EU RegCORE Client Alert

Transitioning securities settlement to T+1 in the EU

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Financial Services

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QuickTake

On 12 February 2025, the European Commission (the **Commission**) published a proposal for an EU Regulation as regards a shorter (standard) settlement cycle in the EU (the **Proposal**) with the objective to shorten the period of the settlement cycle for transactions in transferable securities from two business days (T+2) to one (T+1) in the EU.[1] This follows on from earlier announcements from the EU, Switzerland and the UK to move to T+1 in three phases with a go live planned for Monday 11 October 2027 as the (current) optimal date.[2] A lack of harmonisation on settlement times, in particular if any efforts of the EU, Switzerland and the UK are not coordinated or subject to one or more delays could cause serious disruptions to these as well as global markets.

For the EU, the Proposal impacts the entirety of the EU-27 and its respective capital markets (trade and execution venues) and financial market infrastructure. While all of these are subject to the same EU legislative, regulatory and supervisory principles and expectations each EU-27 Member State has a number of aspects that are specific to it. This includes in particular a number of non-legislative market practices that may need to be considered within a given market but equally for cross-border trades across markets, execution venues, settlement systems and financial market infrastructure.[3] Delivery on the transition will

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[1] Available here.

[2] While this date is one that the EU, Switzerland and the UK will aim to move to, including in a bid to avoid the difficulties of such a substantial project going live in November or December or the first Monday in October as that would be the first Monday after quarter-end, 11 October 2027 is not only a U.S. public holiday (Columbus Day/Indigenous Peoples' Day), however most US markets have historically and will presumably remain open for that day, but equally a Canadian public holiday (Thanksgiving Day), where most Canadian markets are closed but also a religious holiday (start of Yom Kippur). While September has historically had more down markets, October has historically been the month of global market crashes (The Bank Panic of 1907, the Stock Market Crash of 1929 and Black Monday 1987).

[3] While TARGET2, TARGET2-Securities and TIPS, the ECB's common platform for the transfer of cash and securities already supports compressed settlement cycles, the EU-27's markets remain diverse with a (regrettably) fragmented trading, clearing and settlement ecosystem boasting multiple central counterparties and central securities depositaries. Unlike the US, where DTCC led the T+1 transition, there is no EU equivalent.

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require consistent and comprehensive industry-wide collaboration amongst all participants in the transaction and value chain.

Following the publication of the Proposal, the Commission also released a Q&A on the matter for context and further stakeholder engagement.[4] The Proposal aims to enhance the efficiency, reduce risks and improve the competitiveness of the EU's capital markets. This PwC EU RegCORE Client Alert provides a brief overview of the Proposal, its implications and the steps ahead in the EU and should be read with separate thought leadership coverage on efforts in Switzerland and the UK.

Key takeaways

Securities (of various types – equities, debt, investment funds etc.) are traded (sold or bought) on many different markets globally. They can be traded over-the-counter (**OTC**) or on trading venues such as exchanges. For securities that are held in paperless form, electronic systems, clearing and settlement are the services that effect the sale as well as purchase and the enabling of the transfer of ownership interests and payments made by way of electronic as opposed to physical means. The importance of these services to EU capital markets, and indeed completing the EU's Capital Markets Union (**CMU**), have been confirmed time and again in the context of their role to reduce fragmentation across Member States. Mandated reports including the Giovannini Report[5], the Draghi Report[6], the Letta Report[7] as well as the Noyer Report[8] have consistently highlighted the need to embrace innovation so as to strengthen the competitiveness and attractiveness of EU capital markets but also to deliver on the EU's financing needs.

