



EUROPEAN CENTRAL BANK

EUROSYSTEM

T+1 Settlement Cycle

Impact, risks, challenges and
benefits

ECB OMG Survey

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Janusz Ryzner,
DGM/Financial Operations Services Division
ECB Operations Managers Group



Overview

1 Background

2 Impact of T+1 Settlement cycle in the US and Canada

3 T+1 Settlement cycle in the EU: **Benefits**

4 **Challenges**

5 **Prerequisites**

6 Questions and issues

- **T+0 Settlement Cycle in China and T+1 in India** (as of January 2023)
- **T+1 transition and implementation deadline in the US:** 28 May 2024 and in Canada: 27 May 2024
- **UK: Accelerated Settlement Taskforce:** initial findings by December 2023, and a full report with recommendations by December 2024
- **The European Union:** initial analysis
 - Association for Financial Markets in Europe (AFME) Paper: [T+1 Settlement in Europe: Potential Benefits and Challenges](#), September 2022
- The ECB OMG Survey (May 2023):
 - Operational implications of T+1 Settlement Cycle
 - 21 replies

Timeline for the implementation of T+1:

- Adequate for over the half of the respondents
- Too short for around 40 %

The preparations:

- In the planning or implementation phase – two thirds
- Not started – less than 20%

Affected areas:

- Settlement • Fails management • Corporate actions
- Foreign exchange • Trading

Main impact:

- Policy/procedures changes • IT upgrades • Staffing costs

2 T+1 Settlement cycle in the US and Canada: Main concerns

- **Management of currency liquidity** becoming key
- Increased role of correct **customer information**
- Higher importance of **timely forecast data** due to one day less for hedging, particularly in the event of a stressed/illiquid market
- **Spill over** to the EU market and to the FX and spot transactions
- Expected rapid **move of the USD market for FX Swap against EUR to T+1**.
- Impact on liquidity of other than USD and CAD currencies
- Potential **limitation of CLS processing**, particularly for Asian markets
- Changes to Exchange Traded Funds (ETF) / American depository receipts (ADR) settlement

T+1 Settlement cycle in the EU: Benefits, risks and challenges

Benefits:

- Reduction of the exposure against counterparties and of financial risk
- Decreasing capital and margin requirements
- Alignment of the markets and harmonisation of settlement practices
- Possible limitation of short selling

Risks and challenges:

- Market infrastructure limitations:
 - Market practices
 - Fragmentation
 - EU-UK alignment
- Internal systems / processes
- Reporting & Regulatory implications - CSDR / MiFiDII
- The risk of increasing settlement fails and increased CSDR charges

T+1 Settlement cycle in the EU: Implementation

Move to T+1 in the EU should be implemented:

- As soon as soon as possible if the US/Canada experience is positive
- Gradually involving different asset classes
- Consistently for all markets in the EU

The change to T+1 should be preceded by:

- Review and adaptation of existing market practices
- Coordination with other global markets
- New regulatory framework
- Creation of an industry task force to conduct a detailed assessment of the benefits, costs and challenges of T+1 adoption

2 T+1 Settlement cycle: Questions and issues

1. Where in your organisation do you see the impact of T+1 Cycle in the US (which asset classes / market segments) and how do you prepare for it?
2. Which operational challenges do you see if the settlement cycles (T+0/T+1) are not globally harmonised? Would you have any recommendations in this respect?

Questions?



Thank you!