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T+1 Settlement in Europe: Potential Benefits and Challenges

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Association for Financial Markets in Europe
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Executive Summary

The purpose of this paper is to provide some initial reflections on two major questions: should Europe (by which we mean the European Economic Area (EEA), the United Kingdom, and Switzerland) also move to T+1? And if so, how can this be achieved?

'Settlement cycle' refers to the time period between trade date, when a transaction is agreed and executed by a buyer and seller, and settlement date, when the transaction is completed and the securities and cash are exchanged. The current settlement cycle for most transactions in equities and fixed income markets is two business days, referred to as 'T+2'.

Recently, the US and other jurisdictions have announced plans to move to a one business day settlement cycle ('T+1'), the next stage in a historic compression of settlement cycles, at each stage driving further advancement in post trade efficiencies, and reducing systemic risk.

Many of the benefits and challenges of a US migration to T+1, as articulated by the US securities industry association, SIFMA[1], would also be equally applicable to EEA markets, the UK and Switzerland. However, given the unique nature of European markets – which, in comparison to the US, have a multitude of currencies, market infrastructures, and distinct legal frameworks – AFME considers that the implementation would be more complex. Quite simply, there is more to consider, more to change, and more actors to coordinate.

AFME calls for open dialogue across the full spectrum of participants in European securities markets – including issuers, investors, market infrastructures, intermediaries, and regulators – to review how T+1 settlement could be achieved, where operational and regulatory frameworks would need to be adapted, and to identify an appropriate timescale for such a project. Industry coordination will be essential for success.

As an immediate next step, AFME supports the establishment on an industry task force, to conduct a detailed assessment of the benefits, costs and challenges of T+1 adoption.

"AFME calls for open dialogue across the full spectrum of participants in European securities markets"

1 https://www.sifma.org/wp-content/uploads/2021/12/Accelerating-the-U.S.-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf

Background

Settlement is a crucial step in the securities lifecycle – whereby the buyer receives the purchased securities and the seller receives the corresponding cash in exchange for those securities. This process is similar to that of any commercial transaction, happening physically across the counter of a shopkeeper. However, in the case of securities transactions, the settlement process does not occur simultaneously with the execution of the trade. There is a window between trading and settlement which allows for several important processing steps to take place, ensuring a high degree of control and efficiency, as required for processing high volumes and values of securities transactions.

Over time, advancements in technology and standardisation have allowed for this window to be reduced. Currently, most securities transactions executed on a trading venue in European markets[2] settle on a T+2 basis – i.e. the window between trading and settlement is 2 business days. This has been the case since October 2014, when a majority of European markets simultaneously adopted T+2 in preparation for the direct application of Article 5 of CSDR[3]. By shortening the cycle, European legislators aimed to standardise settlement processes across EU securities markets, and to reduce counterparty and market risk. This was followed by the US implementing a similar move from T+3 to T+2 a few years later in 2017.

The successful transition from T+3 to T+2 was a significant undertaking for market participants. Although standard settlement cycles effectively changed overnight, this was the result of several years of planning, testing and coordination across the industry. AFME played an active role in helping European market participants prepare for the change, which had significant impacts in a number of areas.

Now, several jurisdictions – including the US, Canada and India – have announced their intention to shorten settlement cycles further to T+1. Whilst India has taken a phased approach to this migration, which commenced in February 2022, the US and Canada plan to adopt T+1 in what we understand to be a single 'big bang' implementation, in 2024.

With many major markets coalescing around a shorter settlement cycle, this naturally raises the question of whether it is appropriate and beneficial for Europe too and, if so, how this could be achieved. The purpose of this paper is to provide some initial insights on what potential benefits and challenges T+1 securities settlement could represent for EEA, UK and Swiss markets, and to set out some key considerations for T+1 implementation. Given the high degree of integration in capital markets, we believe that most of the considerations set out in this paper apply equally to the EEA, UK and Swiss markets.

"With many major markets coalescing around a shorter settlement cycle, this naturally raises the question of whether it is appropriate and beneficial for Europe too"

2 EEA countries, UK, and Switzerland all follow T+2 settlement cycles for most major asset classes

3 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0909&from=EN

What could be the main benefits of moving to T+1 settlement in Europe?

Reducing Risk

In recent years, capital markets – in particular equities – have been characterised by periods of significant increases in trading volume and volatility, increasing levels of counterparty risk in the system.[4] This was a contributory factor in the US market's decision to adopt T+1.

