

Money market and liquidity implications from the move to T+1 settlement for transactions in transferable securities

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TRANSITION from T+2 to T+1 - Agenda

- **Overview**

- **Perimeter**

- **Main impacts**

- Market & Processes
- Asset Management
- Cross Impacts

- **Differences among EU and US**

- **Role for AI-Driven Solutions**

- **Conclusions:**

- Benefits & Challenges
- Measures to reduce Costs & Risks

TRANSITION from T+2 to T+1 - Overview

2

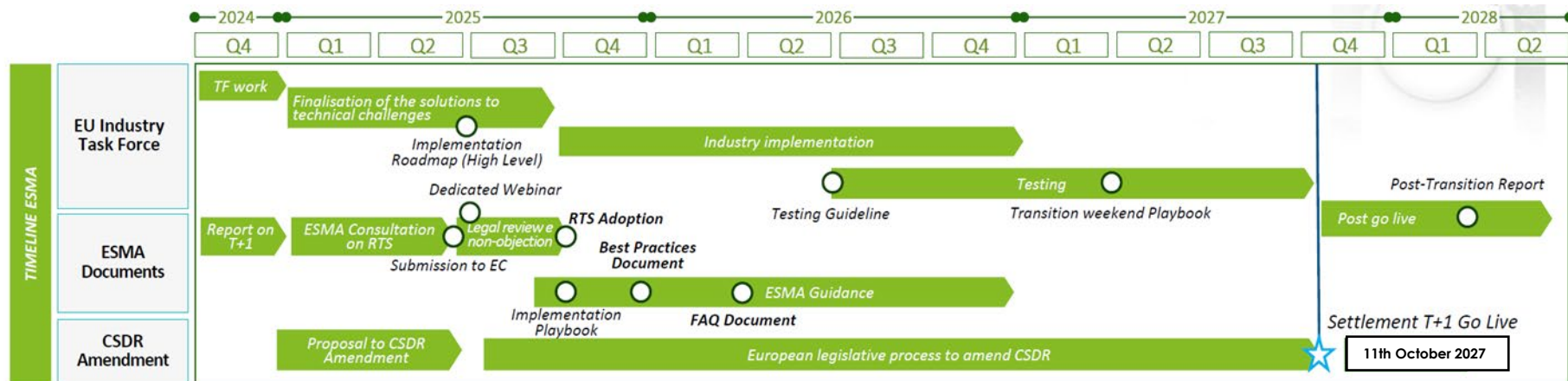
European Regulation (*)

- The **European Securities and Markets Authority (ESMA)** in nov 2024 has proposed **shortening the settlement cycle** for transactions in some EU securities, reducing it from two days to one day
- The **European Parliament (EP)** in feb 2025 has published a report on the legislative proposal amending Regulation (EU) 909/2014 (CSDR) with regard to the transition to the "T+1" model.

International approach

Globally, many jurisdictions, including **China, India, United States**, and **Canada**, have already reduced their settlement cycle to T+1 in recent years. Other countries such as the **United Kingdom** and **Switzerland**, have already planned to move to T+1 or are considering this adjustment.

Timeline in EU



Source: ESMA, Deloitte

(*) <https://www.esma.europa.eu/esmas-activities/markets-and-infrastructure/shortening-settlement-cycle-t1-eu>
<https://www.esma.europa.eu/press-news/esma-news/esma-proposes-move-t1-october-2027>
https://finance.ec.europa.eu/publications/commission-proposes-shorten-settlement-cycle-eu-securities-two-days-one_en

TRANSITION from T+2 to T+1 – Perimeter

3

Perimeter/ products

Products In scope:

- Cash equities & ETPs
- Domestic Bond
- International bonds (e.g. Eurobonds)

Products out of scope:

- Derivatives
- **Securities Financing Transactions (SFT)**



Rationale

- SFTs (Securities Financing Transactions) have **different risk profiles** and **operational characteristics**.

Pros

- **Avoids operational disruption** in a critical market segment.

Cons

- Could create **inconsistencies** and **arbitrage opportunities**.

Overall

- Exclusion is **pragmatic** but should be **regularly reviewed** to ensure **market integrity**.

