T+1 in Europe:

How to prepare for the coming transition

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T+1 in Europe: How to prepare for the coming transition

T+1 settlement is coming to Europe. Having witnessed North America's successful switch to a shorter settlement cycle in May 2024, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, has now proposed 11 October 2027 for a coordinated migration to T+1 with other jurisdictions in Europe. [1]

T+1 isn't a mere technical update—it is a game-changer for asset managers, traders and financial institutions across the European Economic Area (EEA), UK and Switzerland. Many industry participants will welcome the envisaged benefits. But being ready for that change, and able to function efficiently in a T+1 environment, will take considerable work.

[1] ESMA assessment of the shortening of the settlement cycle in the European Union (November 18, 2024) Retrieved from: https://www.esma.europa.eu/sites/default/files/2024-11/ESMA74-2119945925-1969_Report_on_shortening_settlement_cycle.pdf

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Why move to T+1

ESMA concluded that moving to T+1 would bring significant benefits to EU capital markets, including reduced risk, margin savings, and lower costs from settlement misalignment with other major markets. The required post-trade and harmonisation improvements should enhance EU market resilience, boost attractiveness, and support the Savings and Investment Union's goals.

Risk reduction
Shortening the settlement cycle should decrease market and counterparty risk by exposing counterparties to adverse market movements for shorter periods. Making securities and funds available earlier for investors will also reduce settlement risk and enhance market liquidity.

Lower margin requirements
Shortening the settlement cycle reduces the time cleared positions remain open, cutting central counterparty (CCP) risk exposures and margin requirements. ESMA expects cleared positions to drop by 47% in a T+1 environment, with margin requirements falling by an average of 42% across bond and equity markets—freeing up significant liquidity for clearing participants.

Alignment with other major jurisdictions
A move to T+1 in the European Union, Switzerland and UK would bring their settlement cycles back in line with other major markets, most notably the United States, along with Canada, Mexico, India and China.

Misalignment with the US is driving up costs and creating friction for EU funds, issuers, and CSDs, according to ESMA. For ETFs investing in US securities, a key issue is the funding gap caused by buying on T+1 but receiving investor funds on T+2. This has contributed to lower ETF trading volumes on Thursdays—known as the "Thursday effect"—which may harm the EU asset management industry's competitiveness.

Moving to T+1 may also ease the funding challenge, as fund settlement cycles will likely be shortened alongside the transition,suggested the Investment Association in UK. [2]

Corporate actions on securities listed or traded on venues with different settlement cycles has created further complexity. The US shift to T+1 means different key dates are applied for corporate events of securities listed or traded simultaneously in the EU and US. EU trading venues and CSDs have adopted varying solutions to the issue, leading to different treatment of holders, adding complexity and risk, and further fragmenting EU capital markets.

Aligning with the emerging T+1 global standard will be critical to EU markets' attractiveness. Hong Kong is preparing for a potential shift, with HKEX publishing a white paper and upgrading infrastructure. [3] The ASX has launched consultations [4], and India has already implemented T+1 and begun piloting T+0 settlements.

Staying on T+2 would make EU capital markets' technology, processes and risk management approach appear outdated, damaging their competitiveness as investment destinations, ESMA argued.

[2] A Transition to T+1 Settlement in the UK, EU and Switzerland (October 16, 2024) Retrieved from: https://www.theia.org/sites/default/files/2024-10/IA%20-%20A%20Transition%20to%20T%2B1%20Settlement%20in%20the%20UK%2C%20EU%20and%20Switzerland.pdf

[3] Hong Kong Exchange Consults on Faster Settlement Cycle (October 14, 2024) Retrieved from: https://www.marketsmedia.com/hong-kong-exchange-consults-on-faster-settlement-cycle/

[4] Considerations for accelerating cash equities settlement in Australia to T+1 (August 2024) Retrieved from: https://www.asx.com.au/content/dam/asx/markets/clearing-and-settlement-services/considerations-for-accelerating-cash-equities-settlement-in-australia-to-t1-whitepaper-feedback-summary.pdf

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Lessons from the T+1 leaders

The US transition to T+1 has been a success. Affirmation rates rose from 73% in January 2024 to 95%, fail rates declined slightly, and reduced pre-settlement risk boosted liquidity. Issues around funding, FX, and securities lending were fewer than expected.

High allocation, confirmation and affirmation rates achieved by European-based investment managers for US securities should prepare them well for a UK/EU transition to T+1, the Investment Association argued. “If an investment manager can affirm US transactions by 9PM ET (2AM UK time), it should be easier to achieve this in the UK/EU, with much of the infrastructure in communicating allocations/confirmations across both continents being similar,” it noted.