As noted by the Economist[5], "risk is a function of time", and reducing the number of days between trade execution and settlement will reduce counterparty, market and credit risk across the settlement ecosystem, especially during periods of market volatility.

Reducing Costs

Further to this, by reducing firms' open exposures over the settlement period, there will also be a reduction in margin requirements, allowing market participants to better manage capital and liquidity risk. According to a DTCC estimate[6] when analysing the impact in the US, the removal of one day's exposure to risk could translate into a reduction of 41% of the volatility component of CCP margin requirements.

Modernising Capital Markets

Modern capital markets are more accessible than ever. New technology has considerably reduced the cost of trading and other barriers to entry for individual investors. This means that more people can trade, from any location, at any time. More holistically, much of the transactional world is moving towards real-time operations, and many emerging asset classes – such as crypto-currencies – offer investors instant settlement.

Against this background, T+1 settlement may contribute towards the continued attractiveness and relevance of traditional financial markets. Settlement cycles have gradually reduced over time, at each stage driving further advancement in post trade efficiency. The adoption of T+1 would necessitate renewed industry focus on opportunities to automate manual processes, create and adopt industry standards, and optimise inventory management processes.

Maintaining Global Alignment

Capital markets are increasingly global in their nature and have largely coalesced around a current T+2 settlement cycle. Given that some major jurisdictions will be adopting T+1, the end users of capital markets – companies seeking to issue capital and consumers seeking to invest capital – may benefit from Europe following the same approach. This would also avoid a potential gap in the perceived competitiveness of European markets vis-à-vis its global peers.

4 https://www.dtcc.com/-/media/Files/Downloads/WhitePapers/COVID-19-Impact-and-Implications.pdf

5 https://www.economist.com/finance-and-economics/2021/10/23/why-it-matters-when-trades-settle

6 https://www.dtcc.com/news/2021/february/24/dtcc-proposes-approach-to-shortening-us-settlement-cycle-to-t1-within-two-years

The Unique Nature of European Capital Markets

The reduction in counterparty risk and corresponding reduction in funding costs that have been predicted for US market participants would, in theory, also be applicable for European market participants. Further analysis is required to quantify this impact. Many of the operational challenges outlined by SIFMA would also be applicable in European markets.

However, it is important to acknowledge that structural differences exist between the US, Canada or India (single national markets) and the European region, which includes the multinational EEA jurisdiction and the UK and Swiss national markets, which makes adoption of T+1 in Europe a more complex proposition to the aforementioned single markets.

Europe's capital markets are notable for their diversity, for the complexity of their legal, fiscal and regulatory frameworks, and for the large number of regulatory, supervisory and infrastructure bodies, and other stakeholders.

Compared to the US, for example, Europe is characterised by a significantly greater number of market infrastructures for trading, clearing and settlement, in addition to T2S.

Infrastructure Type	US	Europe (EEA, UK, CH)
Listings Exchanges	3	35
Trading Exchanges	16	41
CCPs	1	18
CSDs	2	31
Local Currencies	1	14

Sources: New Financial[8], ECSDA, AFME

In the EEA, since the adoption of T2S and CSDR, as well as the ECB's wider harmonisation agenda, AFME considers that there is greater operational, structural and regulatory complexity than equivalent regions or markets. The diverse and fragmented nature of the EEA's capital markets is also evident in the existence of a multitude of different legal and tax regimes. Quite simply, there is more to consider, more to change, and more actors to coordinate.

7 https://www.sifma.org/resources/general/t1-playbook/

8 https://newfinancial.org/wp-content/uploads/2021/03/2021.03-The-problem-with-European-stock-markets-New-Financial.pdf

What are the key challenges/impacts?

Time Constraints

As noted, a transition from T+2 to T+1 would represent a significant model shift because there would be significantly fewer hours between trading and the beginning of the settlement cycle for post-trade operational processes.

Intuitively, one might think that a migration from T+2 to T+1 would reduce the available post-trade processing time by 50%, however AFME estimates this to be approximately 83%, with settlements teams only having 2 core business hours between the end of the trading window and the start of the settlement window, compared to 12 core business hours in a T+2 environment.[9] Currently, a significant proportion of settlements take place in "overnight batches", a window before the start of the business day on intended settlement date. According to ECB statistics for 2021[10], overnight settlement "accounted for 52.63% of overall volume" within T2S. In order to utilise the overnight window in a T+1 environment, settlement instructions will need to be matched on trade date, and securities and cash in place ready to exchange.

