



Navigating the T+1 Settlement in Europe

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Agenda

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- 2 Recent developments in settlement timing
- 3 Industry recommendations for the transition to T+1
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Over the past few years, we have experienced a steady compression of settlement cycles globally...



At European level, **the entry into force in 2014 of the CSDR** (Central Securities Depositories Regulation), **introduced a uniform settlement model for all member countries** based on a **settlement cycle no later than the second business day following trading (T+2)**



Over time, **many countries have adopted settlement cycles shorter than T+2** (e.g. Cina, India). In particular, the recent move of US markets to T+1 has **further widened the gap**, which, according to market participants, **may have an impact on the competitiveness / attractiveness of EU markets** (including UK and CH)



In the meantime, the **European institutions have highlighted the importance of settlement mechanisms to ensure the efficiency and safety of financial markets**. Industry work¹ and the recent publication of ESMA's final report² **confirm the need to move to a T+1 cycle in Europe by October 2027**

In this context, **the purpose of this document is to:**

- illustrate the **main recommendations** to be considered, at both Regulatory and Industry levels, to **facilitate the transition to T+1**
- stimulate discussion on **main impacted areas which need to be properly managed** to limit **potential settlement fails**

1) High Level Roadmap for adoption of T+1 in EU securities markets – European T+1 Industry Task Force October 2024

2) "ESMA assessment of the shortening of the settlement cycle in the EU" del 18 Novembre 2024

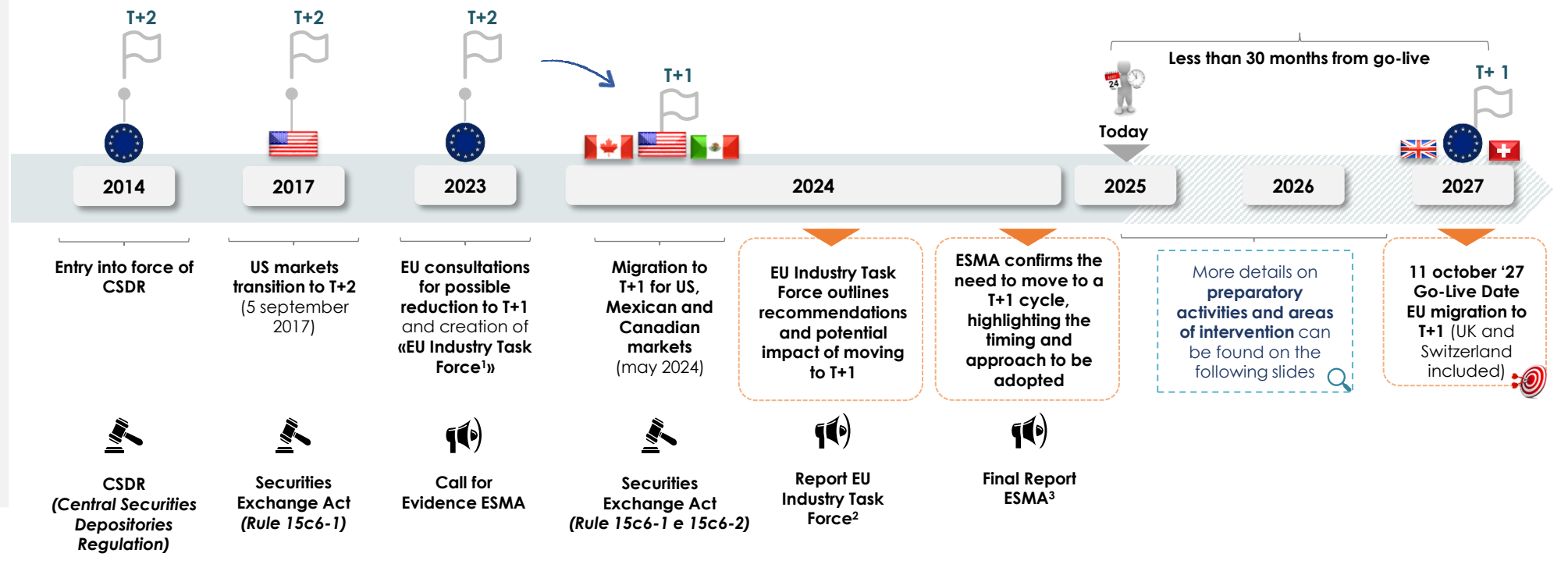
Recent developments in settlement timing

Transition from T+2 to T+1 cycle

Evolution of the settlement cycle

- IN RESPONSE TO THE SWITCH TO T+1 IN THE US ON 28 MAY 2024, **ESMA LAUNCHED CONSULTATIONS TO ASSESS THE COSTS AND BENEFITS OF A SIMILAR REDUCTION IN EU MARKETS**
- THE OUTCOME OF THIS ASSESSMENT, PUBLISHED ON 18 NOVEMBER 2024, CONFIRMS THE NEED TO MOVE TO A T+1 CYCLE BY OCTOBER 2027** IN ORDER TO INCREASE THE EFFICIENCY AND COMPETITIVENESS OF FINANCIAL MARKETS

