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Delegations will find attached document SWD(2025) 37 final.

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COMMISSION STAFF WORKING DOCUMENT
Accompanying the document

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
amending Regulation (EU) No 909/2014 as regards a shorter settlement cycle in the
Union

{COM(2025) 38 final}

1. INTRODUCTION

The EU needs to do more to unlock the financing necessary for the digital, green and social transition as well as to boost growth. Efficiently functioning and deep capital markets are a necessary condition for achieving that goal. However, EU capital markets remain fragmented despite substantial efforts to integrate them over the years; this fragmentation is a substantial impediment to their development. This has been confirmed by a number of reports during 2024, including the Draghi report¹ and the Letta report². These reports, as well as the Noyer report³, also underline that the competitiveness and attractiveness of EU capital markets, and their ability to deliver the financing that the EU needs, can only be achieved if those markets embrace innovation.

The Savings and Investments Union (SIU) needs to be built on efficient and safe post-trade services. These services play a key role, amongst other things, in the issuance of securities, finalisation of trades (settlement), keeping track of the ownership of securities as well as managing and reducing risks (clearing). Post-trade services are essential for the functioning of EU capital markets. For these reasons, all aforementioned reports have emphasised that more needs to be done to improve the efficiency of post-trade services.

The settlement of securities - the process through which the buyer receives the security and the seller receives the cash - is at the core of capital markets. Each day, more than EUR 4 trillion of securities⁴ are settled in EU central securities depositories (CSDs). The longer settlement takes (i) the longer the risks⁵ faced by buyers and sellers last; (ii) the longer investors have to wait to receive the money or the securities they are owed – if the settlement does not fail; and (iii) the more that opportunities to enter in other transactions are reduced. Fast, efficient and reliable settlement is therefore an essential pre-condition for developing the SIU.

It has now been ten years since the Central Securities Depositories Regulation (CSDR)⁶ entered into force and harmonised the securities settlement cycle in the EU at a maximum of two business days after the trade date (so-called ‘T+2’) for certain secondary markets transactions.⁷ Since then, financial markets and technology have continued to evolve.

¹ In the [report on the future of European competitiveness](#) reducing capital market fragmentation is the number one objective set for the SIU, p.292.

² The report “[Much more than a market](#)” or commonly called the “Letta report” stresses the need for innovative and efficient capital markets to achieve the financing of the green and digital transitions.

³ [The report on developing European capital markets to finance the future](#), or commonly called the “Noyer report” details the challenges to overcome in order to unlock EU capital markets potential.

⁴ Data generated through the Securities Trading, Clearing and Settlement Statistics Database, European Central Bank, <https://sdw.ecb.europa.eu/browse.do?node=9691131> for the year 2023.

⁵ A counterparty to a financial transaction is exposed to different type of risks such as credit, liquidity and market risks between the trade and the settlement of such a transaction.

⁶ Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 OJ L 257, 28.8.2014, p. 1–72.

⁷ The scope of T+2 settlement in CSDR is transactions in transferable securities which are executed on trading venues. Transactions in transferable securities that are negotiated privately but executed on a trading venue, executed bilaterally but reported to a trading venue or the transactions where the transferable securities are subject to initial recording in book-entry form for the first time (i.e. primary market transactions) are not in the scope of T+2 settlement. Indeed, primary markets involve non standardised transactions that require specific processes and monitoring. Introducing a mandatory settlement period for such transactions in parallel to the move to T+1 would require a broader analysis as well as market consultations that would not be possible to perform given the need for quick clarity on a transition to faster settlement in the EU. In this respect, during a meeting with Member States on 5 September, many Member States were open to exploring

Following the EU move at the end of 2014, many jurisdictions followed and moved to a shorter settlement cycle; for example, the US moved to T+2 in 2017. But innovation and the need to improve the efficiency of settlement, to increase competitiveness as well as to reduce risks to financial stability, have meant that efforts have not stopped there. The rest of the world has already moved on since then: China, India, the United States and Canada, to name but a few, have all shortened their settlement cycle further, to a maximum of one business day after the trade date (so-called 'T+1'). Significantly, the global shift to T+1 is creating misalignments between EU and global financial markets and creates potential competitiveness gaps for EU capital markets. These misalignments will only increase the more countries will move to T+1.

The most recent review of the CSDR recognised these trends and mandated the European Securities and Markets Authority (ESMA), in close cooperation with the members of the European System of Central Banks (ESCB), to assess the appropriateness of shortening the settlement cycle in the EU and present a roadmap for how such a move could be carried out. ESMA published its report on 18 November 2024⁸, recommending that the EU move to T+1 no later than 11 October 2027.

This staff working document considers the impacts of an EU move to a shorter settlement cycle. Shortening the settlement cycle in the EU would significantly change the way in which markets function today, with different impacts depending on the type of stakeholder, the category of transaction and the type of security. Quantifying some of the costs and benefits related to the shortening of the settlement cycle in the EU is challenging because of the lack of data, but the elements assessed by ESMA suggest that the benefits of a move in terms of risk reduction, margin savings⁹ and the reduction of costs incurred by inefficiencies stemming from the misalignment with other major jurisdictions globally, represent important benefits for the SIU. Moreover, investment in modernising, harmonising and improving the efficiency and resilience of post-trade processes that would be prompted by a potential move to T+1 would facilitate achieving the objective of further promoting settlement efficiency in the EU, promoting market integration and ultimately the SIU, and avoiding a competitive disadvantage for EU capital markets, which could see traders favour other, more efficient markets. Finally, maintaining the current settlement cycle in the EU would contribute to further fragmenting the SIU as different EU stakeholders would continue to implement divergent solutions to cope with shorter settlement in most of the world's capital markets.

Most of the identified costs associated with a move to T+1 would manifest in the short term, whereas most of the benefits would materialise in the medium to long term. The elements assessed by ESMA suggest that the impact of T+1 in terms of risk reduction, margin savings and the reduction of costs linked to the misalignment with other major jurisdictions globally, represent important benefits for the competitiveness of EU capital markets and for moving

an extension of scope, but only at a later stage and after having conducted more analysis, to avoid delaying the move to T+1 (see Section 4, p.19 of this Staff Working Document).

⁸ Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024, ESMA74-2119945925-1969.

⁹ Margins savings is commonly used to refer to the savings in the provision of margin (collateral requirements to cover counterparty risks) that market participants are exposed to. See Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024 ESMA74-2119945925-1969, page 11, 37, 38 and Section 7.1.2 for the benefits of T+1 settlement related to the reduction of the risk exposures subject to CCP guarantee and therefore of CCP margins.

towards the SIU and it would ultimately improve the efficiency of EU capital markets and hence maintain their competitiveness at global level¹⁰.

Settling securities transactions on T+1 is already technically and legally possible in the EU. Hence a move to T+1 could be left entirely in the hands of the EU securities industry to coordinate and carry out. However, the higher level of complexity of EU financial markets - due to the number of different actors, systems and currencies involved - compared to other jurisdictions that already moved to T+1 would make coordinating the process extremely challenging for that industry without the legal certainty. Should an amendment be presented, the faster the agreement, the more time there would be for all EU market participants to undertake necessary investments and prepare for the move to T+1. At the same time, to ensure the success of the project, it would be necessary to deepen the preparatory technical work needed to pave the way to a move to T+1.

2. CONTEXT

2.1. What is the settlement cycle?

Settlement is the **completion of a securities transaction after it is concluded with the aim of discharging the obligations of the parties to that transaction through the transfer of cash or securities, or both**¹¹. The exchange of cash and securities is normally carried out in a securities settlement system¹² (SSS) operated by a CSD. In a CSD, the buyer's and seller's leg of a transactions are matched, verified for the ability of the seller to deliver the securities and the ability of the buyer to pay, and after that the transactions are settled by discharging the respective obligations. If both the buyer and the seller of securities have accounts at the same intermediary (typically a bank or an investment firm), the transaction can also be settled by an internal transfer between those accounts. In such a case, the intermediary is acting as a **settlement internaliser**¹³, which executes transfer orders on behalf of clients or on its own account other than through an SSS.¹⁴

The period of time between the trade date (the moment of a trade, denoted as 'T') **and the settlement date** (the moment the buyer receives the securities and the seller receives the payment) **is commonly referred to as the settlement cycle**. In the EU, the settlement cycle for most of the transactions in transferrable securities executed on a trading venue is regulated by the CSDR¹⁵, which requires settlement to take place no later than on the second business day after the date of the trade, also known as T+2. Because of their specific complexity, , primary market transactions¹⁶ were not subject to any legal requirement regarding the period of settlement in the EU.

¹⁰ See Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024, ESMA74-2119945925-1969, p.88.

¹¹ Article 2(7) of the CSDR.

¹² See Glossary.

¹³ See Article 2(11) of the CSDR and Glossary.

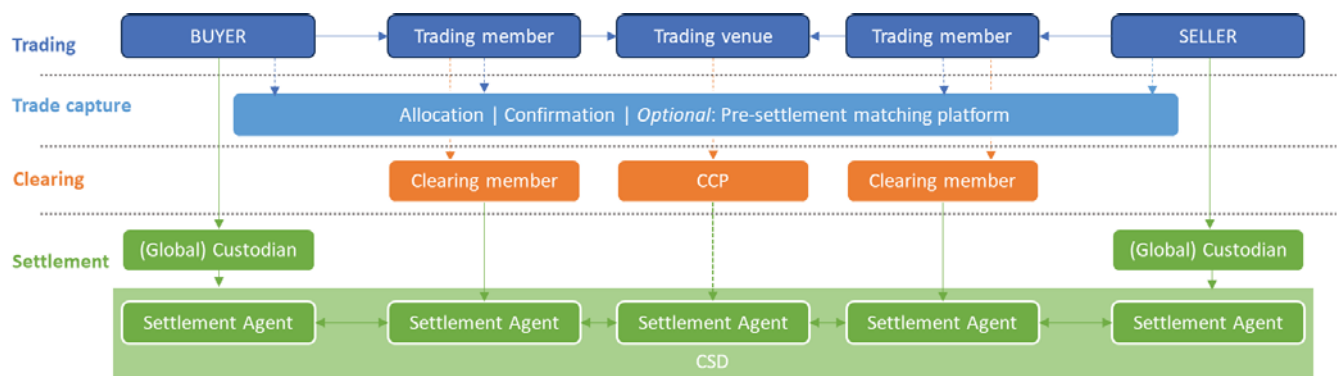
¹⁴ A firm internalises settlement if it receives an instruction from a client and transfers securities from one securities account to another in its books rather than forward it to another intermediary or a CSD.

¹⁵ Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 OJ L 257, 28.8.2014, p. 1–72.

¹⁶ The primary market refers commonly to transactions pertaining to the creation of a security (commonly called issuance). A trade in primary markets corresponds to the first time a security is sold/bought. The secondary market transactions correspond to the trade of securities among market participants that follows the primary market transaction. See Annex 1 (Glossary).

During the settlement cycle, two parallel workflows are operated: the instruction processing flow and the assets-and-cash-provision processing flow. The instruction processing flow includes the successive instructions sent by market participants to the infrastructures for the execution of three steps: trading, clearing (when applicable) and settlement. As illustrated in Figure 1, the steps between a trade and the actual settlement of that trade can require the involvement of more than eight stakeholders to ensure that the instructions that contain the details about the trade flow seamlessly and swiftly: the buyer, the seller, their respective brokers and the trading venue (trading layer), as well as the custodians, settlement agents and the CSD (settlement layer); where a central counterparty (CCP) is present in the market, the list of actors includes also the clearing members, who might or might not be the same as the brokers, and the CCP (clearing layer).