Liquidity and cash management processes will also be compressed into a shorter timeframe, to ensure that the correct funding is in place in time for settlement. This is particularly challenging for cross-currency transactions which have an FX component. Current liquidity in FX markets is largely on a T+2 basis, and unless this also adapts to T+1, this may result in settlement issues for the contingent securities transaction. Moreover, the necessary FX transaction typically takes place once the security purchase has been confirmed. Therefore, should the security purchase take a long time to be confirmed or should it be delayed, a T+1 schedule might even result in T+0 for FX.

In summary, there are many post trade activities that need to take place between the close of trading and the beginning of settlement, and so being able to modify systems and processes to facilitate all of these activities during that compressed time frame will be a significant undertaking. Challenges arising from the adoption of T+1 will vary by company, with determinants including technological capabilities, settlement processes currently in use, size of the business, location as well as type of clients and counterparties.

Possible Increase in Settlement Fails

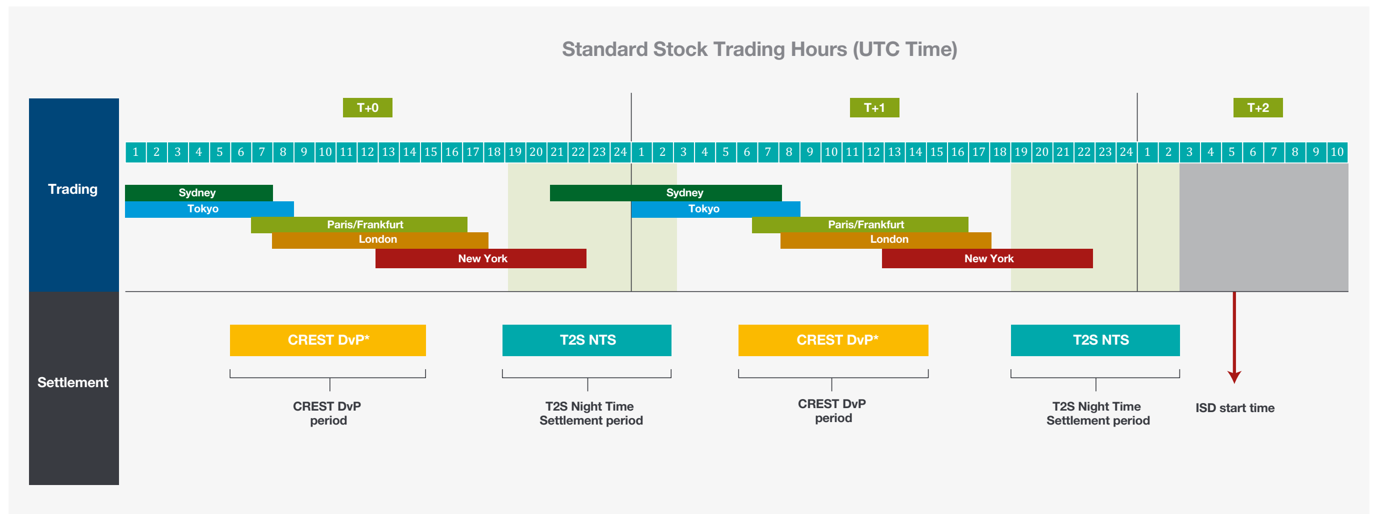
The compressed timeline for completion of operational processes, as well as the reduced opportunity to complete securities lending transactions to cover short positions, could potentially lead to an increase in the number of settlement fails in the market, which will incur cash penalties under CSDR rules, as well as having RWA (Risk Weighted Assets) implications under Basel III requirements. Therefore, reduced credit, market and counterparty risk could easily be replaced with increased regulatory, settlement, capital and financial risk ultimately increasing costs for investors in European markets. A full cost and feasibility assessment would be required for all sectors of the industry prior to any change to T+1 being decided.

