

WHITEPAPER

Shorter cycles, higher stakes:
T+1 may be the biggest
test yet for European banks.

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Introduction

Europe's capital markets face a historic shift: with T+1 settlement mandated by October 2027, banks must prepare for a compressed cycle that demands speed, precision and resilience.

European capital markets, including those in the UK and Switzerland, are preparing for a historic change. By decision of the European Securities and Markets Authority (ESMA), securities transactions must settle on a T+1 basis by October 11, 2027.

Viewed as a necessity by many market leaders, the transition to a compressed settlement cycle promises to create a more efficient and resilient market, following a similar move in the United States in May of 2024.

While 44% of buy- and sell-side firms said the cross-industry impacts from the U.S. transition were more impactful than expected, the biggest effects were felt across Europe, where settlement and funding were required to take place in the middle of the night.¹

Since U.S. trades clear faster, EU cross-border transactions are exposed to twice the risk of counterparty defaults under current T+2 timelines, while also being required to hold margins longer, tying up capital that could be used toward new trades.

The U.S. adoption of T+1 has exposed cracks in European settlement and post-trade operations, including the need for automation and modernization to improve operational resilience. The upcoming change toward a shorter settlement cycle offers European banks a catalyst to modernize workflows and position themselves to thrive in an increasingly connected marketplace.

Structural inefficiencies heighten Europe's T+1 settlement risks

The adoption of T+1 will ultimately place European markets into a stronger, more globally competitive position, but reaching the end goal won't be an easy journey.

Europe's trading landscape – marked by multiple market infrastructures, time zones, currencies and divergent regulations – is already a fertile ground for settlement risk.

Currently, settlement of securities trades is broken out across 30 different CSDs (Central Securities Depository), often requiring banks to move shares between two or more depositories. While each touchpoint increases the chance for errors, removing a single day from the settlement cycle does more than reduce trade processing timelines by half.

Swift Institution research indicates that banks will in fact have 80% less time to finalize trades, considering the impact of varying time zones and FX challenges.²

Since nearly a quarter of market participants have yet to start planning for the T+1 transition,³ it's important to understand the obstacles ahead as Europe prepares to adopt the compressed trading settlement cycle.

Structural inefficiencies heighten Europe's T+1 settlement risks

Matching delays more easily become settlement fails under T+1

To meet the faster T+1 settlement timelines, banks will need to accelerate reconciliation and affirmation. The sooner trades are affirmed, the earlier mismatches can be identified and resolved reducing the risk of CSDR cash penalties as well as the potential impacts of trapped liquidity if trades don't settle.

The DTCC recommends that EU participants should aim to match 95% – 96% of trades the same-day to meet T+1 settlement timelines.⁴ Currently, where automated trade solutions are employed, over 92% of European transactions achieve a same-day match rate.⁵ In contrast, where manual processes dominate, even in jurisdictions with lower trade volumes, less than 78.5% of transactions are matched same-day.⁶ A lack of automation slows matching across the chain, exposing firms to an increased risk of failed trades under a shortened settlement cycle.

While automated central matching facilitates 83% of equity and 71% of fixed income flows across Europe today⁷, research reveals that significant automation upgrades are still needed to support smooth trade flows under T+1.

As banks consider legacy transformations, real-time trade capture and validation capabilities as well as automated confirmation and matching become essential.

Fragmented SSI management becomes costly under T+1

SSIs (Standing Settlement Instructions) are standing orders, specifying how funds or securities are delivered between parties, including where cash will be exchanged (PSET). Since orders typically remain consistent from one trade to the next, SSIs play a crucial role in fast and efficient trade execution. However, that same speed and efficiency is lost when instructions are not kept up to date.

Over one-fifth of settlement failures in 2024 were attributed to data issues, including incorrect SSIs.⁸

At fault is a complex network of market infrastructures, including multiple CSDs all dependent on a high level of manual data entry and outdated systems to keep SSIs up to date.

While banks have time under T+2 to identify and fix SSI errors, T+1 timelines shorten that window of opportunity, particularly when trading across time zones. Banks risk more failed trades, cash penalties and the need for labor-intensive manual investigations.

The transition roadmap published by ESMA and the EU T+1 Industry Committee recommends standardization of SSI data management practices for all market participants.⁹

To avoid settlement instruction mismatches under T+1, banks will need a centralized depository, where SSI details are regularly cleansed and standardized to ensure accuracy.

When exceptions do arise, a single, reliable source of data enables prompt investigation and resolution, enabling faster trade execution under compressed timelines.

Treasury blind spots turn into funding gaps and penalties

While approximately 60% of all European trade takes place within the EU Single Market,¹⁰ assuring FX funding will become a significant challenge for the majority of transactions occurring outside the eurozone, as timelines shrink with T+1.

Market participants will need to book FX trades, confirm amounts and deliver funds to the custodian account immediately after trade execution. Because many banks still run FX, cash and settlement on separate or manual systems, treasury lacks immediate visibility into executed trades, leaving them blind when forecasting cash needs across currencies.

As a result, treasury teams must make a choice between overfunding accounts and tying up liquidity, or potentially underfunding and risking settlement fails.

Connecting FX funding, cash movements, and securities settlements into a single platform will provide one real-time, unified view, enhancing internal coordination and reducing the number of errors caused by conflicting or outdated information. By automating workflows, FX exchanges are initiated immediately after a cross-border trade is executed, and cash positions are updated in real time.

