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EBF Policy Position

Next Steps for Europe's T+1 Transition

The EBF calls for a EU - T+1 implementation roadmap to be completed in the coming months.

The **European Banking Federation (EBF)** has long supported efforts to enhance the efficiency of the EU post-trade ecosystem to promote the attractiveness and competitiveness of EU capital markets. Against this background, **the EBF is fully supportive of a successful move to T+1 in the EU** and recognises the potential benefits in terms of efficiency gains and risk reduction. Considering the **unique EU market structure** and operational model, it is clear that a move to T+1 in the EU would be a complex, multi-year undertaking. Such transition, therefore, will demand the highest level of commitment and collaboration from all industry stakeholders and jurisdictional government bodies to ensure that any undue risks are mitigated to the greatest extent possible to avoid undermining the existing efficiency, liquidity and functioning of EU securities markets.

The EBF considers that a successful move to T+1 in the EU should be seen as a **collective interest** of all EU member states and of all financial market stakeholders, with strong benefits for the European economy as a whole, and therefore requiring an equally strong and dedicated collective effort and coordination.

The transition to T+1 will have the potential to trigger a “**virtuous circle**” of coordinated market reforms (some of which long overdue) in the area of post-trade services, which will form the basis for more **efficiency**, more **automation**, more **harmonization** and **integration** of all activities, including settlements, corporate actions, tax reclaims and issuer-investor relationships. A successful transition to T+1 offers a unique opportunity, not to be missed, for significant progress across the industry and across all relevant stakeholders towards more efficient and integrated financial markets in Europe.

Against this background, a **timely** and **comprehensive implementation roadmap** leveraging the work completed by the **EU T+1 Task Force**, (including detailed analysis of all infrastructural, legal and operational changes to be completed ahead of the final migration date, as well as any associated project risks) will be **critical** to making the transition a **success** rather than a setback for the EU. This roadmap should clearly define **ownership** and **sequencing** of implementation milestones.

I. Background

a. International context

Recent successful T+1 migrations in various markets globally (i.e., India, the US, Canada, Mexico, Argentina, Jamaica and Peru), have shown the attainment of important objectives, such as **reduction of counterparty risk, market risks and margin requirements**. These transitions have emphasized

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that, especially for many internationally active firms (including buy-side, sell-side, and market infrastructures), alignment of settlement cycles across global markets is preferable to avoid the insurgence of operational, funding and other challenges, which can ultimately result in higher costs.

These past transitions have generated a wealth of knowledge, experience, and practical insights across the industry, offering invaluable support to markets now preparing to embark on similar paths toward accelerated settlement cycles. In particular, US, Canadian and Mexican migrations haven shown:

- The importance of **support from public authorities**;
- The necessity for **meticulous** and **extensive preparations** coordinated by private sector actors with strong public authorities' oversight;
- The benefits of a regionally **coordinated transition**.

Equally, however, it should be noted that **US/CA/MX migrations have proven more difficult than originally envisioned**, especially for international actors.

b. What's next for Europe

The “political decision” for Europe to embark on the transition project to T+1 settlement has already been taken.

In the UK, within the Edinburgh Reforms announced in December 2022 the Government established the **Accelerated Settlement Taskforce (AST)**, which published the “Geffen Report” in March 2024 (fully endorsed by the Government) with a recommendation for the UK to move to T+1 by the end of 2027. Work is continuing through **the Technical Group (TGT)** working on detailed recommendations for actions and changes that would be necessary for a smooth and timely transition to T+1.

In the European Union, while an official decision has not yet been taken, **multiple converging signals** have already been given by EU authorities. First, the direction of travel was clearly set by **Commissioner Mairead McGuinness** in her speech on 25/01/2024, “*the question is no longer if, but how and when [T+1] will happen*”. More recently, on October 15th, a **joint statement by ESMA, EC and ECB** confirmed that T+1 is a priority for the EU and announced plans to establish a strong governance, which the **EBF strongly welcomes**. The next signal is expected from the publication of **ESMA's report** to the Parliament and the Council, which is due in the coming months.

Besides signals by EU public bodies, a group of **industry experts from 21 trade associations** (the EU T+1 Task Force), including the EBF, have volunteered to collaborate in the analysis of all aspects of operational, technical and business requirements, that would form the basis of **a collective roadmap for a smooth transition to T+1**. Their report was published on October 14.

The EBF strongly supports such collective efforts, with a view to complete the **EU implementation roadmap** based on the findings of the EU T+1 TF to adequately prepare for T+1 across all EU markets and all relevant stakeholders.

Such roadmap should be completed within the next few months (at the latest by the end of June 2025), so that it may validly **contribute to the official decision(s) by EU authorities** about the T+1 transition modalities. Such roadmap should contain and give concrete guidelines / instructions for a

coordinated approach, ensuring the same approach and the same operational model is adopted for the T+1 implementation across all of European markets.

II. EBF's views on the next steps

The following points are deemed fundamental by the EBF and its members for a successful transition to T+1 across the EU.

