of the European Commission and the ECB Directorate-General for Market Infrastructure and Payments, issued a joint statement announcing the creation of a governance structure to prepare for this transition. An overarching governance framework was established in January 2025: the T+1 Coordination Committee. This committee aims to ensure effective coordination between the public authorities and the industry, represented by the T+1 Industry Committee, to align efforts around the implementation of T+1. Achieving this objective will require a strong public-private partnership and close coordination with the UK and Switzerland, which are also moving towards T+1 settlement in parallel in the same timeframe.

An industry representative noted that the T+1 Industry Committee is responsible for coordinating the industry's efforts to prepare for the transition to a T+1 settlement cycle. Its objective is to ensure that this process is carried out in an inclusive, open, and transparent manner, taking into account the differing levels of readiness among market participants, particularly regarding automation and standardisation. The committee facilitates dialogue across the industry to identify key challenges, promote best practices, and support operational alignment. Close cooperation between the industry and public authorities managed through the T+1 Coordination Committee, is essential to achieving a balanced approach between market-led and regulatory-driven actions. Particular attention is being paid to ensuring consistency between the EU, UK, and Swiss initiatives, notably through the participation of members of the UK Accelerated Settlement Taskforce in EU technical workstreams. Cross-border challenges faced by stakeholders outside the European time zone will also be taken into consideration.

An industry speaker pointed out that the legal and regulatory technical workstream, one of the T+1 workstreams responsible for providing technical advice to support the successful implementation of the T+1 transition, is addressing three key issues in a horizontal manner: national specificities, the potential exemption for securities financing transactions (SFTs), and the temporary suspension of cash penalties. National specificities, due to the fragmentation of the EU market, add complexity. A two-step approach is

being pursued: first, identifying national specificities through dialogue with local trade associations and industry bodies; second, assessing whether regulatory adaptations are necessary to align these specificities with the T+1 transition. Regarding SFTs, which play a key role in meeting market participants' funding needs, their non-standard settlement cycles may require a potential exemption from the T+1 requirement at the Level 1 of the Central Securities Depositories Regulation (CSDR). Lastly, the workstream is assessing options for a temporary suspension of cash penalties during the period surrounding the implementation of T+1 in October 2027, in order to support a smooth transition.

### 1.2 Progress made and next steps in the EU

The chair explained that in February 2025, the European Commission published a legislative proposal to amend the CSDR, providing additional legal certainty for the transition to T+1 settlement. The proposal is closely aligned with ESMA's recommendations. The Level 1 negotiations are expected to progress swiftly, as there appears to be broad consensus on the objectives of the move to T+1. The primary challenges ahead are not legislative but operational and technical. Market participants will need to collaborate closely to develop practical solutions for adapting complex processes to the shorter settlement timeframe. To support this work, ESMA launched a public consultation in February 2025 on potential amendments to the Level 2 regulatory technical standards under CSDR. This consultation, which closed on 14 April 2025, aims to address the necessary changes to facilitate the move to T+1. ESMA plans to submit its final report and draft technical standards to the European Commission by October 2025.

An industry representative noted that several markets have already moved to T+1, including the US and Canada (since May 2024), and India (since January 2023). The UK and Switzerland are aligned with the EU.

To prepare for implementation in the EU, and following the establishment of the governance structure, technical workstreams are assessing the current state of play, identifying critical challenges posed by the transition to T+1, and developing targeted recommendations across key areas such as trading, settlement, and matching. The objective is to deliver a first set of high-level recommendations by June, addressing key barriers to a successful T+1 transition. This will form the basis of an implementation roadmap. A public consultation will follow, with the second half of the year dedicated to defining best practices and expected behaviours to support adoption of the recommendations.

The immediate priority is to define the new T+1 operational timetable across all workstreams. Coordination with the ECB is ongoing, given that

revised cut-off times will have implications for TARGET2-Securities (T2S). Regulatory aspects are also being examined, including a potential exemption for SFTs and the application of cash penalties during the transition, for which greater clarity is needed. Furthermore, discussions have emerged on possible amendments to the Settlement Finality Directive (SFD), aimed at mitigating pre-settlement risks and facilitating the earlier submission of settlement instructions.

A regulator agreed that while the 2027 deadline may seem remote, many issues remain to be addressed, as EU markets differ significantly, creating urgency for all stakeholders to start preparing to meet the deadline. Good progress is being made at EU level with the CSDR amendments, on-going ESMA consultations and the setting up of the governance structure. National efforts are also progressing. In the Netherlands for instance, an advisory committee has identified national specificities that could affect the transition to T+1 settlement. Approximately 90% of these issues already have solutions at the EU level. However, certain areas remain challenging, such as corporate actions, repos, and securities lending transactions, which still require attention. Nonetheless, EU-level solutions should be achievable in many cases.

### 1.3 Approach in the UK

An official stated that the T+1 project in the UK is being led primarily by the industry, with strong support from public authorities. The UK Accelerated Settlement Taskforce recently published a report on the implementation of T+1, which has been endorsed by the UK Government.