In each instance, when, following the execution and possibly the clearing of a trade in securities, ownership of such securities needs to pass to the account of the buyer and payment for the securities (if payment is a condition of the trade) to the account of the seller, on the terms that have been agreed. This final stage in the life of a securities transaction is referred to "securities settlement". Settlement is the discharge of the parties' obligation under a trade and involves the settlement system[9] crediting and debiting the respective accounts of the buyer and seller, as appropriate, once instructed to do so and in accordance with the (standard) securities settlement cycle. Settlement is only achieved when both delivery and payment have been finalised. CSDs in the EU settle over EUR 4 trillion of securities on a daily basis.[10]

The securities settlement cycle generally refers to the period between the trade date (**T**) when the buyer receives securities and the settlement date, when the seller receives the payment. As highlighted in the Commission Staff Working Paper accompanying the Proposal (the **Working Paper**)[11], the longer the settlement cycle is (i) the longer the risks to which buyers and sellers are exposed to persists[12], (ii) the more investors have to wait before they receive the money or securities owed and (iii) the more that opportunities to enter in other transactions are reduced. Currently, the EU's capital markets operate on a "standard" T+2 cycle, meaning settlement occurs within two business days after the trade has been executed (i.e. on the trade date T). The proposed amendments now seek to implement the move to T+1 in the legal framework provided under the Central Securities Depository Regulation (**CSDR**) to shorten this standard settlement cycle to T+1. This legislative change was recommended in the report of ESMA and the European System of Central Banks (**ESCB**) assessing the appropriateness of shortening the settlement cycle n the EU. [13]

Not least because of the North American and some Asian markets' transition to T+1 (including a move in certain markets and systems to "instantaneous everything", which aims to achieve T+0 settlement), the move to T+1 is driven by a global trend towards shortening of standard settlement cycles. As of October 2024, major markets, representing 60% of global market capitalisation, such as the United States, Canada have already adopted T+1 settlement in their respective jurisdictions, India has also soft-launched T+0 on its stock market in limited form and China is already at T+0 for certain markets. How does this impact capital markets in the EU? As outlined in the Working Paper, the resulting misalignment in settlement cycles between the EU and those markets having transitioned to T+1 increases the complexity of transactions with those markets

[4] Available here.
[5] Giovanni Report, 2001. The Giovannini Group. Cross-border clearing and settlement arrangements in the European union, available here.
[6] The Report on the future of European competitiveness, available here.
[7] Much more than a market report, available here.
[8] The report on developing European capital markets to finance the future, the "Noyer Report", available here.
[9] Which can be a central securities depositary (**CSD**), an international CSD (**ICSD**) such as Euroclear or Clearstream or intermediaries (such as custodians or other intermediaries in a securities holding chain).
[10] See ECB Securities Trading, Clearing and Settlement Statistics Database, available here.
[11] Available here.
[12] These may vary from credit, liquidity and market risks which a counterparty is exposed to.
[13] See Report on ESMA assessment of the shortening of the settlement cycle in the EU, available here.

and thus creating additional costs for EU stakeholders (issuers, investors, trading venues and SCDs alike). Other markets, including the UK, Switzerland, Japan and Australia are also considering or have committed to T+1 settlement. The EU's swift alignment with these markets is crucial to avoid operational inefficiencies from misaligned settlement cycles and additional costs for EU market participants trading internationally, as well as overall competitiveness of the EU's capital markets all the while completion of the EU's Capital Markets Union (**CMU**) is yet to be completed.

Against this background, the Giovannini Report of 2001 had identified that a misalignment in settlement cycles constituted a key barrier to the functioning of settlement of capital markets by increasing the costs of cross-border activity. Settlement cycles across the EU were thereafter harmonised on the basis of the CSDR in 2014 for transactions in transferable securities that were executed on trading venues. This topic was placed on legislative table for negotiation once again in 2022 in view of persisting problems in the context of safety and efficiency, operational risks, increased back-office costs and settlement fails rates as well as more complex processing of corporate actions, and higher market and counterparty risks. These problems were exacerbated by greater misalignment in the EU vis-à-vis and due to the North American and (some) Asian capital markets' transition to T+1. Negative impacts in this misalignment of the EU capital markets were assessed as even more acute if the UK and Switzerland were to move to T+1 before the EU as this could imply higher integration and subsequent volume of business between other jurisdictions. By way of example, the Working Paper EU fund managers would have to manage different settlement cycles between the ETF units/shares and the ETF's underlying securities as well as the funding gap resulting from the misalignment for more than half of their investments in equities.

