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General Secretariat

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**Interinstitutional files:  
2025/0022 (COD)**

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**Brussels, 04 March 2025**

**WK 2831/2025 INIT**

**LIMITE**

**EF  
ECOFIN  
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## **WORKING DOCUMENT**

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**From:** Commission

**To:** Working Party on Financial Services and the Banking Union (CSDR & T+1)  
Financial Services Attachés

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**Subject:** Shortening of the settlement cycle for EU securities from two days to one

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# Shortening of the settlement cycle for EU securities from two days to one

DG Financial Stability, Financial Services  
and Capital Markets Union

Unit C2 – Financial Markets Infrastructure

03/03/2025

# Overview



- Background to the proposal
- ESMA's assessment of the appropriateness of a shorter settlement cycle in the EU
- Information gathering process
- EC staff working paper
- Proposed Level 1 measures
- Consultation on Level 2 measures
- Non-legislative measures



# Background - Other jurisdictions' moves to T+1

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- Several jurisdictions recently moved to T+1 (e.g. US, Canada, Mexico).
- UK, Switzerland likely to move in October 2027.
- Other jurisdictions are exploring a move to T+1 (e.g. Australia, New Zealand, Japan).
- Some jurisdictions are not stopping at T+1 (e.g. India has initiated an optional transition to T+0 in March 2024 for a limited number of equities and brokers).



# Background - Article 74(3) CSDR

- Article 74(3) CSDR required ESMA to submit a **report on the assessment regarding the potential shortening of the ‘settlement cycle’** (Article 5(2) CSDR).
- The report\* covered the following topics:

a) Assessment of appropriateness of shortening the settlement cycle

b) Assessment of the costs and benefits

c) detailed outline of how to move to a shorter settlement cycle

d) overview of international developments and their impact on the EU capital markets

\* Report required by 17 January 2025, however delivered in November 2024.



# a) ESMA assessment - impacts of a shorter settlement cycle

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## Potential impacts on post-trade processes

- Trading practices (trading venues)
- Pre-settlement processes (investors and intermediaries)
- Clearing processes (CCPs, clearing members)
- Settlement processes (CSDs, their participants and T2S)
- Corporate actions processes
- Asset management incl. Funds, ETFs

## Potential impacts on trading and market practices

- CCP margins
- Securities position management: inventory, liquidity and securities financing transactions
- Cash position management: FX transactions



# b) ESMA assessment - Expected costs and benefits of a shorter settlement cycle

## Expected costs

- Automation, IT upgrades
- Human resources
- Need for further standardisation, harmonisation of industry standards
- Potential increase of operational risk and settlement fails (and cash penalties)

## Expected benefits

- Overall reduction of risks and related costs (clearing margins)
- Eliminating costs created by misalignment with other jurisdictions (including for funds and for dual listed securities)
- More efficient and competitive EU markets

Not all costs and benefits are easy to quantify. Potential uneven distribution of costs and benefits in the short term, but longer-term benefits for EU markets as a whole.



# c) ESMA assessment - a potential roadmap to T+1 in the EU



# Broad information gathering process

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## ESMA

- 3-month call for evidence
- Workshop
- Public hearing
- discussions with its consultative groups and industry representatives

## Market participants

- European T+1 task force report
- AMI SeCo (chaired by ECB) recommendation

## EC

- Roundtable
- 2 meetings with Member States
- Discussions with third countries
- Discussions with various stakeholders



# EC Staff Working Document

Due to the urgency to act given international developments, the EC prepared a Staff Working Document analysing the impacts of an EU move to T+1. This took into account the findings of ESMA's Report on 'shortening the settlement cycle in the EU' and information received during the information gathering process. It came to the following conclusions:

## There is a clear momentum towards T+1 settlement.

- Already today ~ 60% of global market capitalisation is settled in T+1 with more jurisdictions to move.
- Coordination with T+1 moves of UK and Switzerland preferable given the interconnectedness with the EU.

## Costs of remaining on T+2 would be considerable for EU.

- T+1 for EU to remain competitive. If not, risk of damaged reputation among investors globally.
- T+1 would ensure more efficient transactions, lower margin requirements and increased liquidity.

## A coordination of market participants is required.

- Coordination and cooperation of market participants is not only useful but essential to ensure a smooth move to T+1 given the fragmented nature of EU capital markets.



# Issues identified in Level 1 and Level 2

- ESMA concluded in its report that an amendment of Article 5(2) CSDR and changes to the RTS on settlement discipline are needed respectively to have the legal certainty and to foster the necessary improvements in post-trading processes needed to have a successful EU move to T+1.
- While market participants can already settle on a T+1 basis, an amendment of CSDR was considered necessary to support a coordinated EU approach. This would also support the aim of the Savings and Investment Union (SIU) by improving efficiency and connecting national markets into a true single capital market.
- For budgeting reasons and in view of ESMA's proposed timeline, market participants indicated the need for a swift provision of legal certainty.