Perimeter/ actors

Actors In scope:

- Central Securities Depositories (CSDs)
- Central Clearing Counterparties (CCPs)
- Trading Platforms
- Fund and Asset managers
- Brokers and Dealers
- Clearing Members
- Settlement Agents
- Custodians

TRANSITION from T+2 to T+1 – Impacts for Market & Processes

Market & Processes

- **Bond trading** activity is expected to continue without relevant impacts and with an adaptation in a limited period of time. Possible **revision of trading strategies** could take place to include the impacts on prices in case of key dates of corporate events. The largest impacts are expected for the **optimization of post-trade processes**.
- **Repo transactions** will require faster processing and quicker settlement, potentially with an increasing **post trade efficiency and larger market concentration in ON/TN**. At the same time compressed timelines could lead to more frequent **liquidity squeezes** and may be more intraday funding needs, to meet settlement obligations and to manage intraday liquidity risk arising from potential imbalances between cash availability and delivery obligations. Constant monitoring and use of **dynamic tools for cash forecasting**, to reduce liquidity and operational risks, will be key, together with a possible additional **same day netting run by CCPs** (as it exists in the UK for example) that would help to mitigate the impacts.
- **FX market** is already very active on very short maturities and is expected to remain very efficient, with a possible even **larger concentration of volumes in ON/TN**. The main points of attention are related to the **shorter timing for funding** and to the risks arising from the possible late info for t+1 flows at the end of the day, when all market segments are less liquid. **Liquidity implications for non-EUR currencies** can't be excluded (e.g. CZK, PLN, RON, etc...).
- **Securities Lending** due to the reduction of the time window for the return of securities, will require to **manage recalls in advance** to avoid the risk of failure in the settlement of purchase transactions (e.g., in the event of corporate actions such as dividend distributions). A **revision of the process for customer securities management** is expected.
- **Collateral management** will require **greater flexibility and visibility on free securities for the optimization of rules** to ensure the correct timing in posting collateral. In addition operating cycle will be oriented to an intraday/ one day perspective with less time for managing collateral requests.
- **Posting of margins** will be **requested earlier than now** due to the impact coming from the compression of the settlement window and real-time monitoring of the replacement of securities will be required.

TRANSITION from T+2 to T+1 Impacts for Asset Management

5

Liquidity & Cash management

Misaligned settlement cycles where investor flows continue to be settled according to longer cycles (T+2/T+3/T+4) with risks of temporary cash deficits or surpluses.

Increased reliance on overdrafts, repo lines, intraday credit and faster sweeps; higher cost of liquidity if buffers or short-term financing are needed

Post trade /Middle/Back-Office processes

More intraday reconciliation cycles and exception management

NAV processes may need to be accelerated or intraday NAV estimates improved

Client/Distribution impact

Investor processing and reporting cut-offs may change; distribution partners and platforms must align to avoid client dissatisfaction or settlement fails

Potential reputational risk from increased operational incidents during transition

ETFs creation/redemption mechanics

Primary market creation orders across time zones could fail if primary/secondary and creation cycles diverge

Increased frequency of “cash breach”-like events if NAV/creation mechanics are not redesigned

TRANSITION from T+2 to T+1 Recommendations for Asset Management

Liquidity & Cash management

Reduce settlement cycles for subscriptions and redemptions of fund units to T+2, or T+1 where feasible, to align with the shorter securities settlement timeline.

Seek regulatory guidance to categorize cash breaches caused by settlement timing mismatches as passive and non-reportable

Ensure consistent interpretation of deposit and borrowing limit rules (UCITS Directive) across EU/EEA member states

Post trade /Middle/Back-Office processes

Re-contracting or SLA renegotiation with custodians, brokers and fund administrators likely

Reassess collateral management practices and ensure access to intraday funding options

Temporary suspension of cash penalties during the initial phase of T+1 migration

Client/Distribution impact

Work with distribution partners to adjust subscription and redemption timelines, ensuring alignment with the shortened settlement cycle

Maintain flexibility for funds that might face operational or distribution constraints preventing a full transition by the regulatory deadline (e.g., cross-border or multi-time-zone funds)

Provide clear communication to investors to manage expectations and avoid disruptions during the transition

ETFs creation/redemption mechanics

Improve NAV estimation processes (e.g., indicative NAVs for ETFs) to ensure timely settlement even in cross-border trades or with T+0 indicative settlements

TRANSITION from T+2 to T+1 – Main impacts - Cross

7

Post Trading

- **Review of operational/master data processes and timetable** to effectively manage settlement operations within the new operational cutoffs and T2S deadlines
- **Greater automation of post-trade processes**, through standardized communication methods and electronic traces (machine-readable formats) for matching confirmations and sending SSIs, using the BIC Code as a counterparty identification code.
- Strengthening of data **reconciliation activities** and **matching** management.
- Parameterization of the securities/market **master data systems** impacted by the transition to T+1 and automation of fund registration

Custody

- **Adaptation of the operating models** for managing custody and settlement services offered to clients (and alignment of key dates of Corporate Actions with the T+1 settlement cycle)
- **Update the service model and documentation/contractual set** for Financial Institution clients
- Impacts assessment on **relationships with custodians and CSDs** (pricing, cut-offs, etc.)