9 We assume settlement teams operate in core business hours of 08.00 to 18.00, and that the trading day concludes at 16.00

10 https://www.ecb.europa.eu/paym/intro/publications/pdf/ecb.targetsecar202205.en.pdf

Impact on global participants

A compression of the settlement cycle would create operational complexities for all firms transacting in European securities markets but in particular for investors from other regions, for whom time zone differences will impact the possibility of same-day matching processes, and vastly reducing the time available to communicate and resolve any breaks or exceptions. Investors based in Asia may effectively find themselves operating on a T+0 basis, with almost no overlap with a Europe-based counterparty between trading and settlement. US clients will face a similar challenge, as the European overnight settlement process will commence midway through the US working day leaving just a handful of hours until market close on T+1 to remediate any settlement matching and inventory exceptions.



*N.B.: CREST DvP stops at 14:00 for equities and notional fund units, and at 14:55 for gilts, eligible debt securities and cash.

This impact would be particularly significant on cross-currency transactions which have an FX component. FX trades, which currently settle on T+2, would either have to be booked on the same day/T+1 or alternatively pre-funded, meaning all participants in the settlement chain will need to confirm the transactions on T+0, potentially leading to higher costs to settle FX transactions.

Unless these challenges are properly addressed, T+1 in European (I)CSDs will result in a higher number of failed settlements, which would lead to higher costs for market participants, including regulated funds and their investors.

Securities Lending

Securities lending facilitate several trading activities including market making, short-selling and hedging. It is also an essential market mechanism to facilitate trade settlement through fails coverage programmes. According to data from the International Securities Lending Association (ISLA)[11], the estimated value of securities on-loan globally hit a new record of EUR 2.7 trillion in December 2021.

In the current settlement environment there is a reliance on bilateral processes between custodians and third-party lending agents, as well as between the borrowers and the vendors in this space.

Moving to a T+1 settlement cycle compresses the timeline to identify and cover short positions, which could lead to breaks in the process, resulting in an increase in settlement fails and cash penalties unless there is a modification to existing processes, technology and overall behavioural changes. The more notice broker-dealers and borrowers have to return securities, the more likely they will be returned in time for settlement.

11 https://www.islaemea.org/assets/smart-pdfs/isla-securities-lending-market-report-march-2022/files/downloads/2516_21_June_ISLA_Market_Report_-_March_2022_final.pdf

Corporate Actions

Key dates and market practices in relation to corporate actions will need to be reviewed and updated where applicable. General market practice for the sequencing of key dates in the corporate action process is that Ex Date[12] should precede Record Date[13] by the settlement cycle minus one business day. This process works well in a T+2 settlement cycle, and allows a business day between Ex Date -> Record Date -> Pay Date. This has resulted in an almost complete eradication of reverse market claims, which take place when trade date is on or after Ex Date and Actual Settlement Date is on or before Record Date.

If Europe moves to a T+1 settlement cycle, key dates would have to be similarly updated, so that Ex Date equals Record Date. Failure to do this could result in a significant increase reverse market claims. Other items for consideration include guaranteed participation date and Buyer Protection deadlines.

Product Specific Challenges

The impact of a shortened settlement cycle will be more pronounced for some asset classes. Notably, current settlement rates for transactions in ETFs are below market averages. This is in part due to the global composition of many ETFs, which contain underlying securities from several jurisdictions. Because settlement of newly created units is contingent on the settlement of the underlying constituents, this can often lead to settlement delays in a T+2 environment, due to time zone differences, market holidays and cross-border settlement complexity. These challenges would be even more pronounced in a T+1 environment.

Challenges will also exist for securities-based derivatives, for example where investors seek synthetic exposure to an underlying security through a swap arranged with a prime broker. In order to avoid basis risk, it would be expected that the swap also follows a T+1 settlement aligned with the underlying security. Further assessment is required to identify impacts to the swap lifecycle, such as margining calculation and collection.

The Role of Technology

Core systems operated by market participants – such as brokers and custodians, and market infrastructures – such as CCPs and CSDs, are typically already technologically capable of processing settlement instructions on T+1 (or even T+0)[14] basis.

Adoption of T+1 settlement is therefore not contingent on any major developments of existing settlement systems. It is a question about scale and efficiency. For example, accelerating the settlement cycle is often talked about as a potential benefit of using DLT-based settlement systems. AFME believes that the adoption of T+1 settlement and the adoption of DLT should be considered separately. These initiatives are not interdependent.

There is, however, a potential to leverage new and existing technology to improve operational processes between trading and settlement – increasing automation and efficiency. In particular, for smaller market participants with lower trading volumes, this may require investment in automated STP solutions.