# Proposed Level 1 measures

- Providing legal certainty by amending Article 5(2) CSDR from  
“the intended settlement date shall be no later than on the second  
business day after the trading takes place”  
to  
“the intended settlement date shall be no later than on the first business  
day after the trading takes place” (i.e. from T+2 to T+1).“
- Change to apply from **11 October 2027**.



# Consultation on Level 2 measures

ESMA consultation on a set of proposals to amend the technical standards on settlement discipline\*:

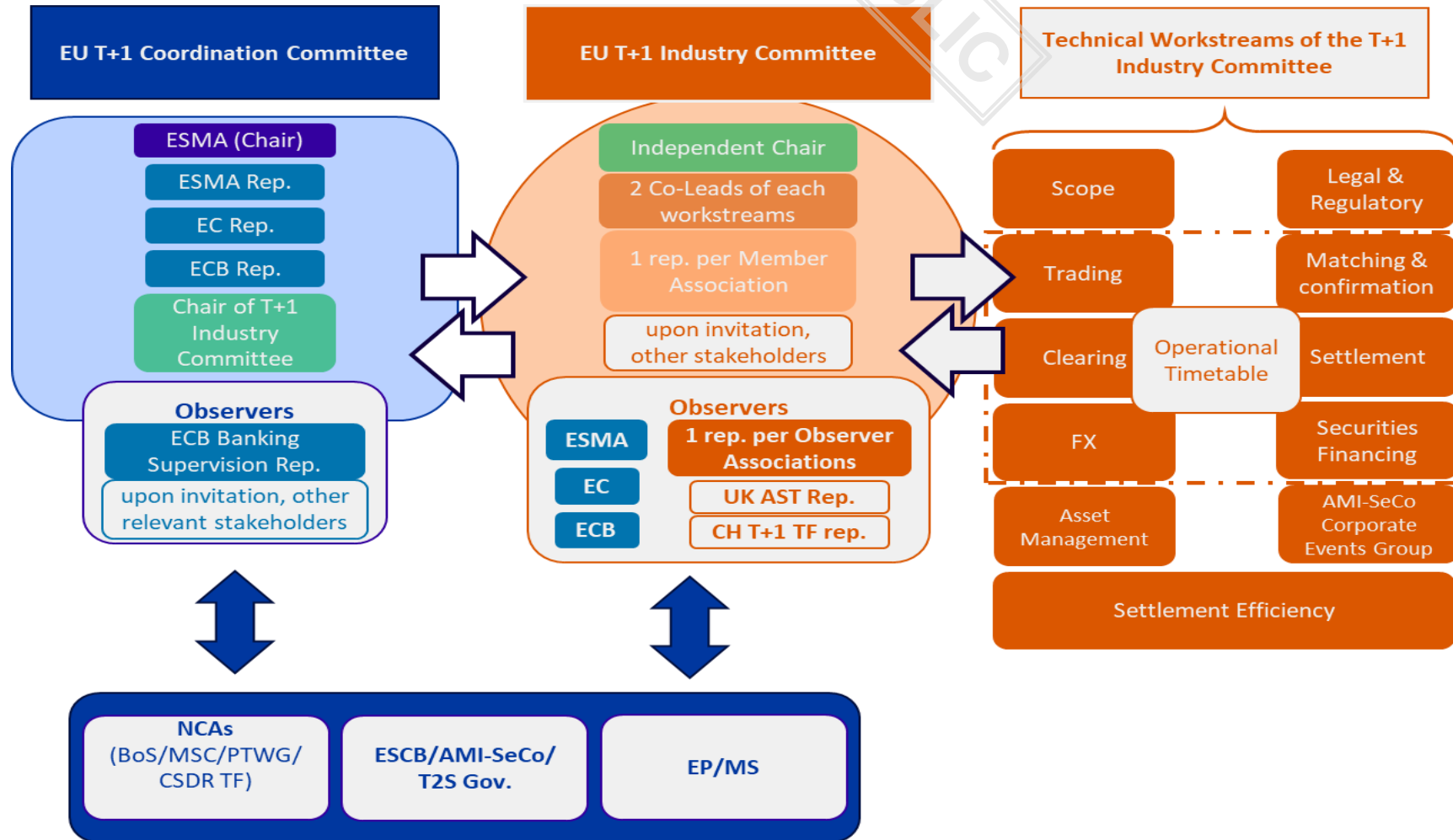
- reduced timeframes for allocations and confirmations,
- use of electronic, machine-readable allocations and confirmations according to international standards, and
- implementation of hold and release and partial settlement by all central securities depositories.
- additional measures that could potentially enhance settlement efficiency, for which there are no specific policy proposals yet.

The consultation takes into account the move to T+1 in the EU and the legislative proposal published by the EC on 12 February 2025.

Next steps: ESMA to consider feedback to the consultation until 14 April 2025, publish a final report and submit the draft technical standards to the European Commission (EC) by October 2025.

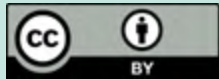


# Non-legislative measures – ESMA's proposed governance structure



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# Thank you



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Slide 5,6,7,13: source: ESMA presentation: "EU transition to T+1: ESMA's report and work organisation"