That said, the shift to T+1 in the US has required significant, sometimes expensive, adaptation. Many participants, particularly those located outside the US, report increased costs, according to BNP Paribas [5]. And while problems have been limited, that may be partly due to the “hypercare mode,” such as increasing USD balances, extra staffing and oversight, that was extended well into June, it said.

[5] Global T+1 outlook (September 23, 2024) Retrieved from: https://securities.cib.bnpparibas/t1-settlement-ready/

Foreign exchange

FX transactions could be executed on T+1 when settlement was T+2. Shortening the settlement cycle means FX for US trades require same-day processing. [6] That created challenges around CLSSettlement's cut-off proximity to the US market close, the deadline of custodians to access CLSSettlement and tight liquidity in the FX markets near the US market close.

"Many non-US fund managers have responded by pre-funding, holding cash, or relying on FX services from custodians—often at increased costs due to higher spreads," noted Citisoft consultant Emily Shand.

Investing in EU securities settling on T+1 will present similar issues. To settle in euros or another European currency, investors based in different time zones (especially those in Asia) will have to adjust their processes, ESMA noted. As the US experience has shown, different solutions are available, including pre-funding, executing FX trades before the securities transaction is confirmed, bilateral FX trading and auto forex, but at additional cost for investors.

Securities lending

Securities lending operations, including collateral movements and loan recalls, must be accelerated in a T+1 environment. Lenders may need to manage their inventories more proactively. The shorter window may also restrict use of less liquid collateral types, favouring cash or highly liquid securities. The challenges are particularly marked for international market participants and cross-border securities lending trades.

If lenders can't recall and receive a security on time to ensure transaction settlement, the risk of settlement fails and attendant penalties will rise. Lenders may need to recall securities sooner or limit/curtail their lending programmes, potentially reducing the securities available. Liquidity in securities lending markets could decrease, ESMA cautioned, "negatively affecting the ability of market makers to provide liquidity to the market."

Technology to streamline processes and enhance automation will become ever more important—with the onus on real-time trade reconciliation and risk assessment solutions, real-time collateral management systems, and tight integration between securities lending platforms and trading and settlement systems.

[6] Are You Ready? Preparing for Europe's Transition to T+1 in 2027 (November 20, 2024) Retrieved from: https://www.citisoft.com/insights/blog/preparing-for-europes-transition-to-t1-in-2027

T+1 in Europe

European T+1 is a more complex proposition

The smooth, relatively pain-free transition to T+1 in the US, by far the world's largest market, will give comfort to industry participants and regulators contemplating a similar move in the EU and UK. Europe though is a different beast.

Myriad regulators, multiple currencies, a fragmented trading, clearing and settlement environment with a patchwork of trade and post-trade infrastructures, and different laws and market practices will complicate efforts.

	US	Europe (EEA, UK, Switzerland)
Listing exchanges	3	35
Trading exchanges	16	41
Local currencies	1	14
Equities market regulators	1	33

"The scale and diversity of these markets adds layers of complexity that must be fully considered in planning for a successful transition in Europe," warned Citisoft's Shand.

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What needs to change

CSDR

One major change at EU level will be to amend the Central Securities Depositories Regulation (CSDR) and settlement discipline framework. The big danger, noted BNP Paribas, is that moving to T+1 will increase settlement fails and decrease efficiency, running counter to the CSDR's aim of making securities settlement safer and more efficient.

A joint ESMA, European Commission and European Central Bank statement released in October noted that while T+1 settlement in EU CSDs is already technically and legally possible, market participants are keen for the CSDR to be amended to mandate a harmonised settlement cycle in the EU. [7] "In their view, this would ensure a coordinated and smooth transition to T+1 and provide legal certainty. A decision on this matter needs to be taken by the EU co-legislators following a legislative proposal from the European Commission, should the latter decide to adopt one."

ESMA, the Commission and ECB, in coordination with national competent authorities, have also agreed to establish a governance structure, incorporating the EU financial industry, to oversee and support the technical preparations for any move to T+1.

Post-trade processing automation

More fundamentally, harmonisation, standardisation and modernisation across the ecosystem is vital to minimise errors, and where errors occur resolve them quickly, to improve settlement efficiency and avoid fails and their associated penalties, noted ESMA. "This will require some level of investment."