12 Date from which a security is traded without the corporate action entitlement attached to it.

13 The last date in which shareholders are eligible to receive a dividend or distribution.

14 “Same day” transactions already exist and are correctly processed by all actors. The key distinctive element is the degree of operational preparation for settlement that is required depending on the type of transaction.

What needs to be done in Europe before being ready for T+1?

Impact Assessment / Feasibility Study

A reduction in the operational window will challenge operational processes for all types of market participant, from trading parties, through the custody chain to CSDs. Therefore, reducing the settlement window could increase operational and settlement risk, thus potentially improving one risk type (i.e. 'counterparty/credit risk') at the expense of others. As noted in the CPMI-IOSCO Principles for Financial Market Infrastructures[15], CSDs should "take steps to mitigate both the risks and the implications of…failures to deliver securities". Further to this, additional consideration should be given to the impact on firms' capital requirements, should the shorter settlement cycle result in an increase (even if temporary) on the volume and value of settlement fails.

As suggested by the ECMI[16], AFME recommends the comprehensive analysis is undertaken by regulators, policymakers and industry participants, to quantify the impact of a shorter settlement cycle on different types of risk.

An essential first step would be an industry-wide consultation to identify and quantify the potential challenges with migrating to T+1, comparison to challenges in the US and potential 'lessons learned', followed by a robust cost-benefit analysis. In particular, it is important to solicit feedback from global market participants to ensure that any migration would not undermine the competitiveness of European markets or diminish their attractiveness to global investors.

Industry Collaboration

A successful implementation will be dependent on a high degree of coordination and agreement across all stakeholders. It is notable that for the adoption of T+2 settlement in Europe in 2014, this was mandated by regulation, which ensured a coordinated approach. A key question to be determined is whether the adoption of T+1 should be enshrined through updates to relevant regulations, or a purely market-led initiative.

AFME supports the establishment of a cross-industry taskforce, including representation from all constituents (including CSDs, CCPs, buy-side, brokers, custodians, central banks) to drive forward the initiatives described above. This taskforce would need to exist from the initial impact assessment through to the development of a detailed implementation plan. Given the interconnected nature of the region's capital markets, a coordinated implementation may be required for all EEA markets to move to T+1 at the same time – in a similar way to the 'big bang' approach that was adopted during the transition from T+3 to T+2. An important area for further discussion will be whether or not a synchronised implementation timeline is required across Europe more broadly. In other words, to assess the potential benefits, risks and challenges of UK or Swiss markets moving to T+1 on a different timeline to the EEA.

Improving Market Settlement Efficiency

AFME believes it is essential to pursue a number of initiatives aimed at reducing settlement fails, and thus mitigating the risk of a T+1 migration resulting in an increase in settlement risk and thus costs for investors in European securities. Such initiatives could include, amongst others, the following:

Provision of public information regarding securities and settlement fails

The frequency and duration of settlement fails should be monitored closely by public authorities, and this information shared publicly. It is crucial that high-quality, granular information about current settlement efficiency rates is available, in order for the industry to better identify current areas of deficiency, and ensure that initiatives are targeted accordingly.

We also recommend that public authorities make available all securities information necessary for the calculation of CSDR cash penalties in a single database, to ensure the effectiveness of the penalties regime as a tool for incentivising settlement efficiency.

15 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD377-PFMI.pdf

16 https://www.ecmi.eu/sites/default/files/t1_settlement_cycle_-_why_europe_should_not_wait_too_long-formatted.pdf

What needs to be done in Europe before being ready for T+1?

Address T+0 matching rates

In an ideal world, transactions should be matched at a CSD no later than the business day prior to intended settlement date (ISD). This ensures that, subject to the availability of the relevant cash and securities, the transaction can settle once the settlement window opens on ISD.

In a T+1 environment, this means transactions should be instructed to and matched at the CSD on trade date ready for settlement in the overnight cycle. This enhances the need for robust trading-level allocation and confirmation processes to ensure that the economics of the trade are agreed, and all information necessary to facilitate settlement including SSIs exchanged, on trade date.

At an EU level, Article 6 of CSDR entered into force in February 2022, setting out new requirements to ensure robust and timely allocation and confirmation processes, although the regulation stops short of mandating that settlement instructions are matched on T+0 or from monitoring adherence to the requirements.