Figure 1: Overview of the current securities transaction lifecycle



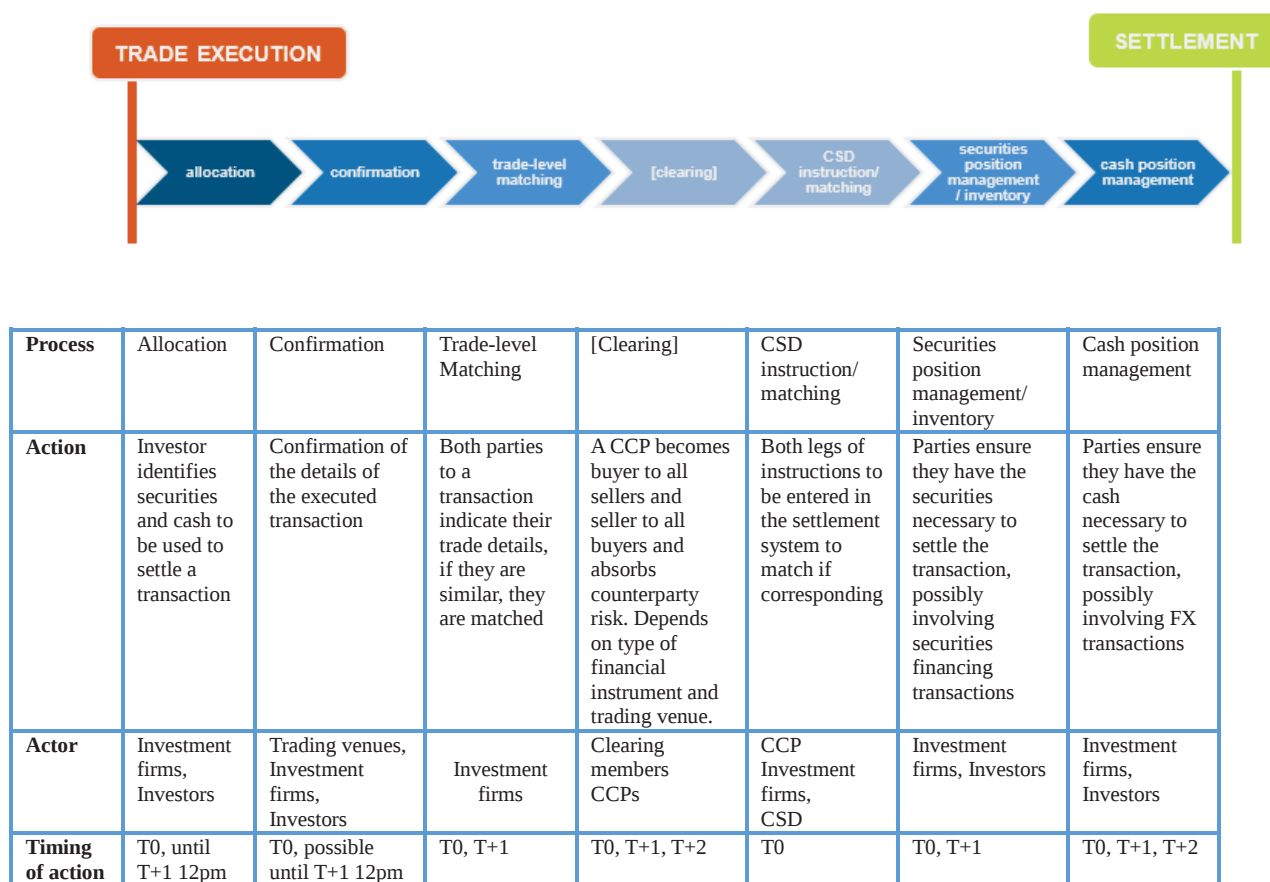
Source: AFME

The lifecycle of a transaction starts with the buyer (seller) who passes a buying (selling) order for a security through its broker (in Figure 1, trading member) to a trading venue. Once a trade is captured¹⁷, the buyer (seller) is required to allocate the cash (securities) at stake, and confirm in writing the details of the trade, which will then be matched¹⁸. Following these steps, the instructions can be matched in the CSD where the settlement will occur and the lifecycle of the transaction will end (see Figure 2).

¹⁷ Trade capture is the process of recording and validating trade details in order to ensure that they are accurately reflected in the market participants' system.

¹⁸ This step is called trade-level matching.

Figure 2: Pre-settlement processes¹⁹



Source: ESMA

Any change to the settlement cycle has therefore impacts on a wide range of market stakeholders including market participants, financial market infrastructures, or issuers of securities. With a settlement cycle set to T+1, performing the necessary steps in a reduced amount of time might be more challenging but achievable²⁰ if harmonised operational deadlines, common standards for the format of the data that flow from trade execution to settlement and more straight-through processing (STP) are put in place.²¹

2.2. International developments

2.2.1. The Americas

The first two large markets that shortened their settlement cycle to T+1 were China²² and India.²³ However, it was only when the US Securities and Exchange Commission (SEC)

¹⁹ Each column of the table in Figure 2 includes in the first line the name of the step in the pre-settlement process, in the second line a short description of the step, in the third line the stakeholders carrying out such step, in the last line the moment when the step is carried out. For instance, clearing consists in the interposition of a CCP between buyers and sellers, is carried out by CCPs and clearing members and happens between T0 and T+2.

²⁰ See Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024, ESMA74-2119945925-1969 p. 7.

²¹ See Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024, ESMA74-2119945925-1969.

²² In mainland China, several settlement periods coexist following the segmentation of the Chinese equity market and the status of the counterparties to bond trade. For so-called A shares, mainland China currently

signalled its intention to shorten the settlement cycle in the US to T+1 in 2021, following the turbulence in the domestic capital markets caused by the “Gamestop incident”²⁴, that the topic gained greater prominence. During that incident, risks related to settlement²⁵ substantially increased due to the high volatility of the US securities’ prices (notably for the share of a US company called Gamestop). Since one way to contribute to mitigating those risks is to reduce the settlement period, the US moved operationally to a shorter standard settlement cycle²⁶ on 28 May 2024 (see below for more details). Mexico²⁷ and Canada²⁸, due to close links and exposure to the US capital market, moved the day before. In addition, Argentina²⁹ (stocks and bonds), Jamaica³⁰ and Peru (dual-listed securities) decided to align with the North American move as well³¹.

The SEC rules³² shortening the standard settlement cycle for the majority of broker-dealer transactions from T+2 to T+1 in the US were adopted on 5 May 2023 with a compliance date on 28 May 2024. Given the strong political will and overall support from the US industry, the SEC did not carry out a thorough cost-benefit analysis before adopting the rules shortening the settlement cycle.

In terms of their material scope, the SEC rules exclude certain securities based swaps³³ and transactions in government securities³⁴, municipal securities, commercial paper, banker’s acceptances or commercial bills³⁵ (these transactions were also not in the scope of the US

settles securities on trade date (T0) and cash on the following business day (T+1). B shares equity markets follow a longer settlement cycle where trades must settle within 3 days after trade date (T+3). See <https://english.sse.com.cn/access/stockconnect/settlement/> for more details. China moved to T+1 end-2022.

²³ In India, the transition from T+2 to T+1 was staggered. It started in the beginning of 2022 and was finally completed in January 2023. See ESMA report p.81.

²⁴ See report by the SEC on Equity and Options Market Structure Conditions in Early 2021. <https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf>

²⁵ See footnote 5.

²⁶ The US Securities Exchange Commission adopted a rule to shorten the standard settlement cycle for most of the broker-dealer transactions from T+2 to T+1 with a compliance date on 28 May 2024. See more details in **The US move to T+1**. <https://www.sec.gov/files/rules/final/2023/34-96930.pdf>

²⁷ The National Banking and Securities Commission and Banxico (Central Bank of Mexico) approved the change of the settlement cycle for equity securities from two business days to one business day, effective from 27 May 2024. <https://www.clearstream.com/resource/blob/3924654/8cb30d80849c599f29165a3bf43441d8/a24028-approval-data.pdf>

²⁸ The Canadian Securities Administrator adopted rule amendments supporting the move to a shorter settlement cycle for equity and long-term debt market trades which came into force on 27 May 2024. <https://www.securities-administrators.ca/news/canadian-securities-regulators-announce-move-to-t1-settlement-cycle/>

²⁹ Bolsas y Mercados Argentinos announced on 13 May 2024 the shortening of its standard settlement cycle effective as of 27 May 2024.

³⁰ The Jamaica Stock Exchange announced changes to settlement cycle and trading hours on 20 May 2024, effective from 27 May 2024. <https://www.jamstockex.com/the-jamaica-stock-exchange-announces-changes-to-settlement-cycle-and-trading-hours/>

³¹ The settlement period for securities listed both in Peru and in North America moved to T+1 on 28 May 2024. Peru is expected to shift its settlement cycle for all equities in Q2 2025.

³² See 17 CFR Parts 232, 240, and 275 [SEC Final rule](#) on Shortening the securities transaction settlement cycle.

³³ Idem, p. 181.

³⁴ Nb. transactions in government securities were already being settled on T+1 before the May 2024 move.

³⁵ Idem, p. 10.

T+2 rule), as well as certain transactions in which both counterparties expressly agreed³⁶ to settle later than on T+1, from the T+1 requirement. Conversely, securities financing transactions (SFTs) are not excluded from the scope of the US move. In addition to the rule on the standard settlement cycle in secondary markets, the SEC also shortened the cycle for firm commitment offering priced from T+4 to T+2³⁷. This settlement cycle relates to the settlement of securities sold by an issuer to an initial purchaser. Such transactions are identified as primary market transactions. The move was accompanied with measures³⁸ to facilitate the timely settlement of those transactions.

The analysis of the US move to T+1 shows that one of the clear benefits of T+1 settlement is a reduction in the time during which positions securities transactions cleared by a CCP remain open and a consequent reduction in the margins provided to the CCP³⁹ to cover the risk related to those open transactions.

2.2.2. Europe (excluding EU)

Following the US announcement, the UK established an Accelerated Settlement Taskforce to prepare a migration to T+1 settlement for the UK capital market⁴⁰ (see below for more details). This Taskforce published a report with its initial findings⁴¹ at the end of March 2024. Notably, the document does not provide any cost-benefit assessment of a move, but rather states that the question to be answered is how the UK should move to T+1 and not whether it should do so⁴². The report proposed a two-stage approach: (1) introduction of operational changes to the settlement processes by end 2025; and (2) implementation and testing of the changes to settlement rules by end 2027. According to the report, the timing for the second stage is subject to the possible cooperation with the EU and Switzerland, although alignment with the EU is not considered as a prerequisite for the UK transition to T+1⁴³.

The rules pertaining to the settlement cycle in the UK are currently the same as in the EU and set out in the UK CSDR⁴⁴ Article 5(2). In view of a move to T+1 in the UK by the end of 2027, the Accelerated Settlement Taskforce drafted a list of recommendations⁴⁵ for a smooth transition. These recommendations include: maintaining the scope of Article 5(2) while moving to T+1, a safe-harbour mechanism for Eurobonds and for exchange-traded products with an underlying securities mainly traded in the EU, and a set of market practices for post-

³⁶ Ibid. The “override provision” allowing an extension of the settlement period can only be used in “unusual” or “limited” circumstances. See also SEC FAQ regarding the transition to a T+1 Standard Settlement Cycle. SEC.gov | Shortening the Securities Transaction Settlement Cycle.

³⁷ Idem, p. 50. The misalignment of primary settlement cycles in interconnected markets does not have any significant consequences reported by market participants to this date. In this respect, the shortening of the settlement of primary market operations in the US does not entail misalignment issues that EU market participants would need to address.

³⁸ Idem, p. 60. Counterparties of a trade are required to submit allocation, confirmation and affirmation of the details of the trade that should be settled in T+1 by 21.00 at the latest on the date of the trade; and providers of central matching services (dealing with pre-settlement processes described in Section 2.1) are required to establish, implement, maintain and enforce policies and procedures that facilitate STP.

³⁹ See Section 3.3, for more details.

⁴⁰ See [announcement](#) by the UK Treasury and more details in **the UK move to T+1**.

⁴¹ The [Accelerated Settlement Taskforce Report](#) was published in March 2024.

⁴² See Letter to Chancellor of the Exchequer from Charlie Geffen, Head of the UK Accelerated Settlement Taskforce, in “Accelerated Settlement Taskforce Report”, March 2024.

⁴³ See Accelerated Settlement Taskforce, Technical Group draft recommendations [report & consultation](#)

⁴⁴ See Regulations originating from the EU, Regulation (EU) No 909/2014 of the European Parliament and of the Council. <https://www.legislation.gov.uk/eur/2014/909/contents>

⁴⁵ See Accelerated Settlement Taskforce, Technical Group draft recommendations [report & consultation](#).

trade, such as exempting SFTs from the voluntarily move to T+1 for OTC transactions or harmonising the debt instruments issuance processes.

In Switzerland, the Swiss financial industry has underlined a need to move to shorter settlement “for competitiveness reasons” as well as to coordinate a move with the EU and UK⁴⁶.