The US experience provides valuable lessons that firms in both the UK and EU must consider. Now is the time for firms to secure the necessary resources, develop robust implementation plans, and further automate their processes. While the smooth transition in the US is encouraging, there should be no complacency. The European market has specific features that require careful consideration, even for firms that have already undergone the change in the US. A tailored approach is therefore essential. Collaboration is also critical at the European level. The UK and EU industry taskforces are working closely together, and this cooperation is expected to continue and deepen. Regulatory aspects are being addressed in parallel through mechanisms such as the EU-UK Financial Regulatory Forum. Issues like the exemption for SFTs, as well as other regulatory calibrations, must be managed in a coordinated manner.

In the UK, the focus is also on fostering market-led innovation to drive future efficiencies. A key initiative is the launch of a Digital Securities Sandbox: an adaptable legal framework that allows firms to test and develop new infrastructures for trading and settling digital securities ahead of integration into the permanent regulatory regime. Eight firms are currently participating in the sandbox, under the oversight of the Bank of England and the Financial Conduct Authority. The UK is also advancing innovation in the public sector, including the planned issuance of digital

sovereign debt and ongoing work by the Bank of England to modernise payment systems through experimentation with digital payment rails. These initiatives have the potential to transform market operations in the medium term, and there is an opportunity for the UK and EU to collaborate on such projects to support more efficient and integrated European markets.

### 1.4 Enhancing settlement in FX markets

An industry speaker emphasised that the transition to T+1 settlement should be considered from a global perspective. While the acceleration of the settlement cycle is primarily driven by securities markets, it raises the question of whether similar changes should apply to other segments, particularly the foreign exchange (FX) market, where the standard spot settlement remains T+2.

The FX industry is currently focusing on enhancing flexibility in settlement arrangements, rather than shortening the cycle, in order to align them better with the needs and structure of the FX market. Options under consideration include atomic bilateral settlement of all trades or multi-batch settlements, which is close to T+0, as opposed to the current standard of a single end-of-day batch settlement. Assessments indicate that a multi-batch settlement model is a promising approach to improve efficiency and mitigate pressures arising from the move to T+1 in securities markets. This model could serve as a practical alternative to shortening the FX settlement cycle, which faces inherent challenges due to global time zone differences and the wide diversity of currency characteristics.

## 2. Expected impact of the move to T+1 settlement

The chair noted that the move to T+1 settlement is expected to bring significant benefits for European markets in terms of efficiency, competitiveness and resilience and is a necessary step to align the EU with international developments.

While panellists acknowledged these potential benefits, several of them highlighted the upfront investments that are required to automate and standardize processes, as well as the complexities of the European securities market, where fragmentation and many national specificities persist, despite the common CSDR regulatory framework.

An industry speaker stressed that while the T+1 transition will be a costly and time-consuming project in the short term, over the long term it should drive a standardisation and harmonisation of operational post-trading processes and help reduce costs for financial market infrastructures (FMIs) and intermediaries, contributing to enhance the competitiveness of EU capital markets. T+1 may also act as a catalyst for wider EU initiatives such as the Savings and Investment Union (SIU) and spur broader standardisation efforts in areas like shareholder rights

and tax procedures, supporting overall market integration. The move to T+1 may also contribute to enhancing competition between FMIs, as they adopt more common standards.

Another industry speaker emphasized that the move to T+1 requires upfront investment in post-trade automation, particularly in the block and allocation process used by the buy side. Modernising back-office operations is essential, as in many institutions investment in this area has traditionally been deprioritised in favour of front-office enhancements. The transition to T+1 provides an opportunity to eliminate outdated legacy practices and advance digital transformation, laying the groundwork for longer-term innovations such as tokenisation. The transition to T+1 in the US led to a 25–30% reduction in margin requirements, corresponding to a \$3 billion clearing fund decrease. This freed up significant liquidity that can be reinvested in the market. Similar benefits in Europe could support the region's growth agenda in the SIU context. The recent US market volatility episodes also tested the resilience of the infrastructure with T+1 settlement and showed that the US system was able to successfully handle record trading volumes with no significant settlement failures or margin issues.

A regulator agreed that the T+1 transition is essential for the efficiency of European markets and may also enhance liquidity and reduce collateral needs. While the move to T+1 will require upfront investments, there should be a significant cost reduction in the longer term due to automation. The shift to T+1 should also facilitate the further digitalisation of post-trading systems. Aligning EU settlement practices with major markets such as the US is also necessary to support market functioning. Ultimately, these efforts to modernize European markets and make them more efficient will reinforce their attractiveness and contribute to building trust in European markets, which is fundamental for encouraging participation from both institutional and retail investors. The regulator also stressed that the move to T+1 will contribute to reducing overall market risk and limit the collateral exposure associated with transactions.

Another regulator highlighted that the move to T+1 will have a broad impact across the industry on intermediaries of different sizes and FMIs. IT investment remains a critical priority, particularly in areas where manual processes are still used. The adoption of straight-through processing (STP) should also be accelerated as widely as possible within the Union. While the necessary investments in terms of automation are significant in the short term and moving to T+1 is a substantial undertaking, the long-term benefits in terms of market efficiency and robustness of the post-trading system are expected to outweigh the initial costs. This will increase the attractiveness of EU capital markets and strengthen the resilience of the financial system.