AFME believes that there is scope to improve matching rates through increased automation, adoption of industry best practices, centralised SSI repositories, and other workflow/matching tools. We encourage immediate focus on leveraging existing technologies that are already available, noting that widespread adoption of DLT-based systems for traditional assets can only be considered as a longer-term aspiration.

In addition, there could be scope for enhanced T+0 position management controls to be established, to ensure that instruments are in place in the correct depot, ready for settlement on T+1.

Increase the use of Partial Settlement

The results from an internal survey conducted across members of the AFME Post Trade Division highlighted that the most common cause of a settlement fail is a lack of available securities to deliver, resulting from a contingent failure to receive those securities from another counterparty.

Transitioning to a T+1 settlement cycle would require a more extensive use of CSD partial settlement functionalities across industry participants, to improve the flow of securities through the settlement ecosystem, and reduce contingent settlement fails. Where they do not currently do so, AFME recommends that CSDs should ensure that they provide automated partial settlement functionality, including partial release. The industry more broadly should conduct further educational activity aimed at encouraging the use of partial settlement.

Comprehensive Review of Existing Regulation and Market Practices

In several areas, existing market practices which have been developed based on T+2 settlement cycles, will need to be reviewed to ensure they are consistent with a T+1 cycle. This should cover the entire securities lifecycle from trade execution to asset servicing.

Lifecycle

Action	Timeframe	Comments
Allocation	T+0 COB	The use of automated and electronic solutions will be essential for timely completion of these three key processes –which will allow for real-time and bilateral processing and transparent exception management.
Confirmation	T+0 COB	
Trade-level matching	T+0 COB	
Instruction to CSD	T+0 COB	Instructions should be transmitted through the chain of custody to the CSD as soon as possible.
Settlement-level matching	T+0 – T+1	Instructions should be released on Trade Date itself to maximise the use of the overnight window for settlement.
Position management	T+0 – T+1	Position management will need to be more predictive and pre-emptive rather than reactive, with realignments instructed on TD where possible.
Funding / FX	T+0	Any FX requirements will need to be booked for T+1 or executed prior to trading to ensure that the funds are in place in time for T+1 settlement. Cash accounts must also be funded - which places a greater emphasis on matching should a firms funding be based on matched trades only.
Reconciliation	T+0 – T+1	Trade and position integrity from front to back office will be essential, as is ISIN-level depot reconciliation to ensure securities are in the right place for settlement.
Fails management	T+1 onwards	Fails management should commence immediately after market close on T+1, to best utilise the next overnight window.

In addition, market participants must adopt a 'right first time, on time' principle, from trading onwards.. The constricted post-trade processing window reduces room for error, and should be used to encourage best practices from point of execution. For example, cancellations and rebookings from Front Office systems, or late bookings, will create downstream issues which could result in settlement issues. Market participants should take the opportunity to increase cohesion between each step from allocation onwards. If the trade details are booked correctly and the allocation and confirmation includes all details necessary for the settlement of the transaction, as required by CSDR RTS Article 2, then the instructions should match at the CSD on trade date, ready to settle on T+1.

Operating Hours

This could also be an opportunity to review current operating hours of core market infrastructure. For example, consideration should be given to the idea of extending matching & settlement cycles at CSDs, including for partial settlement which should not be limited to certain batches, to help alleviate the underlying risk arising from the reduction of the operational processing times. Allowing more time in the business day for matching & settlement, could help reduce settlement fails and mitigate settlement risk. Increased availability of real-time settlement functionality for all instruction types, combined with increased partial settlement, could help to improve the flow of securities through the settlement ecosystem, and reduce open exposures.

It could also be worth exploring a potential reduction of trading hours which might consequently translate in additional operational time available on trade date to complete post-trade processes. As previously noted by AFME[17], shortening trading hours could have some additional benefits by improving liquidity and efficiency in markets, as trades would be more evenly distributed over a shorter trading day, potentially reducing trading costs for market participants and investors. Adjusting market hours could also have cultural benefits for the industry, creating a more diverse and inclusive workplace.

17 https://www.afme.eu/News/Press-Releases/Details/AFME-and-IA-Traders-call-time-on-long-hours-culture

Regulation

From a regulatory perspective, AFME notes that the European post-trade industry has been subject to significant regulatory change during recent years, which has improved the safety of European markets. Most notably, CSDR settlement discipline was introduced in February 2022, applying cash penalties for failing transactions. We note that some elements of the CSDR settlement discipline rules are under review and are likely to be amended by the EU regulators.