2.2.3. *Asia-Pacific*

In Australia, a T+1 Working Group was established by the Australian Securities Exchange Business Committee⁴⁷ at the end of 2023 to assess a potential transition. According to some reports, the Monetary Authority of Singapore and the New Zealand Stock Exchange are also exploring avenues⁴⁸ for possible transition to T+1. The Japan Financial Services Agency (JFSA) included in their strategic priorities⁴⁹ a monitoring of the evolution of settlement cycles in global capital markets and coordination with market participants regarding a potential shortening of the settlement cycle in Japanese capital markets.

Some jurisdictions are not stopping at T+1; in India, although the move to T+1 was completed in January 2023, the Securities Exchange Board of India (SEBI) has already initiated an optional transition⁵⁰ to T+0 in March 2024 for a limited number of equities and brokers.

2.2.4. *Conclusion*

To summarise, there is a clear momentum towards a T+1 settlement cycle and therefore a rising pressure to avoid misalignments. As of October 2024, capital markets that represent 60% of the global market capitalisation are currently settled in T+1⁵¹. Once the UK and the Asian Pacific jurisdictions that have announced their future transition will have officially shifted, this proportion will increase to 75%⁵² (see Annex 2). If it were to remain on T+2, the EU would therefore be misaligned with its largest counterparties in the US, Europe and Asia⁵³. Such a misalignment will imply additional costs for EU market participants due to the operational inefficiencies from handling different settlement cycles. As such, this could have a negative impact on the competitiveness of the SIU.

2.3. **Economic context**

2.3.1. *The EU market for settlement is fragmented*

Historically, CSDs were established along national lines. **Today, this fragmentation remains with 26 CSDs, of which 2 are international CSDs (ICSDs), currently authorised in the EU under Article 16 of the CSDR.** Nevertheless, the EU market structure is slowly

⁴⁶ See UBS representative Elisa Menardo speech at the conference *Accelerated settlement across Europe, an EU UK and Swiss perspective* on 10 June 2024.

⁴⁷ See ASX announcement, <https://www.asx.com.au/markets/clearing-and-settlement-services/t1-settlement-cycle>

⁴⁸ See BNP Paribas Securities, Global T+1 outlook 23 September 2024

⁴⁹ See JFSA 2024 Financial public policy report, title translated, document only available in Japanese. https://fsa.go.jp/news/r6/20240830/20240830_main.pdf

⁵⁰ See Securities and Exchange Board of India announcement to introduce T+0 optional settlement. https://www.sebi.gov.in/legal/circulars/mar-2024/introduction-of-beta-version-of-t-0-rolling-settlement-cycle-on-optional-basis-in-addition-to-the-existing-t-1-settlement-cycle-in-equity-cash-markets_82455.html

⁵¹ Statistics obtained by combining data from ECMI 2023 Statistical Package, EFAMA fact book 2024 and the list of jurisdictions that have officially announced moving to T+1 settlement.

⁵² Ibid.

⁵³ Ibid.

evolving; at the end of 2010 there were over 30 CSDs in the EU.⁵⁴ In contrast, other international markets have usually one, or at most two, CSDs; for example, the US has two CSDs⁵⁵.

In 2014, when the CSDR was adopted, for EUR 43.5 trillion worth of securities held on their accounts, EU CSDs handled over 330 million delivery instructions for a total value of over EUR 850 trillion. In 2023, EU CSDs, including those owned by central banks, handled, for securities worth EUR 65.5 trillion held on their accounts, more than 526 million delivery instructions with a total value of over EUR 1552 trillion.⁵⁶ This means a growth of 50% in value of securities held, 59% in number of delivery instructions and 83% in total value of instructions settled in the period between 2014 and 2023.

Despite the large number of CSDs operating in the EU, in 2023, the majority of delivery instructions (by value) were settled in the two ICSDs, namely Euroclear Bank (BE) (48%) and Clearstream Banking SA (LU) (19%), while the three largest *domestic* CSDs in terms of delivery instructions settled (by value) were Euroclear France (10%), Clearstream Banking AG (DE) (8%) and Monte Titoli (IT) (6%) (see Table 1 below for a breakdown by Member State).

Table 1: Value of delivery instructions (EUR, billion)

Belgium	765 572
Luxembourg	292 324
France	158 204
Germany	127 764
Italy	88 630
Spain	37 517
Denmark	20 847
Poland	20 322
Sweden	12 459
Czechia	8 970
Netherlands	7 561
Greece	7 467
Finland	1 358
Hungary	1 335
Austria	1 159
Portugal	528
Romania	189
Slovakia	53.6
Bulgaria	41.7
Slovenia	25.6
Lithuania	11.3

⁵⁴ Commission Staff Working Document, “Impact Assessment accompanying the proposal for a regulation on improving securities settlement in the European Union and on Central Securities Depositories (CSDs)”, SWD (2012) 22 final.

⁵⁵ In the US corporate bonds and equities are cleared through the Depository Trust and Clearing Corporation (DTCC) while government securities and related entities are processed through the Federal Reserve System.

⁵⁶ Data generated through the Securities Trading, Clearing and Settlement Statistics Database, European Central Bank, <https://sdw.ecb.europa.eu/browse.do?node=9691131>.

Estonia	6.4
Latvia	5.9
Malta	1.6
Cyprus	0.6
Ireland*	N/A
Croatia	N/A
Total	1 552 352

Source: ECB Statistics Database

Notes: *Irish securities are settled in Euroclear Bank in Belgium. Separate numbers for the value of deliveries for Irish-related securities settled within Euroclear Bank are not available.

2.3.2. Settlement cycle in the EU

CSDR requires that transactions in transferable securities that are executed on a trading venue should settle no later than the second business day following the execution of the transaction (T+2).

However, CSDs are already capable of settling transactions in T+1 or even T+0 and many transactions already do settle on a shorter settlement cycle than T+2. Based on information collected by ESMA⁵⁷ from both TARGET2-Securities (T2S) and CSDs not participating in T2S,⁵⁸ the settlement of transactions on T+1 and even on T+0 is a predominant practice in some asset classes such as sovereign debt, in terms of both number and value of transactions. For shares and exchange-traded funds (ETFs), transactions on T2S settle mostly on T+2, both in terms of volumes and values (see Annex 5, Table 1), while in CSDs not participating in T2S, the majority of the volume of transactions settle on T+2 (or beyond), while in terms of value, the majority of the transactions on shares settle on T+1 or less and the majority of ETF transactions settle on T+2 or beyond (See Annex 5, Table 3). For UCITS, information for both T2S and non-T2S CSDs shows that most of the volume of transactions settle on T+2 or beyond, while the majority of the value settles on T+1 or less. Finally, as regards SFTs, for those settled on T2S, while in terms of volume the majority of matched settlement instructions settle on T+1 or less, in terms of values the picture is more diverse, with more than 75% of repo transactions settling in T+1 or less, a bit more than 60% of securities lending transactions settling in T+1 or less, and around 35% of securities borrowing transactions settling in T+1 or less (See Annex 5, Table 2). For those settled in non-T2S CSDs, repo transactions settle mostly on T+0, while securities borrowing and securities lending transactions settle mostly in T+1 (See Annex 5, Table 4).

2.3.3. EU capital markets are part of the global financial system

EU capital markets are large and growing. However, they are still relatively under-developed when compared with the US. At the end of 2022, the total market capitalisation of EU domiciled issuers amounted to approximately EUR 17 trillion, which only accounts for

⁵⁷ For a more detailed breakdown please see Annex III of [Report on ESMA assessment of the shortening of the settlement cycle in the European Union](#), p.98-102.

⁵⁸ T2S is a pan-European settlement platform operated by the Eurosystem and coordinated by the European Central Bank (ECB) where the exchange of a security and cash can happen simultaneously, i.e. where delivery versus payment is possible. The vast majority of European CSDs are connected to T2S. See Glossary.

11.4% of the global market capitalisation⁵⁹ while the EU gross domestic product (GDP) represents 17.5% of the world GDP at constant prices). In comparison, US capital markets amounted to 45% of global market capitalisation, while the US GDP represents 15.5% of the world GDP at constant prices. Measured at constant prices, the market-capitalisation-to-GDP ratio of the US (2.90) is more than 4 times higher than that of the EU (0.65). Moreover, the market for issuance of equity in the EU is three times smaller⁶⁰ than in the US. Finally, the size of the EU market for Undertaking for Collective Investment in Transferable Securities (UCITS) that are ETFs, which amounts to EUR 1.8 trillion, is also approximately five times smaller than the US one (EUR 9 trillion)⁶¹.

There is a relatively high degree of interconnectedness between the EU and the global financial system. More than 50% of European UCITS portfolios in equity are invested in the US, in the UK or in Switzerland.⁶² In the case of UCITS investing only in bonds, the situation is similar, with the US accounting for 28% of the asset allocation and the UK for 10%.⁶³ The level of interconnectedness of EU capital markets with the UK can also be illustrated by the share of repurchase agreements ('repos') and of securities lending and borrowing transactions operated between both jurisdictions: 12% of repo-based borrowing comes from the UK and 9% of EU repo-based lending is to the UK⁶⁴.

Given the role of the EU financial system in the global context, as well as the relatively high degree of interconnectedness between the EU financial system with jurisdictions that have moved to T+1 or are planning to move to T+1, the misalignments between the EU and those jurisdictions are only going to increase in the absence of EU action.

2.4. Legal and policy developments

The regulation of the settlement cycle has long been a subject for debate in the EU. The 2001 Giovannini Report identified the misalignment of settlement cycles as a key barrier to the functioning of the settlement of capital markets, increasing the costs of cross-border activity.⁶⁵ The 2003 Giovannini Report subsequently underlined that a harmonised settlement cycle was needed in the EU, noting that divergences existed even within the EU. That report also emphasised the importance of global alignment of settlement cycles, "*the global environment should also be taken into account and, in particular, the decision in the US not to pursue T+1 settlement and to remain at T+3*".⁶⁶

The topic of settlement cycles was first addressed at EU level in a legislative proposal aimed at regulating the activities of CSDs; the proposal was published on 7 March 2012.⁶⁷ The resulting CSDR, which entered into force on 23 July 2014, introduced a harmonised

⁵⁹ See SIFMA Research quarterly 2023: Equity and Related, <https://www.sifma.org/resources/research/research-quarterly-equity-and-related/>.

⁶⁰ See ECMI 2023 Statistical Package.

⁶¹ See ETFIGI [report](#) on UCITS ETF.

⁶² See EFAMA fact book 2024.

⁶³ Ibid.

⁶⁴ See ESMA first [overview](#) of EU securities financing transactions markets

⁶⁵ Giovannini Report, 2001. [The Giovannini Group. Cross-border clearing and settlement arrangements in the European Union. \(europa.eu\)](#).

⁶⁶ [Giovannini Group. Second report on EU clearing and settlement arrangements \(europa.eu\)](#)

⁶⁷ Proposal for a Regulation of The European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDs) and amending Directive 98/26/EC/* COM/2012/073 final - 2012/0029 (COD) */

settlement cycle for transactions in transferable securities which are executed on trading venues. According to the impact assessment accompanying the proposal⁶⁸, differences in settlement cycles create problems, in particular in terms of safety and efficiency, notably higher operational risks for market participants, increased back-office costs, higher settlement fails rate, increased funding costs, more complex processing of corporate actions, and higher market and counterparty risks. Moreover, the more connected the markets, the greater the consequences of these differences.

During the negotiations on a 2022 proposal amending the CSDR (CSDR Refit)⁶⁹, these questions resurfaced due to various jurisdictions globally that moved, were in the process of moving, or were considering to move, to settlement in T+1. As a result, EU co-legislators mandated ESMA, in close cooperation with the members of the ESCB, to submit a report assessing the appropriateness of shortening the settlement cycle in the EU and the related costs and benefits and providing a detailed roadmap on how to move to a shorter settlement cycle in the EU. In this report⁷⁰, ESMA recommends the EU to move to a T+1 settlement cycle by 11 October 2027. The report also recommends that the move to T+1 be implemented through an amendment to the CSDR that would shorten the settlement cycle as currently set out in Article 5(2) of that Regulation to no later than one business day after the trade takes place.

3. PROBLEMS CAUSED BY THE MISALIGNMENT OF SETTLEMENT CYCLES

3.1. Increasing misalignment of the EU settlement cycle with global capital markets

In addition to the existing time-zone difference, the transition to T+1 in North American and in some Asian capital markets has introduced further misalignment in the settlement cycles between the EU and those capital markets. As described below, this misalignment increases the complexity of transactions with those markets and hence creates additional costs for EU stakeholders, in particular for issuers, investors, trading venues and CSDs.