Modernizing from outdated siloed technology to automated platforms will make cross border funding and cash management faster, more predictable and accurate, minimizing the risk of overfunding or trade fails as settlement timelines shrink.

Structural inefficiencies heighten Europe's T+1 settlement risks

Inefficient exception handling becomes a bigger driver of CSDR costs

Research conducted by Swift indicates that industry wide, 5 out of every 100 trades fail to settle on time, with cross border payments more prone to failure.¹¹

The shortened T+1 settlement cycle will leave banks with less time for crucial activities related to trade matching, reconciliation and the communication of settlement data. Since current batch-driven systems were never designed to support such rapid turnaround times, trade activities under T+1 put greater stress on human teams, increasing the opportunities for error.

When errors are detected during the early phases of trade settlement, quick and efficient exception handling can drastically reduce the number of failed trades, but T+1 decreases the window for investigating mismatches and taking corrective action.

Since failed trades lead to cash penalties under CSDR, ensuring swift exception handling is essential to protect liquidity under T+1.

The key to managing exceptions under compressed timelines is to move from reactive to proactive oversight. Systems should be configured to capture breaks as they occur, employing rules based automation to resolve the most common breaks automatically.

Compressed cycles drive higher risk of regulatory penalties

Europe's move to a T+1 settlement cycle will require banks to accelerate the way they capture, validate and deliver data for regulatory frameworks, such as MiFID II and EMIR. Since both MiFID II and EMIR already carry strict timelines and extensive reporting fields, shortening the buffer that counterparties have to address mismatched data raises the risk of inaccurate and late reports.

MiFID II reporting, for instance, includes around 65 data fields.¹² Given the scope of information required, shortening timelines increases the risk for error when banks rely on manual processing or outdated systems.

Similarly, EMIR requires both counterparties to report consistent details to trade repositories, as well as updates on positions, valuations and collateral in near real time. Under the compressed settlement timeline, any mismatches will need to be corrected almost immediately to avoid regulatory breaches.

Given the volume of fields and the detailed data lifecycle, it's no longer realistic to expect manual reporting processes to keep pace with the shortened timeline.

Automated systems that capture and validate information against reference data will be necessary to ensure that both parties are working from standardized data. Rule-based checks are needed to highlight discrepancies immediately, allowing for rapid resolution before trades are submitted.

Equally critical are margin and collateral tools that automatically calculate exposures, update valuations and manage collateral calls within the compressed window. This combination shortens reconciliation cycles and minimizes late reporting risks, to ensure regulatory obligations are met on time – all critical to avoiding financial penalties and reputational damage.

Lessons learned from U.S. transition places emphasis on automation

To meet the compressed timelines, European banks are facing a significant modernization effort. Legacy systems and manual processes will not keep pace with the demands of a compressed settlement cycle.

Industry analysis predicts that 20% of post-trade and settlement activities will need overhauls to meet the demands of T+1, including IT investments to improve automation.¹³

Looking at the U.S. transition to T+1, European markets can learn critical lessons. Post transition, affirmation rates have remained at nearly 95% industry wide, with first-day fail rates falling to 1.9%.¹⁴ One critical key to success was automation, with a focus on straight-through processing (STP).

Prior to the May 2024 transition, surveys showed that 81% of brokers and banks were still relying on manual or homegrown post-trade systems, creating significant operational risk in a compressed settlement timeline.¹⁵ U.S. industry groups, including Securities Industry and Financial Markets Association (SIFMA), made it clear that compressing the cycle beyond T+2 would be impossible without significantly higher levels of automation.

During the run-up to the transition, the U.S. industry responded, improving STP flows that boosted overall settlement function.

The most convincing evidence of STP's role in the U.S. transition comes from affirmation rates. Prior to T+1, only 69% of all trades were affirmed by end of day.¹⁶ Following implementation of T+1, the rate jumped to nearly 95%.¹⁷ Firms using centralized matching solutions saw even higher affirmation levels, with investment managers reaching 97.5% and prime brokers 98.6%.¹⁸

20%

of post-trade and settlement activities will need overhauls to meet the demands of T+1

69%

of all trades were affirmed by end of day, prior to T+1

95%

Industry-wide affirmation rate, post transition

Lessons learned from U.S. transition places emphasis on automation

Where the U.S. stood prior to 2024, Europe now stands today. Timelines and implementation plans published by both ESMA and the UK's Accelerated Settlement Taskforce (AST) repeatedly emphasize the need to automate the trade lifecycle, to support STP.¹⁹

Based on information gleaned from the U.S. transition, and the state of the European market, some industry analysts believe that STP rates of nearly 100% and the elimination of batch processing are critical to avoid a significant increase in settlement failures in a T+1 environment.²⁰

The second lesson learned is the critical importance of adequate transition timelines. Successful U.S. market participants transitioned over the course of a year or more to ensure smooth trade flows under comparably simpler conditions than those faced by European markets. Firms that did not leave enough time to prepare experienced higher workforce costs to manage exceptions.²¹

Given the complexity of the European market, achieving a T+1 settlement cycle will require banks to move beyond batch processing and manual systems to achieve a new level of excellence in STP. For those participants who start early enough and implement the necessary automation upgrades, a shortened settlement cycle has the potential to reduce risk, improve liquidity and reduce overall costs. Those who wait or fail to automate will face increasing cost pressures and risk of compliance fines in the upcoming era of T+1.

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