IT Systems and Infrastructures

- **New setting of IT systems and infrastructure** to support the shorter settlement cycle and greater automation of all phases of the transaction settlement cycle, ensuring robust data management, to reduce the risk of errors and failures.

Regulation and legal impacts

- Amendment of the **contracts/agreements to be compliant with the relevant regulations** (including the CSDR), with particular attention to the timing of the settlement cycle, the cutoffs for sending allocations and confirmations, and the format to be used (electronic and machine-readable).
- Amendment to the requirements regarding the **data collection** to guarantee the settlement execution immediately after the **onboarding phase**
- Modification of the **cash penalty framework**.

Risk management

- **Ensure flows** to Risk Management and assess any impacts on liquidity position monitoring (including intraday)

TRANSITION from T+2 to T+1

Differences Among EU and US

8

Fragmentation in EU

In the EU, the settlement process involves **several actors** (CSDs, CCPs, markets) in addition to the T2S process, while the US market is more centralized/standardized thanks to actors such as Depository Trust & Clearing Corporation (DTCC). Furthermore, in Europe, settlement involves **many currencies** (EUR, GBP, CHF, etc.), while in the US the concentration in USD has reduced the complexity of the transition to T+1.

EU T+1 best practices and CSDR Obligations

In the EU, all market participants will have to refer to both the guidelines defined by the EU T+1 Industry Committee and to the amendments to the CSDR. A couple of examples that show differences among EU and US:

- The **confirmation process**, which in the EU is a regulatory requirement of the CSDR and must be executed as it is legally binding in the US is considered a "best practice" and not a regulatory requirement.
- The **penalties for failed settlements** according to CSDR in the EU must be automatic while in the US penalties are mainly limited to fail charges applied by DTCC.

Level of complexity in EU

| Infrastructure Type | US | Europa (EEA, UK, CH) |
|---------------------|----|----------------------|
| Listing Exchange | 3 | 35 |
| Trading Exchange | 16 | 41 |
| CCPs | 1 | 18 |
| CSDs | 2 | 31 |
| Local Currencies | 1 | 14 |

Source: New Financial, ECSDA, AFME

TRANSITION from T+2 to T+1 – Role for AI-Driven Solutions ⁹

● **Trade Matching and Confirmation:**
AI can reduce errors and speed up processing

● **Predictive Analytics:**
AI can forecast liquidity needs and settlement risks

● **Process Automation:**
Robotic Process Automation (RPA) can handle repetitive tasks

● **Fraud Detection and Compliance:**
AI enhances monitoring and regulatory compliance

● **Real-Time Decision Making:**
AI supports faster and more accurate operational decisions

TRANSITION from T+2 to T+1To sum up: Benefits & Challenges

10

Benefits

Reduced Counterparty Risk

Shorter settlement cycles reduce the time exposure to counterparty default risk

Improved Liquidity Management

Faster settlement improves cash flow predictability and reduces the need for large liquidity buffers

Operational Efficiency

Streamlined processes and reduced settlement fails

Market Competitiveness

Aligns Europe with global best practices, enhancing attractiveness for investors

Challenges

Operational Strain

Requires significant upgrades in infrastructure and processes

Increased Pressure on Back-Office

Need for faster trade matching, confirmation, and settlement

Liquidity Timing

Compressed timelines may increase intraday liquidity needs

Cost of Transition

Investment in technology and training

TRANSITION from T+2 to T+1To sum up: Measures to contain Costs and Risks

11

Enhanced Liquidity Management Tools

- ✓ **Real-time** liquidity monitoring and forecasting

Centralized Clearing and Settlement

- ✓ Use of CCPs and CSDs to **streamline processes**

Standardization of Processes

- ✓ **Harmonized market practices** and **documentation**

Collateral Optimization

- ✓ **Efficient** collateral allocation and reuse

Regulatory Coordination

- ✓ **Clear guidelines** to avoid conflicting requirements

Migration approach



Phased-in Rollout

- Preferred for risk mitigation, allowing gradual adaptation and issue resolution.



All-in Switchover

- Faster but riskier, with potential for systemic disruption.



Recommendation

- A carefully managed phased approach with clear milestones and contingency plans.