Regarding investors, in particular funds, as explained in the feedback statement to ESMA's call for evidence⁷¹, the main cost arising from the misalignment of settlement cycles lies in the need to cover the liquidity mismatch between the day of the purchase/sale of securities in jurisdictions that settle on T+1 and the settlement of the investment funds' shares in the EU, which still settle in a T+2 environment. Figure 3 below illustrates the issue, showing that subscription payments to the fund from investors will be received by the fund at least one day after the fund has purchased the securities on US markets (i.e. in T+3). There will therefore be a period of at least one day where the fund will have provided the required cash for the purchase of the US securities without having received the payments for subscription. This gap of one day creates a liquidity mismatch. Funds need to secure cash to cover this gap.

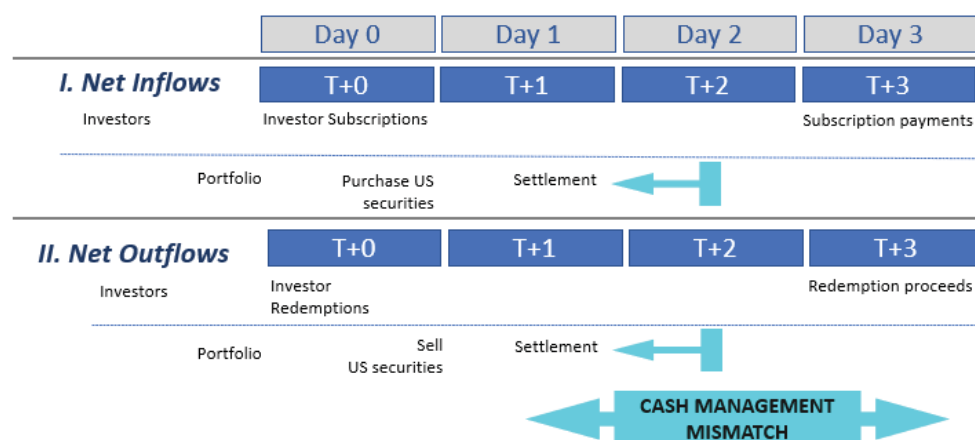
⁶⁸ [Impact Assessment](#) accompanying the document Proposal for a Regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on Central Securities Depositories (CSDs) and amending Directive 98/26/EC

⁶⁹ Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking type ancillary services and requirements for third-country central securities depositories, COM(2022) 120 final, 16 March 2022.

⁷⁰ See [Report on ESMA assessment of the shortening of the settlement cycle in the European Union](#) p. 6-7

⁷¹ See [ESMA74-2119945925-1959 Feedback statement of the Call for evidence on shortening the settlement cycle \(europa.eu\)](#) Several respondents indicate that the misalignment will increase the risk of settlement fails and of costs, p.31

Figure 3: Traditional investment fund: Liquidity Mismatch due to the misalignment in settlement cycles



Source: Association of the Luxembourg Fund Industry

In addition, specifically in the case of managers of exchange traded funds (ETFs), there is some preliminary evidence in ESMA's report that, because of the abovementioned liquidity mismatch, investing in US securities has become more expensive on Thursdays. Indeed, lower ETFs' trading volumes on Thursdays have been observed by market participants, with a reduction in primary market trading on those days. The "Thursday effect" shows that the costs of covering the funding gap on Thursdays has become so prohibitive⁷² for some ETFs manufacturers that there have been significant changes in trading patterns. If this phenomenon were to be confirmed over a longer period, this sort of impact on ETF trading could only be to the detriment of the EU asset management industry and its competitiveness, as well as ultimately to the detriment of end-investors, since the competition from T+1 capital markets would not be affected by the cash management mismatch.

A monitoring by ESMA of the developments in EU ETFs' markets during and after the transition to T+1 in the US shows that the liquidity⁷³ of EU ETFs invested in US equities has declined following the T+1 move. Moreover, funds investing in US securities showed on average a higher premium in June 2024 and in Q3 2024 while premiums of ETFs investing in EU securities also increased but in a smaller proportion. This illustrates a decreased performance⁷⁴ of EU ETFs compared to US equivalents (See Annex 3).

Regarding issuers, trading venues, and CSDs, the shift to T+1 in the US and subsequent misalignment in settlement cycles has also resulted in the application of different key dates for corporate events of securities listed and traded simultaneously in the US and in the EU (so-called dual-listed securities). See Section 3.2 below for more information on this misalignment. This misalignment has created additional costs for EU stakeholders in the chain of trade, including for issuers of those dual-listed shares, trading venues where those shares can be traded and for CSDs regarding the settlement of such securities.

⁷² The funding gap is specifically bigger on Thursdays as it would not be recovered from before Monday when the subscription or redemption proceeds would settle.

⁷³ ESMA's analysis is focused on premium to Net Asset Value to monitor whether the move to T+1 had negative impacts on the arbitrage activity for ETFs and their liquidity.

⁷⁴ See Report ESMA assessment of the shortening of the settlement cycle in the European Union, 18 November 2024, p.42

These negative impacts from the US move are likely to become even more acute if the UK and Switzerland were to move to T+1 before the EU as the higher the integration and volume of business between other jurisdictions, the greater the potential impacts on the EU. Should the UK and Switzerland follow the US, as is planned, this would mean that fund managers would have to manage different settlement cycles between the ETF units/shares and the ETFs' underlying securities as well as the funding gap that results from the misalignment for more than a half of their investments in equities⁷⁵. Similarly, the challenges faced by the issuers of multi-listed shares would increase given the fact that the problems (see Section 3.2) currently faced for securities listed both in the US and in the EU would also materialise for securities listed in the UK or in Switzerland and in the EU.

The impacts described above which are stemming from the further misalignment between settlement cycles in the US, in Canada, and with the UK should the EU maintain its current settlement cycle has two main consequences: (i) it would contribute to a further fragmentation of EU capital markets and (ii) pose risks to the attractiveness and competitiveness of those markets.

3.2. Further fragmentation of EU capital markets

Regarding CSDs and issuers, the shift to T+1 in the US has resulted in the application of different key dates for corporate events of securities listed or traded simultaneously in the US and in the EU. In this respect, the North American move to T+1 has created a misalignment of the ex-dates⁷⁶ and record dates⁷⁷ of corporate events of securities listed or traded in both jurisdictions. This misalignment currently creates additional operational costs for EU stakeholders in the chain of trade and settlement of those dual-listed securities, including the exercise of shareholders' rights. The misalignment is thus problematic for retail investors, including the lack of clarity regarding the payment of dividends.

According to the European Central Securities Depositories Association (ECSDA), different scenarios⁷⁸ could be envisaged to manage the situation:

- a) the timeline for the corporate events follows the announcement by the issuer in North American markets (i.e. ex-date and record date are the same),
- b) the timeline for the corporate events follows those of European market standards (i.e. ex-date occurs one day before the record date), or
- c) the settlement of multi-listed securities with the main place of trading in North American markets is operated in T+1 even if those securities are traded on a European venue and settled in an EU CSD.

Each solution presents different benefits and shortcomings. Option a) would minimise the period of time where there is a difference in the share price in the Stock Exchange listings across the Atlantic Ocean and avoid an adjustment of the European listing one day prior to the share price adjustment in the North American markets because of the corporate event announcement. This would mean that EU CSDs would need to raise a certain number of

⁷⁵ More than 50% of European UCITS portfolios in equity are invested in the US, in the UK or in Switzerland, see EFAMA Fact Book 2024.

⁷⁶ Ex-date or ex-dividend date is the date after which a market participant that buys a share will not receive the payment of the next dividend. In a T+2 environment, the ex-dividend date is one day before the record date.

⁷⁷ The record date is the date when the company that issued a share establishes the list of its shareholders that will receive the payment of the next dividend.

⁷⁸ See ECSDA-AFME-FESE joint paper on Corporate Actions (https://ecsda.eu/wp-content/uploads/2024/09/2024_09_03_Associations_note_T1-European_Impact_on_Corporate-Actions.pdf).

market claims. For EU issuers, the number of true ‘shareholders’ holding the security at the time of the record date would decrease, which reduces transparency. Option b) would introduce a difference in the share price following the stock exchange listing but would avoid market claims⁷⁹. This is also preferable for issuers who will have a more accurate overview of the shareholders at the time of the record date. This solution is also consistent with the current European Standards for processing Corporate Actions⁸⁰. The last option, settling those dual-listed securities in T+1 was discarded by market participants because it was not deemed sustainable to maintain different settlement cycles for securities depending on whether the securities were multi-listed or not.

To this date, no common approach has been agreed by EU stakeholders. According to anecdotal evidence provided to Commission services, different trading venues and CSDs have taken different approaches ranging from stopping trading in dual-listed securities on an EU trading venue to enabling T+1 settlement for those securities impacted. Given the fact that there are 26 CSDs authorised in the EU⁸¹, more than 300 trading venues⁸² and about 200 dual-listed securities (EU-US)⁸³, the lack of harmonisation in the way to proceed regarding corporate events for those securities contributes to a multitude of frictional situations, a decreased transparency for relevant EU issuers and end-investors, and a further fragmentation of the EU trade and post-trade landscapes. This increase in fragmentation is contrary to the objectives of the SIU of building deep and attractive capital markets.

3.3. Risks to the attractiveness and competitiveness of EU capital markets

As mentioned in Section 3.1, there is preliminary evidence that the misalignment between the EU and US settlement cycles has increased the cost for EU fund managers, in particular ETFs, investing in US securities. If this impact is confirmed over a longer period of time, EU fund managers would see their competitiveness against US fund managers put in jeopardy. The problem would be exacerbated further if a similar misalignment would arise with the UK and Switzerland⁸⁴.

At the end of 2014, the move from T+3 to T+2 in the EU was undertaken alongside the establishment of TARGET2-Securities, which operates under a T+2 settlement cycle. At that time, the EU led the way in accelerating settlement. The US followed adopting T+2 two years later. The T+2 cycle became the standard for the major capital markets. The situation today is different; as described above there is a clear momentum globally towards a shorter settlement cycle, with the EU currently still on T+2.

The move to T+1 has delivered more efficiency, more robustness and substantial margin savings to the US capital market. The move did not result in reduced settlement efficiency in spite of the shorter timelines involved to complete the various post-trade processes: fail rates following the migration decreased by 11 basis points compared to the same period average during the previous year⁸⁵. As the period of time during which counterparty and market risks

⁷⁹ Market claim is the process of reallocating the proceeds of a distribution to the contractually entitled party.

⁸⁰ See [Market Standards for Corporate Actions processing](#).

⁸¹ See [ESMA CSD register](#).

⁸² See ESMA Market report on EU securities Market 2023.

⁸³ Ibid.

⁸⁴ If a T+2 cycle is maintained in the EU while the UK moves to T+1 settlement.

⁸⁵ See DTCC daily reporting metrics on settlement efficiency. <https://www.dtcc.com/-/media/Files/PDFs/T2/SIFMA-UST1-Daily-Reporting-Metrics-Template-GC.pdf>. Please note that fail rates in the US are measured differently compared to the EU.

borne by the clearing members is reduced by half, the clearing fund⁸⁶ of the US CCP clearing equity transactions (the National Securities Clearing Corporation or NSCC) decreased by US\$ 3 7000 million (29%) compared to the average value of the previous quarter, i.e. from US\$ 12 800 million to US\$ 9 100 million.⁸⁷ This margin reduction is the most illustrative example of the risk reduction borne by the counterparts of a trade in securities when the settlement cycle is reduced.

The performance of equity indices in the US has been higher than their equivalent in the EU over recent years, the number of companies in the EU that require an additional listing in the US is constantly growing, and the EU share of Global fixed income market is also decreasing. These different indicators show that EU capital markets face challenges to catch-up with other capital markets internationally. Remaining on T+2, when 75% of the world capitalisation will be settled in T+1 will only contribute to a further decline of EU capital markets attractiveness and competitiveness.

A shift to T+1 is only possible with an improvement in post-trade processes, including a substantial increase in the use of STP and of automation in general. The longer the EU maintains a T+2 settlement cycle while global capital markets move to T+1, the higher the likelihood that once the EU also moves to T+1, the EU market participants would then be forced to use solutions and services offered by existing third-country providers instead of solutions tailored to the EU market structure.

