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Unlocking efficiency: The critical shift to T+1 in the EU

About ten years ago, the EU implemented the Central Securities Depositories Regulation (CSDR), transitioning to a T+2 settlement cycle. This achievement was notable, given the 28 national supervisory frameworks that existed at the time. However, time does not stand still. With technological advancements, many jurisdictions have already shortened their settlement cycles. Moving to a T+1 settlement cycle is a significant step toward a more efficient post-trade landscape. With approximately thirty months left until the target date of October 11, 2027, it is time to prepare.

All aboard?

Recent migrations to T+1 in the US, Canada, India, and Mexico demonstrate that technological migration is feasible. However, success hinges not only on the technical capacity of Central Securities Depositories (CSDs) but also on the readiness of all parties in the settlement chain, including trading platforms and Central Counterparties (CCPs) and all the relevant investment firms. The diverse stakeholders in the EU, including various trading platforms, CCPs, and CSDs, necessitate strong coordination. The EU governance structure is designed to facilitate this cooperation and identify areas where additional preparatory work is essential. The 10-plus work streams identified demonstrate the width and depth of the envisaged migration towards T+1. The organizational chart of the EU governance structure already indicates that many stakeholders are involved in the process.

National coordination groups, like the Dutch Advisory Committee for the Securities Industry (DACSI), reviewing and contributing from a national perspective on the impact of the envisaged T+1 migration, can further enhance outreach to smaller stakeholders, ensuring their involvement in the transition. Some other member-states are considering setting up similar national coordination to involve stakeholders at national level. Furthermore, European public consultation, such as from ESMA, is essential. This allows all market participants to be involved in the process and to be aware of the (proposed) change(s) to come.

Compressing time

The ESMA report assessing the transition to T+1 from November 2024 outlines anticipated advantages, such as reduced risks and margin savings (reducing time reduces risks hence expectations are that this impacts the margins). The prospect of freeing up capital to reinvest in capital markets aligns with the EU's objectives regarding the Savings & Investments Union.

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Under the current T+2 cycle, there are 24 hours available for settlement. Transitioning to T+1, particularly for cross-border transactions which involve several time zones, will compress this window significantly. Technology can help in such situation. Realizing a T+1 settlement is probably not the endgame of technological innovation. However, as Mr Giovanni Sabatini, Chair of the EU Industry Committee in the governance structure mentioned before, rightly indicated in a seminar at Banque de France (January 28th, 2025), the focus now should be on realizing T+1.

The stage is set

The selection of October 11, 2027, as the transition date is pivotal. The UK and Switzerland have also committed to this timeline, underscoring the interconnectedness of these markets with the EU. It is essential to coordinate efforts while working towards this date to maximize the benefits of a simultaneous migration.

Adapting business models

The European Commission's proposal for an amended CSDR clarifies the timing and scope of the shift to T+1, marking an important step. However, it is crucial to recognize that the legal amendment represents only a fraction of the work. The remaining 98% involves operational adjustments within the back offices of market participants. Ongoing standardization, increased automation, and minimizing manual interventions are vital. CSDR imposes measures to reduce settlement fails and endorse straight-through processing (STP) in order to promote settlement efficiency.

Automation does not come for free, and the impact and the effects are not the same for all stakeholders. The impact of migrating to T+1 will vary across participants, influenced by factors such as a firm's size, market segment, financial instruments, international exposure, and IT maturity.

Wrap-up

The AFM strongly supports the migration to T+1. The benefits—enhanced safety and efficiency—outweigh the required investments for adaptation. Acknowledging the diverse landscape in Europe, it is crucial to identify national peculiarities in advance and develop a harmonized EU approach. Ultimately, aligning with global standards makes the transition to T+1 not only necessary but inevitable. The AFM is committed to facilitating this migration through its role in ESMA and as a national regulator, ensuring a smooth transition by October 2027.