

Are you Ready? Transition to the T+1 Settlement Cycle by 2027 in Europe



The reduction of market settlement timeframes from T+2 to T+1 has been a subject of discussion in capital market events and forums for some time now. The European Securities and Market Authority (ESMA), the regulatory body overseeing capital markets, has suggested that Europe transition to a T+1 settlement cycle by 11 October

2027. How will this pan-European transition be implemented? Is it influenced by the approach adopted by the US markets? Additionally, what measures need to be undertaken by pan-European financial institutions and market participants to prepare for this change? The potential challenges will be present in the areas of automation,

increased pressure on post-trade processes, and potential complexities for cross-border transactions.

Lesson 1: Automation – Key to success

The US market has effectively moved to a T+1 settlement cycle; however, a significant challenge encountered

by financial institutions and market participants was the insufficient level of automation. Numerous financial institutions depended on manual processes and found it difficult to manage the increased volumes. Those who underestimated the effects of the shorter settlement cycle (T+1) were compelled to expand their workforce, which considerably raised their operating expenses, adversely affecting their profit margins. They could have implemented automation in a timely manner to reduce their workforce and overall operating costs.

European financial institutions and market participants must recognize that automating manual processes is crucial not only for transitioning to a T+1 environment but also instant settlement (T+0). Organizations should explore automation across all functions involved in the settlement cycle, which includes trade processing, funding, securities lending, corporate actions, and addressing fund settlement mismatches. Real-time views on exceptions will serve to reduce settlement failures and improve operational post-trade/pre-settlement errors. Automation accelerates processes and enhances accuracy, as humans, despite their best intentions, are still prone to mistakes. Those financial institutions which ignore this transition risk falling behind their competitors, potentially resulting in overstaffing, mounting pressure on the costs, and a decline in overall profitability.

Lesson 2: Reducing the settlement cycle from T+2 to T+1, an interim journey

The reduction of the settlement cycle from T+2 to T+1 is regarded as a transitional phase, as stock markets are expected to progress beyond a one-day settlement cycle. Not long ago, a decade earlier (2014), the European market transitioned from a T+5 to a T+2

settlement cycle. While major western markets have historically led to such transformations, emerging markets have established a new benchmark. For example, India has adopted a T+0 or instant settlement cycle. The Indian stock market has implemented a phased approach to shorten its settlement cycle, opting to move companies based on their respective indices, market capitalization rather than transitioning all companies simultaneously. Advanced back-office platforms, which are highly configurable, rules- and event-driven systems, are equipped to support these changes.

As the European market gears up for the T+1 transition, it is essential to anticipate the evolving market dynamics that will result in new changes. By comprehending the diverse strategies employed in global markets, European regulators and financial institutions can enhance their preparedness for future developments.

Lesson 3: Start Early

The European Securities and Markets Authority (ESMA) has announced a transition to a T+1 settlement cycle, in November 2024, and has suggested an adoption date of October 2027. This timeline offers a preparation period of three years, in contrast to the US market, where the regulatory body has allowed only 14 months for preparation. European financial institutions must evaluate their existing operating models and technical systems, pinpoint areas that necessitate modifications, and allocate resources to ensure seamless implementation.

Way forward

The preparations made during this period not only guarantee readiness for T+1 but also position us favorably for the future development of market settlement practices. By drawing

insights from global markets, European financial institutions can navigate the transition to T+1 and beyond with confidence, transforming this challenge into an opportunity for growth, operational resilience, and enhanced efficiency.

How TCS BaNCS Global Securities Platform (GSP) can help you win the transition journey:

TCS BaNCS's proven and high-performance solution for securities processing can help make your journey towards this complex transition an easy one. It can help you with:

- Automate settlement processes to achieve high levels of STP and manage exception via centralized risk dashboards
- Business processes can be configured using operational parameters, market practices, rules, and standing instructions
- It is designed for real-time, continuous processing in a multi-entity setup across all asset classes and markets



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