Lastly, not moving to T+1 would raise legitimate concerns about the overall attractiveness of the EU trading environment, compared to the level of service offered by other jurisdictions. The efficiency of settlement– especially if it includes new costs to bridge settlement cycle gaps between the EU and other jurisdictions – is a key feature that influences where market participants intend to trade and, since issuers seek the deepest possible pools of liquidity for their securities, that in turn influences where issuers are choosing where to issue⁸⁸. There is therefore a direct link between the move to T+1 and the EU's ability to remain competitive and maintain its attractiveness for investors and issuers alike.

4. CONSULTATION AND STAKEHOLDERS

In preparing this Staff Working Document, the Commission gathered information from various sources:

- **ESMA:** as part of the preparation of the report mandated under Article 74(3) of the CSDR, ESMA gathered the views of EU stakeholders through various means:
 - a 3-month call for evidence launched on 5 October 2023 to which 81 responses were received; the feedback received was summarised and published on 21 March 2024⁸⁹;

⁸⁶ NSCC clearing fund manages the initial and variable margins deposit by members. See <https://dtcclearing.com/products-and-services/equities-clearing/nscc-risk-management.html#Clearing-Fund-Management---NSCC>

⁸⁷ See DTCC statement on the T+1 status two days after the US move. <https://www.dtcc.com/news/2024/may/30/dtcc-comments-on-industrys-t1-progress>.

⁸⁸ Several European companies were reflecting on listing their securities in US markets, such for instance Total Energies (France), Linde (Germany) or CRH (Ireland). The trend can also be observed in the UK. See [ECB paper](#) *Examining the causes and consequences of the recent listing gap between the United States and Europe*.

⁸⁹ [ESMA74-2119945925-1959 Feedback statement of the Call for evidence on shortening the settlement cycle \(europa.eu\)](#)

- a workshop⁹⁰ organised on 4 December 2023;
 - a public hearing⁹¹ organised on 10 July 2024;
 - discussions with its consultative groups and industry representatives.
- **Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo):** during its latest plenary meeting on 26 June 2024, the AMI-SeCo, which advises the Eurosystem on issues related to financial market infrastructures, underlined that there is a need for a process to i) develop an implementation timetable for an EU move to T+1, ii) monitor market preparedness and iii) identify areas where solutions must be developed. A majority of AMI-SeCo participants expressed the view that the EU should not wait for a formal cost-benefit analysis and urged EU decision makers to signal as soon as possible intention to move as well as target date for the transition. In addition, the AMI-SECO called for setting up as soon as possible a body to coordinate the move⁹².
 - **European T+1 Task Force:** the task force, which includes a wide representation of members from the buy-side⁹³, sell-side⁹⁴ and market infrastructures⁹⁵, was established in July 2023 by market participants to seek an industry wide agreement and present their views on the impacts of the US transition to T+1 on EU stakeholders and on a potential move to T+1 in the EU. It was set up following an AFME report on the potential benefits and challenges of moving to T+1 in Europe⁹⁶. The report concluded that many of the benefits and challenges of a US migration to T+1 would also be applicable to European markets. However, given the nature of European markets which, in comparison to the US, have a multitude of currencies, market infrastructures, and actors to coordinate, the implementation would be more complex than in the US. The task force published a second report in October 2024⁹⁷, reiterating its support for a move to T+1 in the EU, and recognising the potential benefits in terms of efficiency improvements and risk reduction. They considered that a move to T+1 would be a complex, multi-year undertaking, which requires 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. In terms of scope, the task force supported aligning to the scope of the CSDR, albeit

⁹⁰ See ESMA's Report

⁹¹ <https://www.esma.europa.eu/press-news/hearings/public-hearing-shortening-settlement-cycle>.

⁹² See minutes of the 25 June 2024 meeting of the Advisory Group on Market Infrastructures for Securities and Collateral (Ami-SeCo), item 4 - Potential shortening of the standard securities settlement cycle (T+1). Link: <https://www.ecb.europa.eu/paym/groups/shared/docs/dbdad-2024-06-25-ami-seco-meeting-outcome-final.pdf>

⁹³ The buy-side consists of the market participants that will be buyers of securities. These include insurance firms, mutual funds, hedge funds, and pension funds, that buy securities for their own accounts or for investors with the goal of generating a return.

⁹⁴ The sell-side refers to the part of the financial markets that will be seller of securities. The sell-side is indeed involved in the creation, promotion, and sale of stocks, bonds, foreign exchange, and other financial instruments. The sell-side consists in investment banks or in market-makers that provide liquidity.

⁹⁵ See Terms of reference of the EU T+1 Industry taskforce, <https://www.afme.eu/key-issues/t-1>.

⁹⁶ See AFME report: T+1 (September 2022): https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_Tplus1Settlement_2022_04.pdf.

⁹⁷ HIGH-LEVEL ROADMAP FOR ADOPTION OF T+1 IN EU SECURITIES MARKETS EUROPEAN T+1 INDUSTRY TASK FORCE OCTOBER 2024 (<https://www.afme.eu/publications/reports/details/high-level-roadmap-for-adoption-of-t1-in-eu-securities-markets>).

excluding securities financing transactions⁹⁸. The task force's members generally consider that, once a concrete transition date is communicated, a transition period of between 24 and 36 months will be required, reflecting the complexity of the market infrastructure landscape in the EU. A range of views were expressed as to whether the second half of 2027, the date identified for the UK transition, also could be a feasible implementation date for the EU. The task force remains highly supportive of a coordinated approach across the entire European region, including the EEA, the United Kingdom and Switzerland.

- **European Commission:** on 25 January 2024, the Commission organised a roundtable⁹⁹ on moving to a shorter settlement cycle in the EU. Although a range of views were expressed during the roundtable, the majority of participants supported a legislative change to move to T+1. They acknowledged that although a move to a shorter settlement cycle can bring benefits, notably in the long term, those benefits were difficult to quantify. They were of the view that short-term benefits would predominantly materialise through a realignment with other jurisdictions, notably the US, and collateral savings, while the main medium- to long-term benefits would be a greater level of automation of the whole settlement chain and the continued competitiveness of EU markets. The participants were almost unanimous about the need for coordination between European jurisdictions; there was also a consensus that a misalignment between EU and US was not manageable in the long term. An unscientific poll held during the roundtable on the dates of a potential move showed that the majority (54%) supported a 2027/2028 move, while 34% supported an earlier move. 12% would favour a later move.

On 5 September 2024, the Commission organised a meeting of Member States' experts to discuss a potential shortening of the settlement cycle in the EU.¹⁰⁰ The vast majority of Member States expressed their support for shortening the settlement cycle to T+1 and considered that a move to T+1 would lead to more efficient and timely settlement and increase the attractiveness of EU capital markets for investors. Some Member States expressed the view that any reflections on a requirement for primary markets transactions should be considered more broadly at a later stage. Furthermore, they considered that the stability of markets would improve, and liquidity would be more efficiently used due to a reduction of settlement related risks and costs. Member States were also of the view that a move should be signalled through an amendment to the CSDR. They supported a simultaneous move for all financial instruments rather than a phased one. Finally, they stressed that for the move to T+1 to be successful, thorough preparation, including the development of a detailed roadmap, would be essential.

5. ESMA REPORT ON SHORTENING THE SETTLEMENT CYCLE IN THE EU

ESMA's report, published on 18 November 2024,¹⁰¹ concludes that shortening the settlement cycle to T+1 would result in a significant reduction of risks in the EU capital markets and free up capital no longer required to cover margin calls. It further concludes that moving to

⁹⁸ See [High-level Roadmap for adoption of T+1 in EU securities markets](#), p. 7. The European industry considers that SFTs should be explicitly exempted from any T+1 requirement because those transactions are not subject to any standard settlement cycle and require full flexibility to ensure a smooth and liquid functioning of the market.

⁹⁹ https://finance.ec.europa.eu/events/roundtable-shortening-settlement-cycle-eu-2024-01-25_en

¹⁰⁰ See [minutes](#) of the meeting.

¹⁰¹ [ESMA proposes to move to T+1 by October 2027](#).

T+1 would also allow EU capital markets to keep up with the evolution of other markets such as the US, putting an end to costs linked to the current misalignment of settlement cycles. The report further points out that a move to T+1 would also contribute to the harmonisation of corporate event standards in the EU and more generally contribute to the competitiveness of EU capital markets. As regards the scope of the move, the report recommends keeping the existing scope of financial instruments subject to Article 5(2) of the CSDR. In this context, the report found no evidence suggesting that the exclusion of SFTs in the scope of T+1 would be necessary or desirable.

At the same time, the report notes that a move to T+1 would represent an important change to the way stakeholders operate and as such it would require system upgrades and changes to market practices for which investments will be needed. The report acknowledges that costs related to these investments would be different for a different range of stakeholders from the trade and post-trade chain.

As evidenced by settlement data (see Annex 5), **market infrastructures** are already settling a large share of transactions at T+1 or faster. To make a wholesale transition to T+1 settlement possible, further improvements and streamlining of processes are likely to be needed, but remain to be agreed as concerning aspects such as the trading and settlement schedules, different functionalities at the CSDs or T2S or collateral management by CCPs .

As far as **intermediaries** are concerned, market players such as broker-dealers, acting on the market, from facing end-investors to executing transactions on market, will have to adjust their operating model and in particular will have to automate the way they communicate with their clients and their intermediaries all along the chain from the moment they receive an order to be executed.

Asset managers will be affected by T+1 in two ways: first in their quality as issuers of ETF shares/funds units and second in their quality as buyer/seller of securities on the market (and lender of securities). To make sure they can operate in a reduced post-trading window, asset managers will have to do necessary investments and adapt the way they operate today. For instance, process and timing relating to the determination of the NAV of funds may have to be optimized. Many of the changes required to operate on T+1 have as a main objective improving settlement efficiency.

Finally, **corporate issuers** and **retail investors** are not expected to face investment costs from the shortening of the settlement cycle.

The report further points out that the majority of the investments that would need to be made to move to T+1 would be required anyway to improve settlement efficiency, which remains a priority for ESMA and for EU capital markets since the adoption of the CSDR. It therefore concludes that the improved efficiency and resilience of post-trade processes that would be prompted by a move to T+1 would facilitate achieving the objective of further promoting settlement efficiency in the EU.

The report notes that the final cost of a transition to a shorter settlement cycle, though difficult to quantify, will depend on the elements of the operationalisation of T+1, which remain to be determined. Nevertheless, ESMA's analysis suggests that the impact of T+1 in terms of risk reduction, margin savings and the reduction of costs linked to the misalignment with other major jurisdictions globally, represent important benefits for EU capital markets.

Against this background, ESMA recommends that the Commission presents a legislative proposal to reduce the maximum settlement cycle from two days to one day for transactions in transferable securities executed on trading venues (except for transactions that

are currently exempted from the requirement under Article 5(2) of the CSDR). ESMA recommends that the date for the move to T+1 be 11 October 2027.

6. CONTENT OF THE SHORTER SETTLEMENT PROPOSAL

Article 5(2) of the CSDR requires that for transactions in transferable securities executed on trading venues¹⁰², the intended settlement date be no later than on the second business day after trading takes place.

In line with the recommendation from ESMA¹⁰³ as well as the feedback received from market participants and Member States, subject to a decision of the College, it could prove warranted to amend Article 5(2) of the CSDR, to require that the intended settlement date for transactions in transferable securities executed on trading venues (except for transactions that are currently exempted from the requirement under Article 5(2) of the CSDR) be no later than on the first business day after the date on which those securities were traded.

At this stage, no other EU level 1 act appears to require a change in line with the ordinary legislative procedure. Nevertheless, a statement was published on 15 October by ESMA, the ECB and the Commission (DG FISMA)¹⁰⁴ underlining that it is necessary to accelerate every aspect of the technical work needed to pave the way to any future move to T+1 in the EU. The three EU authorities also bring forward the desire to reach a consensus among European jurisdictions on the timing of any move to T+1. A governance structure will be established shortly to advance the technical preparation of any future move. It is likely, also taking into account the market recommendations, that changes will be needed in secondary legislation (Delegated Acts and/or RTS/ITs), in addition to market own initiatives, to facilitate the move to T+1.