The biggest challenges are not in settlement, but in compressing and automating upstream processes prior to settlement, noted Camille Papillard, Head of Financial Intermediaries and Corporates, EMEA in the BNP Paribas

[7] Shortening the standard securities settlement cycle in the European Union: next steps (October 15, 2024) Retrieved from: https://finance.ec.europa.eu/news/shortening-standard-securities-settlement-cycle-european-union-next-steps-2024-10-15_en

paper. "Delivering the necessary post-trade efficiencies and harmonisation will require concerted industry-wide collaboration encompassing all participants in the transaction chain, from investors and intermediaries to custodians and market infrastructures."

Automating internal processes, as well as communications between stakeholders all along the transaction chain will be critical—as evidenced by the focus on automation in the UK Accelerated Settlement Taskforce Technical Group's recommendations. [8]

"Written confirmations and allocations of trades, matching, but also different adjacent processes for successful settlement, in particular those required to ensure that securities and cash are available for settlement (e.g. position alignments, securities lending, FX trading/settlement), should be further harmonised, automatised and become more efficient," ESMA noted. Ensuring accurate settlement instructions reach the CSDs will demand more standardisation and automation too, for example by using standard settlement instructions (SSIs) or a centralised SSI repository, it added.

Lack of sufficient automation proved a key issue in the US switch to T+1, noted Citisoft's Shand. "Firms that relied on manual processes struggled to cope with the increased volumes, higher levels of exception management, and shorter timeframes that come with a shorter settlement cycle." They were forced to increase headcount in response, raising costs.

Participants must learn from the US experience and be ready for the greater challenge T+1 in Europe presents. "Organisations will need to explore automation across all functions that the settlement cycle touches, including trade processing, funding, securities lending, corporate actions, and fund settlement mismatches," said Shand. Accurate, timely data will be integral.

[8] Draft Recommendations Report & Consultation (September 27, 2024) Retrieved from: https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2024/09/uk-ast-technical-group-draft-report-and-recommendations.pdf

Preparing early is essential. The path forward requires three critical steps:

- Undertake impact assessments and gap analysis of existing policies, processes and operating systems.
- Enhance and/or establish new systems and technological capabilities to increase automation at each step of the trading, clearing and settlement lifecycle.
- Establish governance arrangements and allocate budgets for investments in systems and controls changes as needed.

Industry experience confirms that early preparation significantly reduces implementation costs and operational disruption.

"Firms that neglect this transition risk falling behind their competitors, resulting in potential increases to headcount, elevated costs, a rise in errors or failed trades, and diminished overall profitability," noted Shand. [9]

[9] Accelerated Settlement Group calls for collective action to achieve T+1 (October 2024) Retrieved from: https://www.pwc.co.uk/industries/financial-services/understanding-regulatory-developments/accelerated-settlement-group-calls-for-collective-action.html

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Automation priorities for investment managers

The shorter time between execution and settlement puts the entire processing chain under pressure. Investment managers must rapidly automate key functions. Critical systems and capabilities include:

- **Order and execution management system (OMS/EMS)** — real-time trade execution, confirmation, and automated connectivity to brokers, venues, and custodians for accurate trade routing.
- **Integrated data platform** — automated aggregation and normalisation of trade data and settlement statuses, providing real-time portfolio and cash positions to minimize manual errors.
- **Reconciliation engine** — automated validation, matching, and exception flagging between counterparties and internal systems to accelerate break resolution.
- **Portfolio accounting system** — dynamic IBOR/ABOR visibility across trade executions, FX conversions, corporate actions, and settlements to ensure cash and securities availability.
- **Workflow and exception management tools** — end-to-end automated workflows from order entry to settlement, with real-time status tracking and exception management to meet tight deadlines.

The different system capabilities need to be tightly integrated, linking the front-, middle- and back-office functions. For investment managers that don't have the budget or expertise to make the necessary system investments, outsourcing tasks such as data management, reconciliation and accounting processing to a specialised provider with an automated infrastructure is another option.

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Get ready for T+1 and beyond

With investors becoming increasingly tech-savvy, and self-service investment platforms booming, managers feel the pressure to capture alpha and differentiate their offering.

Being able to communicate the effectiveness of investment strategies accurately and confidently to investors is critical.
Your firm's performance and the robustness of your analytics tools are more important than ever before.

SS&C Advent supports over 4,300 investment firms in more than 50 countries. Our connected investing platform brings together portfolio management, trading, compliance, data, and client engagement in one integrated solution—designed to help firms grow with agility, serve with confidence, and lead in a changing market.

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