While the shortening of the standard settlement cycle in the EU will change the way markets function and this will likely have impacts that differ depending on the type of stakeholder, the category of transaction and the type of financial instrument, T+1 settlement is expected to ensure that the negative consequences, including further fragmentation of EU capital markets and reduced attractiveness and competitiveness of those markets are contained. More generally, and disregarding misalignment of global settlement cycles, reducing the cycle to T+1 introduces several benefits:

- **Risk reduction**: by eliminating one full day of risk when the settlement cycle is shortened to T+1, there is a lower chance of systemic risk, operational risk, counterparty exposure risk and liquidity risk impacting the transaction. That being said cash and securities need to all move faster across the entire chain for such benefits to carry through.
- **Increased efficiency and resilience**: faster settlement promotes efficiency and enhances the resilience of EU capital markets.
- **Cost savings**: reduced risk and thus lower margin requirements and collateral needs will lead to cost savings.
- **Improved liquidity**: faster settlement allows investors to reinvest more quickly, boosting trading volumes and market liquidity.
- **Elimination of misalignment costs**: aligning with global markets will eliminate costs associated with handling different settlement cycles.

The move to T+1 settlement will require preparations from the industry, including greater automation and modernisation of post-trade processes not just for trading but also for corporate actions standards as well as other capital markets activities such as securities financing transactions but also foreign exchange trading as well as say the investments in and redemptions of a number of investment funds and structured products. As highlighted also in the Working Paper, not moving to T+1 would raise conceivable concerns about the overall attractiveness of the trading environment in the EU compared to the standard and level of service offered by other jurisdictions that may have already completed the transition. This move can be observed in the context of issuers seeking for the deepest liquidity pools for their liquidities, which influences their decision on the location of issuing. Moreover, in view of the currently rising financing needs throughout the EU, along with broader concerns of ensuring competitiveness and strategic independence it is in this context that the importance of - what appears, on the surface, like a minor technicality of the post-trade financial infrastructure – EU financial regulation and the push for CMU should stand out.

The Commission, the European Securities and Markets Authority (**ESMA**) and the European Central Bank (**ECB**) have welcomingly established a governance structure to oversee and support these technical preparations. This includes the EU T+1 industry Committee, chaired by Giovanni Sabatini[14] and several technical workstreams focused on technological and operational adaptations[15].

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[14] Sabatini has years public as well as private sector experience working in securities markets. He has served as a member of the European Economic and Social Committee and held roles within the International Organization of Securities Commissions (IOSCO), the European Banking Federation, and the European Central Securities Depositories Association (ECSDA).
[15] Available here.

The Proposal seeks to amend the CSDR which currently regulates the settlement cycle for most transactions in what are termed transferrable securities[16] in the EU. The proposed amendments seek to formalise a harmonised and coordinated transition across the EU. The complexity of EU capital markets, with numerous actors, systems, and currencies, makes industry-led coordination challenging. The legal certainty provided by the Proposal (by setting a transparent date and confirming the minimum settlement cycle to T+1) will certainly facilitate market buy-in and smooth the transition.

Furthermore, at an EU T+1 Coordination Committee meeting held earlier on 6 February 2025, focusing on issues regarding the Proposal, the strong will of the Industry Committee was raised to have securities financing transactions (**SFT**s) fully exempted from the T+1 requirement and the need to be aligned with the UK regime on this. This will was also voiced by the European T+1 Task Force[17], which, while supporting alignment to the scope of the CSDR, called for excluding securities financing transactions (**SFT**s). Contrary to these industry voices, the ESMA Report on the assessment of the shortening of the settlement cycle in the EU (the **ESMA Report**)[18] concluded that SFTs should not be excluded from the current scope of the CSDR.