AFME believes therefore that amendments to the settlement cycle should not be implemented until CSDR settlement discipline rules have been finalised and afforded sufficient time to bed-in coupled with completion of the ECB's harmonisation agenda. It is essential that the adoption of T+1 does not lead to a reduction in market settlement efficiency.

Should a decision be taken to adopt a T+1 settlement cycle, AFME considers that certain amendments to CSDR may be required.

Article 5.2 of CSDR mandates that the "settlement date shall be no later than on the second business day after the trading takes place", which is not inconsistent with a T+1 settlement cycle. An important question to consider is whether an update to this article is required, to allow for a maximum of one business day between trading and settlement. Further amendments to the Settlement Discipline RTS will also be required:

- **Article 2 (Allocation/Confirmation):** Timings would need to be amended for the allocation/confirmation process to ensure its conclusion on T+0, Due to the compressed time for CSD matching and settlement there may need to be more rigorous requirements for these processes.

- **Article 10 (Partial Settlement):** Would benefit from an update to mandate of the provision of partial release functionality by CSDs. Derogation from the requirement to provide partial settlement should be removed, to ensure all CSDs provide a consistent service.

- **Article 11.4 (Additional Facilities and Information):** Would require amendment to mandate the provision of real-time gross settlement for all settlement instructions, including partials, in all CSDs. Batch processing will likely be insufficient for the limited time between trade execution and settlement.

Dematerialisation

Under CSDR, all securities held at EU CSDs are required to be held in dematerialised form, from 1 January 2025. No such requirement currently applies to UK positions, with Her Majesty's Treasury[18] estimating that there are "potentially over 10 million [paper] share certificates still in existence." AFME considers that the eradication of paper share certificates will be an important step to ensure that a harmonised and automated settlement process exists for the full population of securities holdings.

18 https://www.gov.uk/government/publications/digitisation-taskforce/digitisation-taskforce-terms-of-reference

Conclusion

As noted, the current regulatory framework, with some modification to the CSDR Settlement Discipline regulatory technical standards, supports T+1 settlement, and current market infrastructures are capable of processing transactions on T+1 or even on T+0. Indeed, some transactions are settled before T+2 today, on an ad-hoc basis[19]. AFME considers therefore that the principle barriers to a T+1 market convention are operational at a market structure, market participants and infrastructure level.

There have been several successful market initiatives to reduce the settlement cycle to the current T+2 standard. However, moving to T+1 could be the most challenging migration of all. Previous initiatives have removed one business day from the period between trading and settlement. A move to T+1 would remove *the only* business day between trading and settlement, creating significant pressure on post-trade operations, particularly for global participants.

Successful adoption of a T+1 settlement cycle would require concerted industry efforts to improve operational processes, with participants recommended to adopt automated solutions at each step of the transaction lifecycle coupled with increased harmonisation and integration of European capital markets. It is important to remember that the complexity of the European post-trade ecosystem could make T+1 adoption a more challenging project in Europe as compared to other jurisdictions. The barriers to timely settlement today on a T+2 basis need to be fully understood and overcome before moving to T+1 in order to avoid exacerbating existing issues.

AFME strongly recommends that, prior to any decision being made on a potential migration, further cross-industry discussion is required to identify and quantify the benefits and challenges of T+1 and determine if there is a legitimate business case for shortening the settlement cycle. A successful migration to T+1 settlement will require coordinated industry effort, from an initial impact assessment through to the development of a detailed implementation plan, including establishing an appropriate timeframe. A rushed or uncoordinated approach is likely to result in increased risks, costs and inefficiencies in European capital markets.

“Successful adoption of a T+1 settlement cycle would require concerted industry efforts to improve operational processes”

19 Mainly transactions that do not require too many preliminary steps such as lending and borrowing or collateral movements

Notes

Notes

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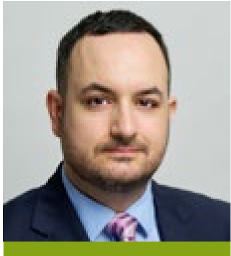

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/ About AFME

The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues.

We represent the leading global and European banks and other significant capital market players.

We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society.

We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work.

Focus
on a wide range of market, business and prudential issues

Expertise
deep policy and technical skills

Strong relationships
with European and global policymakers

Breadth
broad global and European membership

Pan-European
organisation and perspective

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