An industry representative indicated that a flexible approach was proposed to address national specificities, with a high-level rather than a prescriptive approach that stakeholders will be asked to adhere to. The industry representative summarised that there is a

broad consensus on the benefits of moving to T+1. Although the project is highly technical and focused on the settlement area, its benefits will extend beyond greater market competitiveness and resilience, contributing to positioning the EU as an attractive destination for global investors and achieving the objectives of the SIU. The project also demonstrates the value of public-private cooperation and of close cooperation between EU and UK counterparts which may be extended to other parts of the financial market.

An official added that the T+1 project is also considered to be essential for the UK, due to its capacity to modernise and enhance the efficiency of capital market activities. While adequate preparation and execution are essential, the transition to T+1 can deliver significant efficiency gains over the medium term, as shown by the first results obtained in the US. Looking ahead, the changes needed for the transition to T+1 will facilitate significant evolutions in the securities market structure such as tokenization and broader digitalization which are likely to happen over the next 10 to 20 years, although the precise trajectory remains uncertain.

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## 3. Conditions of a successful implementation of T+1 settlement

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### 3.1 Lessons from the US T+1 implementation

An industry speaker emphasised that, although the European and US markets are structurally different, the EU and the UK have already adopted many key insights from the US's transition to T+1. These include the necessity of conducting a comprehensive evaluation of the potential impact of shifting to T+1, as well as assessing the implications across the entire post-trade cycle, from execution to settlement. This will enable the creation of a clear, step-by-step roadmap for industry stakeholders.

Operational readiness is an important aspect to consider beyond the regulatory framework. This involves laying out a playbook to guide T+1 preparations for different types of firms and a framework to test their readiness and identify areas of improvement. Tabletop exercises simulating disruptions - such as system outages, market volatility or cut-off extensions - have proven effective in the US to make rapid decisions. Such simulations are also included in the European agenda. Automation is also key to a successful T+1 transition. The seamless operation of US markets during recent stress events was due to firms' significant investment in automation. A recent survey indicated that 90% of US firms had automated their systems, avoiding the need for additional manual staff to implement T+1 settlement.

The chair agreed that automation and implementing testing scenarios are essential elements that must be included in the EU T+1 workplan.

### 3.2 Key conditions of success for the EU T+1 implementation

A regulator highlighted three priorities to guide the transition to T+1: cooperation, consultation, and cost.

Cooperation is essential at both national and EU levels to meet deadlines and achieve key milestones. ESMA's roadmap defines specific targets that national competent authorities (NCAs) must deliver on, requiring them to establish internal timelines aligned with these objectives. Consultation is equally important for identifying potential obstacles and addressing national specificities, particularly those related to local market infrastructures and transaction processes. Consultation is also needed to develop tailored solutions that reflect local requirements while also considering the needs of international participants. Public consultations are currently being conducted by NCAs in coordination with ESMA's ongoing Level 2 review. Finally, clarifying and quantifying the overall costs of the T+1 transition is also critical. This includes assessing the financial impact of system upgrades and operational adjustments across the entire chain. Such cost analysis will enable NCAs to better support stakeholders in adopting the necessary automation and technological improvements, while also monitoring the overall progress of implementation.

An industry speaker stressed the importance of considering the impact of T+1 on all stakeholders in the financial ecosystem, including those indirectly affected. Effective communication and engagement with market participants across jurisdictions is essential to anticipate constraints and identify potential bottlenecks, such as those caused by time zone differences, and to address them proactively.

The shift to T+1 in the US securities market had broad implications for the foreign exchange (FX) ecosystem, as around 20% of US securities and 17% of US equities are held by non-US investors. Because of time zone

differences, EU-based investors have much less time to mobilise the required currency to fund US securities transactions when settlement occurs on a T+1 basis. This created concerns that investors might be forced to execute and settle related FX trades on a same-day (T+0) basis to meet the tighter timeline. This issue is particularly relevant given that all FX transactions settle at 6pm US time, which is midnight CET. Although FX-related settlements account for less than 1% of total transaction value in the US, and even less in the EU, disruptions in this area could still pose operational risks to the wider financial system.

A regulator underlined the value of transparency in managing the T+1 transition process, to enable the public and private sectors to better understand each other's challenges and work towards common solutions. EU-wide approaches are also needed where possible to effectively address these challenges.

An industry representative agreed that transparency is essential. Entities unable to comply with the recommendations for technical reasons will be expected to explain the underlying issues and outline how they intend to resolve them. Ultimately, the entire ecosystem will be expected to comply with the new T+1 framework.

The chair summarised that automation and cooperation are key enablers of a successful transition to T+1 settlement. Transparent communication, both between the public and private sectors and across the broader financial ecosystem, is also essential to effectively address challenges in a context where all stakeholders are working towards a common goal.