In preparing the Proposal, the Commission relied on both ESMA's and the European T+1 Task Force's expertise and ultimately chose not to include the exemption for SFTs in its Proposal. The European T+1 Task Force published a second report on the potential move to T+1 within the EU. That report elaborates on such a move constituting a complex, multi-year undertaking, which would require the collaboration of all industry stakeholders to ensure that no new risks are introduced or the existing efficiency, liquidity and functioning of EU securities market are not damaged. The task force's members also generally considered that, form the communication of the official transition date, a transition period of between 24 to 36 months would be required, reflecting the complexity of the market infrastructure landscape in the EU.[19]

An earlier report specified that many of the benefits and challenges of the US migration to T+1 would also be applicable to European markets. Due to the complex market infrastructure landscape in the EU, however, which in comparison to the US include several currencies, market infrastructures and actors to coordinate, the report finds that the implementation in the EU would be more complex than in the US.

The proposed date for the transition to T+1 settlement is 11 October 2027. This timeline allows for approximately 31 months of preparation, including one year for developing solutions, one year implementation and one year for testing. The choice of such a specific date avoids periods of high market activity (such as quarter end shifts and beginning of the calendar year).

On 13 February 2025 ESMA also published a consultation paper (**CP**) on the proposed amendments to the technical standard on settlement discipline.[20] The consultation will be open until 14 April 2025 for input on its proposed draft regulatory technical standards (**RTS**) in relation to settlement discipline measures and tools to improve settlement efficiency. Specifically, the CP is composed of two parts. One includes the proposed amendments to the settlement discipline regime (i.e., the deadlines for allocations and confirmations). The second part explores a set of additional tools for improving settlement efficiency, without proposing related requirements at this stage (i.e., the use of unique transaction identifiers). Upon consideration of feedback to said CP, ESMA is expected to publish a final report and submit the draft RTS to the Commission by October 2025.

Further to the above, the ECB has also established a dedicated T+1 Task Force under the Target 2 Securities (**T2S**) governance. The ECB Task Force will aim at identifying possible impacts of shortening the settlement cycle on T2S operations and evolution as well as any potential change request(s) by the end of Q2 of 2025. T2S is a Eurosystem infrastructure that was launched in 2008, went live in 2015 and the go live for consolidation with TARGET (for cash payments) began in 2023, provides the European post-trading industry with a single, borderless and pan-European platform for securities settlement in central bank money.

The Proposal will be submitted to the European Parliament and the Council for consideration and adoption. The respective changes to existing EU legislative and regulatory rulemaking instruments applicable to the settlement cycle will enter into force following the EU's co-legislators reaching an agreement on the Proposal and following the final approved legislative text that flows from the Proposal being published in the Official Journal of the EU.

[16] These include: shares, bonds, derivatives, units in collective investment undertakings etc.

[17] A task force, which includes a wide representation of members from the buy-side, sell-side and market infrastructures established in 2023 to seek industry wide agreement and present views on the impacts of the US transition to T+1 and on a potential move to T+1 in the EU.

[18] Available here.

[19] See Results of Ex-Post Evaluations, Stakeholder Consultations and Impact Assessments under the Proposal (p.7), available here.

[20] Available here.

Key considerations for market participants

As a result of the shortening of the standard settlement cycle, all actors and stakeholders across the trading and post-trading chain will have to adapt their (i) systems and controls as well as (ii) their documentation and disclosures to the market, counterparties, clients and customers, each as tailored to the respective activity and types of transactions they undertake. Firms may also want to assess and communicate clearly which products and transaction types are not impacted by the T+1 transition.

The following sets out some high-level considerations that financial services firms and other regulated market participants may wish to consider ahead of the 11 October 2027 T+1 transition:

Internal systems and controls

Firms will need to individually as well as collectively with other market participants focus on updating their internal systems and controls across the entirety of the trade and post-trade chain:

1. Technology and infrastructure:

a. **System upgrades**: Firms must upgrade their trading, clearing, and settlement systems to handle the accelerated timeline where it applies. This includes ensuring that all systems can process relevant in-scope transactions within the shortened timeframe. This also includes ensuring trades executed before 11 October 2027 are settled on T+2 and those on or after 11 October 2027 are settled T+1.

b. **Automation**: Increased automation in trade processing, reconciliation, and settlement is essential to meet the T+1 deadline. This may involve further updating straight-through processing (STP) solutions.

c. **Real-time data processing**: Firms will need to ensure that systems (including across departments and with external parties) should be capable of real-time data processing and reporting to ensure timely settlement.