7. IDENTIFICATION AND ANALYSIS OF IMPACTS

7.1. Identification of impacts and costs

7.1.1. Increased automation potentially leading to reduced operational risks and settlement fails

One off investments into greater automation and standardisation of core back office and post-trade processes¹⁰⁵ will be necessary to facilitate a migration to T+1. The higher level of automation should reduce the likelihood on an ongoing basis that errors occur or, if they still occur, the automation should enable them to be identified, detected and solved more quickly in order to avoid settlement fails. These investments should therefore also contribute to a greater settlement efficiency and productivity while reducing operational risks. Such investments are also an opportunity to apply new technologies and improve the efficiency of post-trade markets more generally, contributing to the digital agenda. At the same time, if sufficient investments into automation of processes are not undertaken by all stakeholders, there is a risk that settlement efficiency and productivity could deteriorate when shifting to

¹⁰² Except transactions which are negotiated privately but executed on a trading venue, transactions which are executed bilaterally but reported to a trading venue and the first transaction where the transferable securities concerned are subject to initial recording in book-entry form pursuant to Article 3(2) of CSDR.

¹⁰³ ESMA report on shortening the settlement cycle, page 6, 64, 66, 69, 89.

¹⁰⁴ [Shortening the standard securities settlement cycle in the European Union: next steps - European Commission \(europa.eu\)](#)

¹⁰⁵ According to a global survey conducted in June 2024 on the impact of north American transition to T+1, 90% of respondents were heavily engaged in internal process automation over the previous year. [Citi Securities Services Evolution 2024.pdf \(citibank.com\)](#)

T+1.¹⁰⁶ These risks, and potential costs, can however be mitigated through thorough preparations and adequate time for testing by all market participants. While, in the short term, it would be possible to cope with shortened settlement processes through increases in the number of staff (there is anecdotal evidence that this happened in the case of the US move), it is unlikely that this approach would be sustainable in the medium to long term.

7.1.2. Risk reduction and lower CCP margin requirements

A shorter settlement cycle reduces counterparty risk and market risk (the risk linked to potential market volatility between the moment a trade is executed and the moment it is settled) and thus reduces the collateral (i.e. margin) requirements for centrally-cleared transactions. According to ESMA estimates, open positions on cleared securities transactions are expected to be reduced by approximately EUR 30 000 million for equity related products and EUR 25 000 million for bonds. This would result in significant initial margin reductions across bond and equity markets on an ongoing basis, freeing up liquidity for clearing participants active on these markets. The estimated reduction amounts to 42% (EUR 2 400 million) of margin requirements with approximately 80% of the benefits linked to equity and the remaining 20% mostly linked to government bonds. Results vary slightly across markets and CCPs but overall show a consistent picture of reductions between 38% and 49%.¹⁰⁷ Moreover, the reduction of settlement related risks would also contribute to the overall systemic financial stability.

7.1.3. Other benefits

The misalignment of settlement cycle creates risks and administrative costs in relation to the management of different key dates for corporate events related to securities listed or traded simultaneously in T+1 and in the EU. Removing that misalignment will remove those costs, which in itself represents a benefit for EU capital markets generally, but specifically for investors and issuers.

In addition, as moving to T+1 settlement is rapidly becoming the global norm, the EU capital markets would look obsolete and inefficient if they continued to operate T+2 (according to ESMA analysis, the liquidity of EU ETFs invested in US equities has declined following the US move to T+1¹⁰⁸). Ignites Europe analysis¹⁰⁹ of Morningstar data published on 14 August 2024 shows that, since the settlement cycle was shortened in the US, average total returns for Europe-domiciled funds investing in US equities have been lower than for US vehicles in the same asset class.

7.1.4. Investment needs

There are technical challenges to overcome prior to an official move to T+1 in the EU. As mentioned above, greater automation and standardisation of core back-office and post-trade

¹⁰⁶ Feedback received by ESMA following the shift to T+1 in North America suggests that many stakeholders have prioritised investing in workforce to cover the immediate needs resulting from the shift to T+1. This feedback equally suggests that this choice is temporary, and that further standardisation of processes and automation should be pursued to deal with faster settlement. According to a survey conducted by Value Exchange, following the move to T+1 in North America staff costs of brokers, custodians and investors increased by 10-13% in Europe ([Accelerated Settlements and T+1 - Welcome to the ValueExchange \(thevx.io\)](https://thevx.io)).

¹⁰⁷ [Report on ESMA assessment of the shortening of the settlement cycle in the European Union](#)

¹⁰⁸ See Annex 3

¹⁰⁹ "European fund performance significantly lags behind US peers after T+1", ETF Hub, Financial Times, 19 August 2024. Link: <https://www.ft.com/content/47b75ff1-a6a6-4f26-ba86-943298236523>

processes by market participants will be needed. Market infrastructures will also need to make certain changes to their systems. These will inevitably require substantial investments. ESMA estimates that the aggregated implementation costs for all custodian banks affected by the move to T+1 could represent between EUR 1600 million and EUR 5300 million¹¹⁰ and the related ongoing costs of up to EUR 265 million but emphasises that this estimation should be considered with caution as a significant part of these costs is required in any case for the implementation of measures to increase settlement efficiency. At the same time, increased automation and productivity should allow for a reduction in staff expenses.

7.1.5. Possible challenges for securities financing transactions

A shorter settlement cycle can affect the securities lending market. Market makers¹¹¹ will need to adjust their operations to meet the shorter settlement timeframe when they borrow securities in order to be able to return them in a timely manner if required. Otherwise, if lenders fear not being able to receive securities back on time to ensure the settlement of transactions, liquidity in securities lending markets could potentially decline, negatively affecting the ability of market makers to provide liquidity to the market.

In the UK, the Accelerated Settlement Taskforce, suggested in the Technical Group draft recommendations report & consultation to keep the current scope of the settlement cycle unchanged while adding specific exemptions for Eurobonds and ETFs with underlying securities settled in the EU¹¹². However, the Taskforce recommended that the market convention (for OTC transactions) should not include any requirement pertaining to T+1 for SFTs because they consider that those transactions do not have a standard settlement cycle¹¹³. SFTs may indeed be either traded OTC or on exchange. The former is therefore out of the scope of the requirement set out in Article 5(2) of the CSDR¹¹⁴ while the latter would be in the scope of a possible transition, but only to the extent that these transactions are conducted on an exchange. Similarly, ESMA's report on shorter settlement concludes that SFTs should not be excluded from the current scope of Article 5(2) of the CSDR.

According to ESMA's assessment of the evolution of securities lending markets in the US, which did not exclude SFTs from the scope of T+1, the overall number and value on loan of US securities remained stable around the move to T+1 and in the months immediately after. No sudden shifts were observed around the implementation date. The value of ETFs on loan, despite showing higher volatility, remained in line with long-term levels.¹¹⁵

7.1.6. Transactions in foreign currencies (FX)

¹¹⁰ In comparison the EU banking industry total operating income in 2023 amounted to EUR 760 000 million. See Statista, [Total operating income of the banking industry in the European Union from 2015 to 2023](#).

¹¹¹ "Market maker" means a person who holds himself out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling financial instruments against that person's proprietary capital at prices defined by that person. See Art. 4(7), Directive 2014/65/EU (MiFID2).

¹¹² See Accelerated Settlement Taskforce, Technical Group draft recommendations [report & consultation](#) p.3

¹¹³ *Idem* p.13

¹¹⁴ As regards the settlement cycle, the current rules applicable in the UK and in the EU are the same and set out in Article 5(2) of the UK CSDR in the UK, and in Article 5(2) of Regulation (EU) 909/2014, CSDR, in the EU.

¹¹⁵ According to a global survey conducted in June 2024 on the impact of north American transition to T+1, 50% of respondents reported that it had a significant impact on their securities lending activities. [Citi Securities Services Evolution 2024.pdf \(citibank.com\)](#) This was confirmed by the SIFMA, ICI and the DTCC "T+1 After Action Report" which concluded that: "The transition to T+1 settlement has significantly impacted securities lending recall timing, necessitating adjustments in operational practices and systems to accommodate the accelerated settlement cycle."

Settlement in T+1 might be challenging for trades settled against a currency different to the one held by the buyer which thus needs to convert his cash first. This might in particular be the case for investors in different time zones and for less liquid currencies. For example, investors based in Asia investing in EU securities settling on T+1 might need to adjust their processes in order to be able to settle in EUR (or any other relevant European currency). As shown by the EU investors investing in the US, different solutions might be available: prefunding, executing FX trades before confirmation of the securities transaction, bilateral FX trading, auto forex and other solutions provided by third parties such as custodians. Following the shift to T+1 in the US, it seems that the evolution in market practices allowed for the mitigation of the negative impacts expected prior to the move.¹¹⁶

7.1.7. Overall impacts

Overall, the expected benefits, such as increased automation and efficiency, risk reduction, lower margin requirement and elimination of misalignment-related costs and frictions, should, over time, largely outweigh mostly one-off costs stemming from necessary investments that a move to T+1 would entail. In particular, over the long term, moving to a shorter settlement cycle should prevent the EU capital market falling further behind its main international competitors. As an increasing share of the global capital markets moves to T+1 settlement the main benefits of more efficient settlement, as evidenced by the US transition, will make themselves felt, i.e. lower collateral requirements, greater liquidity and more efficient settlement. Remaining at T+2 would be to the detriment of competitiveness of the EU capital market. Indeed, there is some evidence that the recent listing gap between the United States and Europe is due, at least in part, to the greater attractiveness of US stock markets for foreign firms¹¹⁷. Higher market depth is given as one of the reasons for this development. If the listings gap between EU and US stock markets were to widen further, particularly for larger firms, this would likely exacerbate existing differences in market depth and liquidity.

7.2. Impact on different stakeholder groups

Corporate issuers would not incur additional costs from the shortening of the settlement cycle. At the same time, they would rather see an increased transparency in the ownership of the dual-listed shares they issue (provided that one of the listings is executed in a T+1 environment) and would also indirectly benefit from the transitions as it would ensure that their securities are still traded in an efficient and attractive environment¹¹⁸.

Retail and other investors should clearly benefit from a shorter settlement cycle. When investing in capital markets they will be able to receive purchased securities or cash for sold securities faster and thus face lower counterparty and market risks. However, if intermediaries decide to pass-on the adaptation costs of moving to T+1 to retail investors, the latter will face increased fees¹¹⁹ for their trading in a T+1 environment. The size of the increase would then depend on the competition between intermediaries offering those

¹¹⁶ See [Report on ESMA assessment of the shortening of the settlement cycle in the European Union](#), p.35 §106.

¹¹⁷ "Examining the causes and consequences of the recent listing gap between the United States and Europe", Financial Integration and Structure in the Euro area 2024, ECB.

¹¹⁸ See Section 3.2

¹¹⁹ There is so far no evidence that fees for US retail investors active in capital markets increased following the US move to T+1.

services. The shorter settlement cycle is not, however, expected to require additional investments or operational expenditure from end-investors ¹²⁰.

Increased alignment with other markets operating in T+1 will imply a significant streamlining of processes for all cross-border market participants. In particular, **fund managers** will not need to cover the financing gaps between investment in securities trading under T+1 and the settlement of their fund shares in T+2 and between selling securities in T+2 and purchasing securities under T+1.¹²¹ These misalignment-related funding costs would substantially increase should the UK and Switzerland move to T+1 sooner than the EU. Conversely, the size of the impacts of a move to T+1 on the Member States' funds industry will depend on the structure of that industry. Member States with funds mainly distributed and settled domestically will face less pressure than those with funds distributed and settled cross-border. This is because the former have a distribution chain that is shorter, with fewer actors involved. It will therefore be more challenging for funds in Member States like Ireland and Luxembourg, which have a high level of cross-border activity (see Table 2 below and Annex 4 for further details), to settle within the intended settlement date or otherwise face cash penalties as set out in the CSDR than for funds established in France or in Germany. On the other hand, these funds should benefit more from the reduction in misalignment costs related to managing securities trading under different settlement cycles, including the liquidity mismatch (see Section 3.2).

Market infrastructures are already capable of settling at T+1 or faster, as evidenced by settlement data (See Annex 5). Nevertheless, preliminary analyses on the impact on **market infrastructures** show that further refinement of trading and settlement schedules, different functionalities which might be required at the CSDs or T2S, collateral management by CCPs and, potentially, real-time settlement in T2S may be necessary to operationalise T+1. This work was first done by the EU Industry Task Force and will be taken over by the EU Industry Committee.