- First and foremost, **a coordinated transition** to a shortened settlement cycle in all of Europe, including the implementation of changes required to act on a T+1 cycle, **will facilitate further automation and efficiency increases, while reducing exposures and systemic risks, thereby improving the competitiveness of EU capital markets.** Therefore, **successfully moving to T+1 in the EU should be seen as a collective interest** requiring a collective effort by all stakeholders, public and private, with the highest political authority's support.
- Secondly, while **achieving a successful EU migration is the primary objective**, a **coordinated and common T+1 implementation approach across the entire European region** (UK, EU, Switzerland, EEA) **is highly preferable**, and should be extensively pursued, as potential costs of misalignment of post-trade activities (that already exists with the US having moved to T+1 in May 2024) would be exacerbated by an additional misalignment within geographical Europe.
- Thirdly, **successfully shortening the settlement cycle should have minimal adverse impact on the current levels of settlement efficiency.** In other words, the EU migration to T+1 should avoid introducing unharmonized processes, new or undue risks, damaging existing efficiency and functioning of EU capital markets, or creating additional barriers that increase complexity, raise costs and reduce attractiveness of EU capital markets. The successful shortening of the settlement cycle should therefore focus on the **harmonization** of existing processes, which will ensure greater efficiency for the entire European market and its participants. **EU authorities should be also prepared to consider using the tools at their disposal to limit the negative effects of a transitory increase in fail rates.** This could take the form of a temporary suspension of settlement discipline regime cash penalties under CSDR.
- Finally, **the migration to T+1 is expected to be more complex in Europe than in other jurisdictions, due to the higher degree of fragmentation in operational models and multiplicity of actors across the region.** Broad industry collaboration, extensive preparation and strong governance/coordination can maximize opportunities for integration and minimise the transition costs. We call for a regional coordination not only from a timeline viewpoint, but also with a highly harmonised approach from the FMIs and market participants communities **(there should be one approach and one goal.**

Against this background, relevant considerations on the way forward are:

- To ensure the highest chances of success, **maximum efforts and adequate resources should be devoted by all stakeholders towards identifying and properly addressing project risks**, including asset-class specific considerations.
- Similarly, beyond post-trade processes, tools and systems, **the project should take into account the impacts of the migration to T+1 on the functioning and liquidity of certain**

market segments. For instance, in the bond market, migrating to T+1 may impact liquidity if such migration occurs before the securities lending market had enough time to evolve from a “Tom-next” to an “Overnight” standard.

- **A successful transition is highly dependent on broad industry coordination**, the availability of an **exhaustive list and sequencing of required changes**, as well as an **adequate pledge of resources** by all stakeholders. The project timeline should therefore fully allow individual firms to register necessary allocations for T+1 on their budget and project planning.

A **strong governance coordination** led by ESMA or the European Commission, **including the ECB (as T2S operator) and the ESCB (including non-euro, non-T2S markets)**, is required throughout the whole process, as mentioned in their Joint Statement, with public and private collaboration, to determine the transition date based on technical considerations regarding the most appropriate migration framework, the operational and technical requirements for the transition and the milestones of a comprehensive migration plan.

III. EBF's views on the transition timeline

EBF Members are of the view that a comprehensive **EU implementation roadmap** for necessary milestones will be **fundamental to inform, from a technical standpoint, the determination of the final, official migration timeline for the EU transition.**

In light of this, EBF members propose the following approach:

- **The primary goal is to quickly complete a shared implementation roadmap leveraging findings by the EU T+1 TF report, which accounts for the full set of requirements, necessary changes, coordinated approach and recommendations to be collectively implemented ahead of the EU's transition to T+1.**
- **Collective efforts across all industry stakeholders must continue as the highest priority in the coming months. The EBF expects a date for implementation to be decided upon in a timely fashion after consulting with all stakeholders.**
- Switching to T+1 will be a systemic change. Providing inconsistent view “throughout the process” would have a destabilizing and highly impactful effect on market participants. Therefore, **the EBF deems it important that all jurisdictions stick to the agreed upon migration date and avoid fragmentation between the EU, EEA, UK, and Switzerland.**
- **This implementation roadmap should be completed in the coming few months (no later than 30th June 2025).** It should clearly define the ownership of each task and the timeline required to enact each change. The roadmap should be clear and comprehensive, including contributions by ECB/T2S and FMIs (as well as complementary analysis of any national specificities that may need to be kept and/or adapted, despite the mentioned overarching objective of a harmonised T+1 environment across all of Europe), and outlining an appropriate implementation timeline. This period should consider the full overview of project changes and the order in which they must be implemented.

- We consider this work fundamental for providing all industry stakeholders with a well-defined and articulated basis on which to establish their own internal requirements for any operational adaptations and technical investments. A complete implementation roadmap by June 2025 would be well-timed for necessary **budgetary and resource allocation decisions** to be taken in 2025, 2026 and 2027.

The EBF believes that the approach outlined above, of developing a comprehensive and consistent roadmap with active contributions by all relevant stakeholders, will enhance the likelihood of a successful T+1 transition and minimize risks of delays in the overall transition (respecting the agreed timeline will be of the essence). Our proposed approach to establish a comprehensive transition roadmap by June 2025 intends to meet these three goals:

- 1) ensure the establishment of a common and harmonised operational model for T+1 settlements;
- 2) provide strong incentives and clear signals for all stakeholders to allocate the necessary resources towards a successful transition to T+1; and
- 3) prevent unnecessary delays in the preparation and migration activities.

The EBF and its members are fully committed to actively contribute with all possible resources to support the European financial markets during this very important transition to a shorter settlement cycle.

About the EBF

The European Banking Federation is the voice of the European banking sector, uniting 33 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about 2,7 million people.

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