2. Risk management:

a. **Liquidity management**: Enhanced liquidity management practices are required to ensure that funds i.e., monies are available for settlement within the shorter timeframe.

b. **Counterparty risk**: Firms need to reassess and possibly enhance their counterparty (credit) risk management frameworks to account for the reduced time to identify and mitigate risks.

3. Operational processes:

a. **Workflow adjustments:** Internal workflows must be streamlined to eliminate any bottlenecks that could delay settlement. This includes faster trade matching and confirmation processes.

b. **Staff training:** Employees must be trained on the new processes and systems to ensure smooth operation and compliance with the T+1 timeline.

Trading and transaction documentation

Firms may need to review and amend existing as well as introduce new terms in future transaction documentation in use with counterparties, clients and in particular (retail) customers along with disclosure and risk warnings on the impact of the move to T+1. Some firms may benefit from compiling a documentation inventory and hierarchy of terms applicable to the respective trading relationship with their counterparties, clients and customers. Conducting such an exercise may also be beneficial to prepare for other legislative and regulatory developments that are in the pipeline

4. Master agreements, client agreements and brokerage terms:

a. **Amendments**: Existing master agreements, client agreements and brokerage terms (in particular for use in derivatives and/or securities financing transactions (as well as resulting collateral/security and/or clearing documentation) may need to be amended to reflect the new settlement timelines. This includes updating definitions and timelines for trade confirmation and settlement.

b. **New clauses**: Introduce clauses that specifically address the T+1 settlement requirements, including any penalties or consequences for failing to meet the timeline.

c. **Notifications, disclosure and disclaimers**: Provide clear and timely notifications, disclosure and disclaimers that use simple plain wording to explain the impact of the changes in settlement timelines and its implications including possibly using FAQs. This includes potential impacts on liquidity and the need for quicker decision-making by counterparties, clients and in particular retail customers in particular that they ensure funds and securities are available, in good deliverable form, earlier to cover transactions, avoid overdrafts and failed trades. Firms may need to ensure that the persons (in particular non-sophisticated market participants and retail clients) receiving the disclosure and/or disclaimers, even where these cross-reference to FAQs, confirm they understand and agree to the new settlement process.

d. **Consent**: Under certain agreements, explicit as opposed to mere implicit consent for the updated terms may need to be obtained. The laws on when explicit as opposed to implicit consent is required vary across EU Member States and the type of (retail) client that is involved how and where. As an example, even if the governing law of a contract may not require explicit consent, certain investor protection laws that may be applicable to the location of the (retail) client may warrant obtaining explicit consent.

6. Trade confirmations:

a. **Timeliness**: Ensure that trade confirmations are issued and acknowledged within the shortened timeframe. This may require renegotiating terms with counterparties to ensure compliance. Historically under T+2 standard settlement cycles and/or in derivatives transactions, confirmations are to be made available by no later than close of business at T+1. For certain types of OTC transactions, a trade confirmation may be a precondition to settlement so certain trade confirmations may need to be provided T+0.

7. Ongoing outreach and support for customers

a. **Informational campaigns**: Conduct informational campaigns to educate customers about the T+1 settlement timeline, its benefits and its impact on their transactions.

b. **Enhanced support**: Offer enhanced support to counterparties, clients and customers address any questions or concerns related to the transition. This may include dedicated helplines or support teams. As with the move to T+1 in North America at the end of May 2024, a number of market participants maintained internal and external connectivity channels around the clock over the transition weekend.