Table 2: Top UCITS and AIFs assets under management by EU Member State domiciliation (in EUR billion):

EU Member State	Assets under Management	Share of cross-border funds
Luxembourg	5,285	87%
Ireland	4083	90%
Germany	2653	8%
France	2277	12%
Netherlands	826	10%
Sweden	585	6%
Italy	373	11%

¹²⁰ For example, retail investors have to pre-fund their trades, i.e. they need to have cash or securities in their accounts at the moment of the trade, so a move to T+1 or even to T+0 would not require any additional efforts on their part.

¹²¹ According to a global survey conducted one month after the North American transition to T+1, asset managers have seen their funding costs worsen, as 46% of them have had to cover significant gaps in settlements between T+2 and T+1 markets and in their funds' subscription and redemption cycles. [Citi Securities Services Evolution 2024.pdf \(citibank.com\)](#)

Source: EFAMA Fact Book 2024 (see Annex for more details)

Commission services reached out to financial intermediaries to collect evidence on the nature and the amount of necessary investments. However, very little quantitative evidence has been provided.¹²² Nevertheless, two large **EU banking groups** estimated the total cost for the operational changes necessary for their transition in the EU of EUR 4 million and EUR 10 million respectively¹²³. This estimation includes the additional human resources necessary for ensuring the smooth operations in T+1. It should, however, be kept in mind that investment needs vary among custodians depending on their business models, the number of CSDs and CCPs they are connected to and whether previous investments have been done to comply with T+1 in other jurisdictions or to improve their settlement processes in general. In addition, Member States, where large custodians are established (e.g. France, Germany, Italy, Netherlands) are expected to benefit most from the required investments into greater automation of core back office and post-trade processes. It will be indeed easier for market participants connected to the same custodians to settle in a shorter time. The final cost will also depend on the elements of the operationalisation of T+1 which remain to be determined.

Broker-dealers that are active on EU markets would also avoid facing potential competitive disadvantages compared to other intermediaries active in T+1 jurisdictions.

8. CONCLUSIONS

There is a clear international momentum towards T+1 settlement. Already today, approximately 60% of global market capitalisation is settled in T+1. Once the UK and the Asia-Pacific jurisdictions that have announced their future transition will have officially shifted, this will amount to 75% of the world market capitalisation being settled in T+1. Given the level of interconnectedness among European capital markets such as the UK and Switzerland and the significant costs for EU stakeholders that would stem from a misalignment in the settlement cycles of those markets, a degree of coordination in the shifts to T+1 of capital markets in Europe would be preferable.

Greater automation and standardisation of core back-office and post-trade processes, including a substantial increase in the use of straight-through processing, is needed to enable the move to T+1. This will require investments. The magnitude of the investment needs will vary from one market participant to another depending on their business model, the number of CSDs and CCPs they are connected to and whether previous investments have been made to comply with T+1 in other jurisdictions. It should also be pointed out that market participants will need to make some of those investments anyway as part of the drive to increase settlement efficiency in the EU. These one-off costs should, over time, be outweighed by the long-term benefits of lower counterparty and market risks, more efficient and timely settlement and increased attractiveness of EU capital markets for investors.

ESMA prepared a report assessing the costs and benefits and a roadmap to a shorter settlement cycle in the EU. It concluded that shortening the settlement cycle to T+1 would result in a significant reduction of risks in the market and free up capital no longer required to cover margin calls. T+1 would also allow EU capital markets to keep up with the evolution of other markets such as the US, putting an end to costs linked to the current misalignment of settlement cycles. It would also contribute to the harmonisation of corporate event standards in the EU and more generally contribute to the competitiveness of EU capital markets.

¹²² Out of 16 stakeholders consulted, only 2 provided figures.

¹²³ Based on confidential information provided to DG FISMA services. The amount is estimated by banking group.

The costs for EU of remaining on T+2 would be considerable. Firstly, over time it would remain the only advanced capital market to still operate a longer settlement cycle bringing with it a loss of competitiveness and damaging its reputation among investors globally. The evolution towards real-time finance, as evidenced by growing uptake of instant payments or digital finance, will only fuel the perception of a EU capital market out of step with its former peers. On a practical level, the EU capital market will forego the benefits of more efficient transactions, lower margin requirements or increased liquidity, as evidenced by the successful T+1 US transition in May. Coupled with the likely decrease in foreign investments in the EU capital market, staying at T+2 will result in less liquid and shallow EU capital market, going against the long-term objective of EU policy in the area. Furthermore, less liquid capital markets will drive away EU innovative and growth enterprises seeking finance to non-EU markets. At the same time, remaining at T+1 will not spare EU investors the costs of adjusting to T+1. As T+1 will relatively quickly become the global norm in settlement, EU market participants will need to bear the extra costs of operating two different settlement processes. The negative impacts on performance are already evident¹²⁴.

To conclude, T+1 is a global trend. It will entail costs for market participants as investments will be required to modernise, digitalise and streamline processes. Given the fragmented nature of EU capital markets, the fact that coordination and cooperation of market participants is not only useful but essential to ensure a smooth move to T+1, provides an impetus to take a fresh look at the standards, processes and technologies used in post-trade services, to embrace innovation and build more efficient capital markets.

¹²⁴ See footnote 110.

Annex 1: Glossary

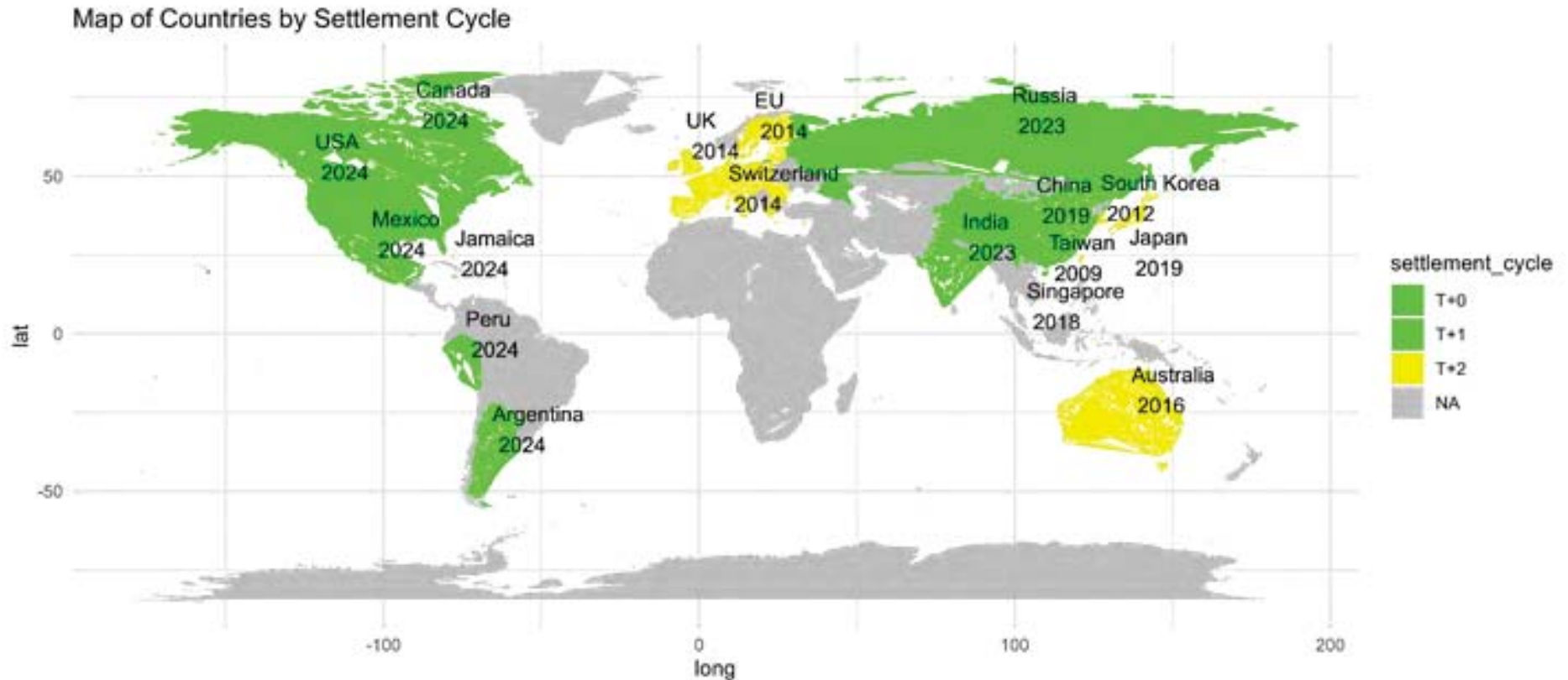
For the purposes of this document, the following definitions apply:

Central counterparty (CCP)	An entity that interposes itself, in one or more markets, between the counterparties to the contracts traded, becoming the buyer to every seller and the seller to every buyer.
Collateral	An asset or third-party commitment that is used by the collateral provider to secure an obligation to the collateral taker. Collateral arrangements may take different legal forms; collateral may be obtained using the method of title transfer or pledge.
Corporate action	A corporate action is an event initiated by a public company that brings or could bring an actual change to the securities—equity or debt—issued by the company, such as stock splits, mergers, dividend payments. The role of the CSD is to inform CSD participants holding the respective security in custody about the upcoming corporate action.
CSD	Central Securities Depository. A legal person that operates a securities settlement system and provides at least a notary service or a central maintenance service.
CSDR	Regulation (EU) No 909/2014 of the European Parliament and of the Council on improving securities settlement in the EU and on central securities depositories
Custodian or custodian bank	An entity, often a credit institution, which acts as "account provider" and provides securities custody services to its customers, i.e. holding and administration of securities owned by a third party.
DVP	Delivery versus payment. A securities settlement mechanism which links a transfer of securities with a transfer of cash in a way that the delivery of securities occurs if and only if the corresponding transfer of cash occurs and vice versa.
EBA	European Banking Authority
ECB	European Central Bank
ECSDA	European Central Securities Depositories Association
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ICMA	International Capital Markets Association
ISD	Intended Settlement Date. Means the date that is entered into the securities settlement system as the settlement date and on which the parties to a securities transaction agree that settlement is to take place.
Margin	An asset (or third-party commitment) accepted by a counterparty to

	ensure performance on potential obligations to it or cover market movements on unsettled transactions.
OTC	"Over-the-counter" (or OTC) can be used to refer to stocks that trade via a dealer network as opposed to on a regulated market. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.
Primary Market	A section of the capital market where financial instruments, stocks and bonds, are issued/sold/floated for the first time by companies, governments or public institutions. After issuance these instruments are traded in the secondary market.
Securities settlement system	A system which allows the transfer of securities, either free of payment (FOP) or against payment (delivery versus payment).
Settlement	The completion of a securities transaction where it is concluded with the aim of discharging the obligations of the parties to that transaction through the transfer of cash or securities, or both.
Settlement cycle	For the purposes of this document exclusively, means the settlement period for the majority of financial markets transactions in a given jurisdiction. Any reference in this document to the shortening of the settlement cycle in the EU, unless otherwise specified in the relevant section of the document, is made to the settlement cycle for transactions in transferable securities executed on trading venues, with the exception of transactions which are negotiated privately but executed on a trading venue, transactions which are executed bilaterally but reported to a trading venue and the first transaction where the transferable securities concerned are subject to initial recording in book-entry form (i.e. the scope of transactions set out in Article 5(2) of CSDR).
Settlement failure	The inability of a participant to a Securities Settlement System to meet its settlement obligations in the Securities Settlement System. This inability may be temporary or permanent.
Settlement internaliser	An institution, which may be authorised in accordance with Directive 2013/36/EU or with Directive 2014/65/EU, which executes transfer orders on behalf of clients or on its own account other than through a securities settlement system
Settlement period	Means the period between the trade date and the intended settlement date for a securities transaction.
SFTs	Securities Financing Transactions allow investors and firms to use assets, such as the shares or bonds they own, to secure funding for their activities. A securities financing transaction can be: - a repurchase transaction - selling a security and agreeing to repurchase it in the future for the original sum of money plus a return for the use of that money - lending a security for a fee in return for a guarantee in the form of financial instruments or cash given by the borrower

	- a buy-sell back transaction or sell-buy back transaction - a margin lending transaction
SIU	Savings and Investments Union
T2S	Target2-Securities. The Eurosystem's single technical platform enabling CSDs and national central banks to provide core, borderless and neutral securities settlement services in central bank money in Europe.
UCITS	Undertaking for Collective Investment in Transferable Securities. UCITs are an undertaking: (a) with the sole object of collective investment in transferable securities or in other liquid financial assets raised from the public and which operate on the principle of risk-spreading; and (b) with units which are, at the request of holders, repurchased or redeemed, directly or indirectly, out of those undertakings' assets. See Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Annex 2: Map of countries by settlement cycle



Note: Year indicates when the current settlement cycle was implemented. [China follows an approach where different settlement cycles coexist according to the segmentation of the Chinese equity market and the status of the counterparties to bond trades. For so-called A shares, mainland China currently settles securities on trade date (T0) and cash on the following business day (T+1). B shares equity markets follow a longer settlement cycle where trades must settle within 3 days after trade date (T+3). The standard settlement cycle in the China Interbank Bond Market can be T0 or T+1. There is no fixed settlement cycle in the Russian market but Moscow Exchange (MOEX) transferred trading in shares and bonds to a single T+1 settlement cycle on 31st July 2023.]

