T+1 Settlement Cycle
Impact, risks, challenges and benefits
ECB OMG Survey

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# Overview

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Background

• **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

• The ECB OMG Survey (May 2023):
  - Operational implications of T+1 Settlement Cycle
  - 21 replies
T+1 Settlement cycle in the US and Canada

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