8. New issuances

In addition to the above considerations that apply to existing transferrable securities already admitted to trading in the EU, the following are considerations that are likely to apply to new issuances and their admission to trading:

a. **Prospectuses and offering documentation**: will need to be updated to clearly disclose the T+1 settlement timeline and its implications for investors.

b. **(Standard) Underwriting arrangements and agreements**: will need to be amended to reflect the T+1 timeline, including the timing of payment and delivery of securities. Preparatory work for closing will likely need to be further frontloaded in the transaction. Where alternate settlement is agreed for certain transactions, then further emphasis on consent to such arrangements may be recommended. More generally, certain agreements may benefit from inclusion of representations and warranties to ensure that all parties are aware of and can comply with the new settlement requirements.

c. **Subscription agreements**: payment terms in subscription agreements will need to cater for funds i.e. monies being made available within the T+1 timeline. Investors should be required to give an acknowledgement that they understand and accept the new settlement timeline and its implications.

d. **Service level agreements**: in particular with custodians, clearing agents and other service providers need to be updated to ensure they can meet the requirements of the T+1 settlement timeline.

e. **Digitalisation to reduce daylight risk and wet ink signatures**: A number of other processes (including on certain transactions warranting wet ink signatures on documentation (including conditions precedent to settlement) such as legal opinions or confirmation statements may require further advance planning, greater use of automation and digitalisation (including electronic signatures) including to reduce daylight risks.

All relevant market participants and stakeholders may want to consider the above and how it may be applicable to their operations and those of the parities it deals with. Early consideration of the above may serve to better equip efficiency of the transition.

Outlook ahead

The Commission's Proposal to shorten the settlement cycle to T+1 settlement marks a significant step towards crucially ensuring the efficiency and competitiveness of the EU's capital markets. While the transition will be demanding and complex, the expected benefits, including increased efficiency, risk reduction and to some extent damage limitations are necessary. Effectively, the transition will be necessary to contribute towards a more robust, competitive and attractive market environment that support the broader goals of the EU's CMU and overall growth and transformation of the European economy, as described above. The coordinated efforts of EU level as well as national authorities and the financial industries themselves will be crucial to ensuring a smooth and successful transition to this end.

As the Proposal moves through the legislative process, market participants should stay informed and begin preparing for the necessary changes in terms of systems and controls as well as documentation in place with counterparties, clients and customers. The Commission, ESMA and the ECB will continue to provide guidance and support to facilitate the transition as will a number of industry associations for their respective market segments. Firms are certainly encouraged to engage with industry groups and regulatory bodies but also to take a step back and assess the changes overall in the EU as well as in other relevant jurisdictions, so as to stay abreast of developments and ensure readiness for the move to T+1 settlement.

About us

PwC Legal is assisting a number of financial services firms and market participants in forward planning for changes stemming from relevant related developments. We have assembled a multi-disciplinary and multijurisdictional team of sector experts to support clients navigate challenges and seize opportunities as well as to proactively engage with their market stakeholders and regulators.

In order to assist firms in staying ahead of their compliance obligations we have developed a number of RegTech and SupTech tools for supervised firms. This includes PwC Legal's Rule Scanner tool, backed by a trusted set of managed solutions from PwC Legal Business Solutions, allowing for horizon scanning and risk mapping of all legislative and regulatory developments as well as sanctions and fines from more than 2,500 legislative and regulatory policymakers and other industry voices in over 170 jurisdictions impacting financial services firms and their business.

Equally, in leveraging our Rule Scanner technology, we offer a further solution for clients to digitise financial services firms' relevant internal policies and procedures, create a comprehensive documentation inventory with an established documentation hierarchy and embedded glossary that has version control over a defined backward plus forward looking timeline to be able to ensure changes in one policy are carried through over to other policy and procedure documents, critical path dependencies are mapped and legislative and regulatory developments are flagged where these may require actions to be taken in such policies and procedures.

The PwC Legal Team behind Rule Scanner are proud recipients of ALM Law.com's coveted "2024 Disruptive Technology of the Year Award".

If you would like to discuss any of the developments mentioned above, or how they may affect your business more generally, please contact any of our key contacts or PwC Legal's RegCORE Team via de_regcore@pwc.com or our website.

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