Annex 3: Detrimental effects of US T+1 move on the competitiveness of EU ETFs

ESMA monitored developments in the EU ETF market by employing data and analysing a specific indicator, the premium to Net Asset Value (NAV) of the most relevant EU-listed funds that invest in US equities. For a complete approach, the largest EU-domiciled ETFs investing in EU equities were also added to the analysis, in order to provide a counterfactual. The analysis covered the largest 100 EU ETFs invested in US equity and the largest 50 invested in EU equity, focusing on the period between September 2022 and September 2024 (last data point considered: 24th September 2024). The analysis focused on premium to NAV to monitor whether the move to T+1 negatively impacted the arbitrage activity on ETFs and the liquidity of these instruments¹²⁵.

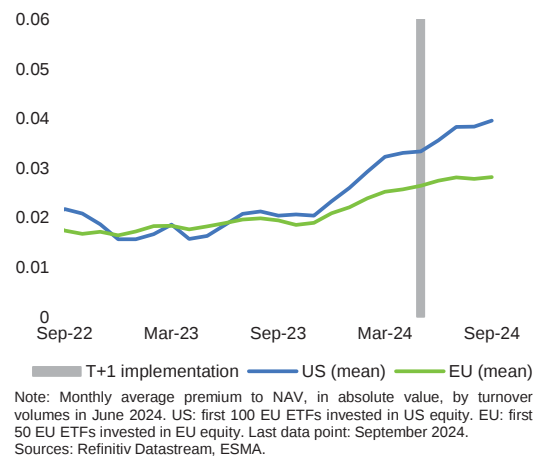
The liquidity of EU ETFs invested in US equities has decreased after the US transition to T+1. The average premium/discount to NAV of EU ETFs increased in correspondence of the T+1 move and in the months immediately before. Funds investing in US securities showed, on average, a higher premium in June 2024 and in 3Q24 (+22% and +33%, respectively, compared to 1Q24 - Chart 1). Benchmarking these developments to premiums of ETFs investing in EU equities, the latter were not as large (+16% and +18%, respectively, compared to 1Q24). Moreover, the premium of ETFs investing in EU securities (2.8%, on average, in 3Q24) reached a level significantly lower than those investing in US securities (3.9%), albeit displaying a slight increase over the observation period.

In conclusion, moderate negative impacts on ETF liquidity have been observed in the months immediately after the T+1 implementation date. This evidence could signal reduced arbitrage activity on these instruments and, consequently, lower liquidity. Overall premiums for EU ETFs increased on average, with relevant upward shifts observed for EU-listed funds investing in US equities. Nevertheless, liquidity deteriorated also for the control group (ETFs investing in EU equities), albeit less significantly. In addition, the graph below evidences a growing gap between EU and US premiums to NAV which shows no sign of closing. Further analysis is needed to better understand longer-term developments on EU ETF markets.

¹²⁵ Premium to NAV defined as $p_t = \left| \frac{P_t - NAV_t}{NAV_t} \right|$, where P_t is the price of one share of the ETF on date t and NAV_t is the net asset value per share. This measure captures the discrepancies (in absolute terms – be it premiums or discounts) between the market value of the ETF and that of its constituents. When these discrepancies arise, market participants usually engage in arbitrage trades that close the gap between the two prices. The efficacy of the arbitrage mechanism is related to the fund liquidity and that of its constituents - .see [Rappoport et al. \(2020\)](#).

Chart 1: Premium to NAV (average)

Steeper increase for US-invested ETFs



The reference period used for this assessment (between the shift to T+1 in the US and the publication of this SWD) is relatively short. This assessment should in consequence be looked at cautiously. However, when put together with feedback from the asset management industry, there seems to be grounds to believe that there is indeed a negative impact for the asset management industry due to the misalignment of settlement cycles with the US. This effect is also (very) likely to be passed onto individual investors who often use ETFs as an accessible and lower-cost investment vehicle, as ESMA's SMSG observes.¹²⁶

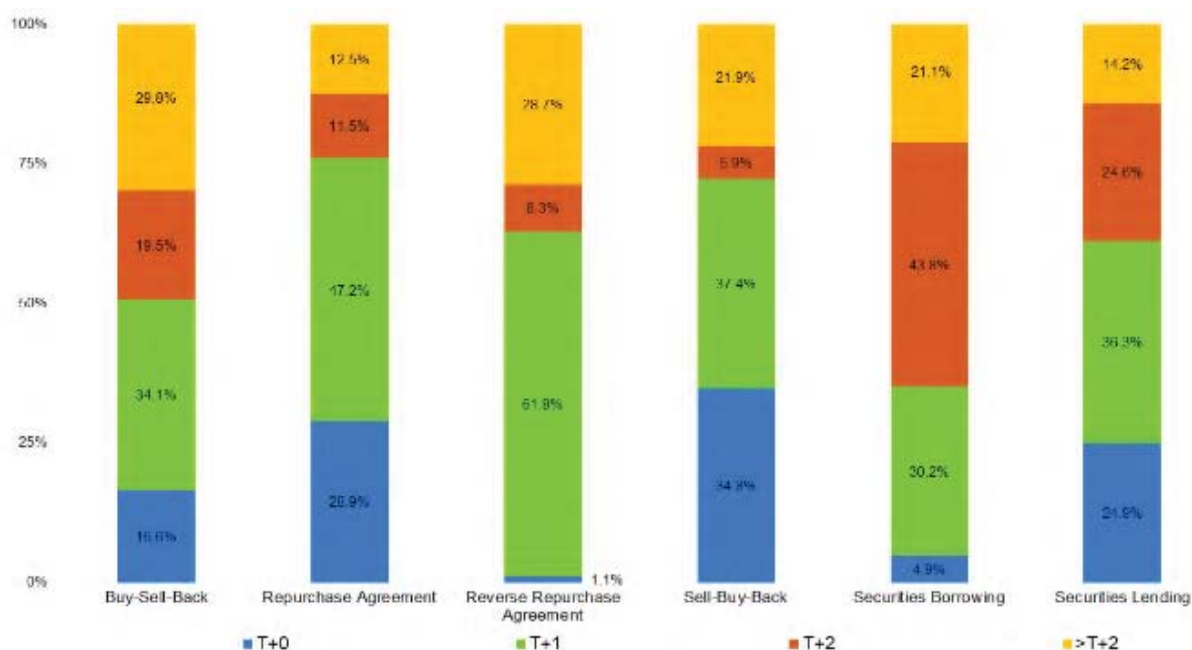
¹²⁶ See SMSG Advice to ESMA p. 28.

Annex4 : UCITS and AIFs assets under Management (AuM) by EU domiciliation (EUR 10³ million)

EU Member State	Asset under Management	Share of cross-border funds
Luxembourg	5285	87%
Ireland	4083	90%
Germany	2653	8%
France	2277	12%
Netherlands	826	10%
Sweden	585	6%
Italy	373	11%
Spain	364	3%
Denmark	275	5%
Austria	211	13%
Belgium	202	21%
Finland	150	22%
Poland	74	19%
Hungary	37	4%
Portugal	33	22%
Czech Republic	27	6%
Malta	20	84%
Greece	19	13%
Slovakia	10	6%
Romania	7	6%
Cyprus	6	41%
Slovenia	6	3%
Croatia	3	4%
Bulgaria	1	4%

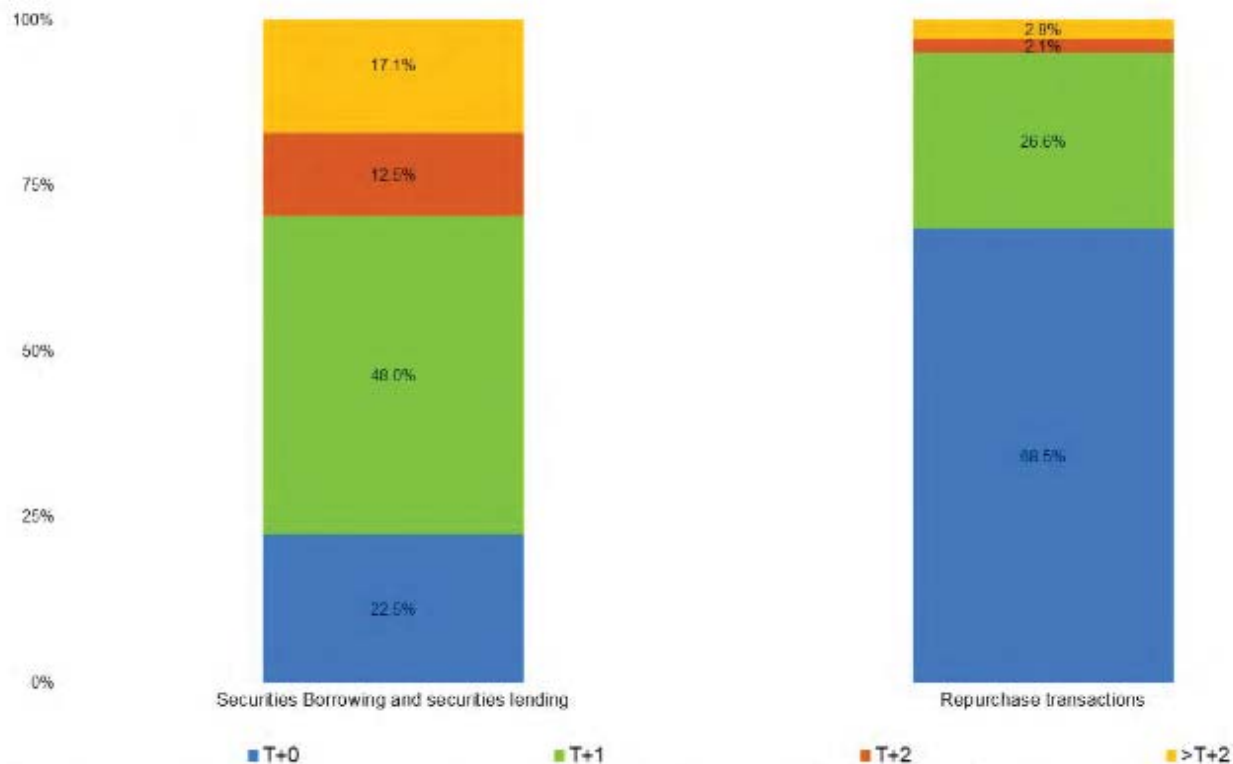
Source : EFAMA Factbook, data for end of year 2023.

Annex 5: Value of transactions that settle on T+0, T+1, T+2 and beyond¹²⁷



Note: Percentage of value of matched settlement instructions that T2S settled against payment on T+0, T+1, T+2 or >T+2 for each trade type. Data from 31/07/2023 to 28/6/2024 (included). The total value of matched settlement instructions excludes the value of total fails and includes the value of partial failures. The value of matched settlement instructions is measured in the settlement currency (EUR). Transactions in DKK are also included in the results by using the ECB reference currency conversion rate from 28/06/2024. Sources: ECB target services

¹²⁷ Based on "ESMA assessment of the shortening of the settlement cycle in the European Union", [ESMA, 18 November 2024], Chapter 6.4 for share of "T+0", "T+1", "T+2 and longer" settlement on T2S and outside T2S, broken down by instrument type and transaction type.



Note: Percentage of value of matched settlement instructions that settled outside T2S on T+0, T+1, T+2 or >T+2 for each trade type. Data from 03/04/2023 to 29/03/2024 (included). The total value of matched settlement instructions excludes the value of total fails. The value of matched settlement instructions is measured in the settlement currency (EUR).
Sources: ESMA's data request