GIVEN THE MORE COMPLEX AND HETEROGENEOUS LANDSCAPE OF POST-TRADING SERVICES IN EUROPE (DIFFERENT CSDs/CCPs, CURRENCIES AND LEGAL/TAX FRAMEWORKS), SHORTENING THE CYCLE TO T+1 IN THE EU MAY PROVE MORE CHALLENGING THAN IN OTHER JURISDICTIONS. ESMA ESTIMATES A TRANSITION PERIOD NO SHORTER THAN THE ONE INCURRED FOR THE MIGRATION TO T+2 IN 2014 (AROUND 32 MONTHS).



- Legend**
- Main regulatory changes
 - Consultations / Reports
 - Settlement cycle
 - Meeting focus

1) Task Force established in 2023 and composed of a heterogeneous group of industry stakeholders impacted move to T+1 representative of all market participants (buy-side, sell-side and market infrastructure)
 2) High Level Roadmap for adoption of T+1 in EU securities markets – European T+1 Industry Task Force October 2024
 3) "ESMA assessment of the shortening of the settlement cycle in the EU" del 18 Novembre 2024

Industry recommendations for the transition to T+1



CSDR
ART 5 (2)

- **Amendment of Article 5 (2) of the CSDR** by introducing a settlement obligation by **the first business day following trading (T+1)**



SCOPE OF
APPLICATION

- **Maintain the current scope of Article 5(2) of the CSDR** in the transition to T+1 in the EU¹ (No exclusion for SFTs)
- **Maintain current settlement cycles for primary market transactions** (which may be settled on T+1 on a discretionary basis)



THE EU T+1 INDUSTRY TASK FORCE² CONSIDERS NECESSARY AN **EXTENSION OF T+1 REGULATION TO OTC** TRANSACTIONS, UNLESS OTHERWISE AGREED BETWEEN THE PARTIES

- **Temporary suspension of CSDR cash penalties over the implementation period.** Penalties would be reported as usual but not credited / debited by the CSD



CSDR
CASH PENALTIES

- Obligation to **complete the process of allocation / confirmation on the business day before intended settlement date** (i.e. trade date for T+1 transactions)
- Maintain the **current extension for parties** based on different time zones but **bringing forward the cut-off** from 12.00 CET to 10.00 CET



RTS SETTLEMENT
DISCIPLINE

REGULATORY CHANGES TO FACILITATE THE TRANSITION TO T+1

1) All financial instruments as defined by MiFID regulation (Directive 2014/65/EU) admitted on a trading venue or cleared in a European CCP
2) Rif. «High-level roadmap for adoption of T+1 in EU Securities Markets – European T+1 Industry Task Force october 2024»

Industry recommendations for the transition to T+1



TRADING HOURS

- Different options were evaluated. The **“Flexible approach” is considered the most appropriate** (trading venues can determine their hours of operation) but assumes **that there would be adjustments to the timetable for post-trade processes**



CLEARING PROCESSES

- **CCPs and Clearing Members** should **review their processes and determine what timetable changes are necessary** to comply with the start of the night-time settlement and achieve **maximum netting efficiency** (*compression of clearing processes vs delay of settlement processes*)



SETTLEMENT PROCESSES

- **CSDs** should review their **cut-off for accepting instructions from participants**. On the other hand, market participants should give preference **to intraday instructions** to CSDs rather than **bulk instructions**
- **T2S** should evaluate a **delay in the start of NTS cycles** and a third batch in the early morning
- **CDS and T2S** should evaluate a **potential extension to DvP and FoP settlement window**



**DAILY FRONT-TO-BACK TIMETABLE REVIEW
BY MARKET INFRASTRUCTURE**



INDUSTRY MATERIALS

- **Changes to industry materials** (rulebooks / contractual agreements of exchanges, CCPs and CSDs, ICMA Secondary Market Rules & Recommendations)



BEST PRACTICES

Industry associations should **develop recommendations** to:

- **Solve common causes of settlement fails** covering matching / allocation and confirmation processes (e.g. Identification of the Place of Settlement - PSET)
- Support **greater use of partial settlement**



MARKET STANDARDS

Industry associations should **define new market standards**:

- For the **storage and exchange of Standard Settlement Instructions** (SSI)
- To harmonise and review the **format of existing settlement instruction templates** for all message flows (e.g. review of mandatory fields and transaction types)



**REVIEW AND UPDATE OF OPERATIONAL
PRACTICES BY THE INDUSTRY**

Industry Roadmap

Operational steps towards October '27



OPERATIONAL
STEPS

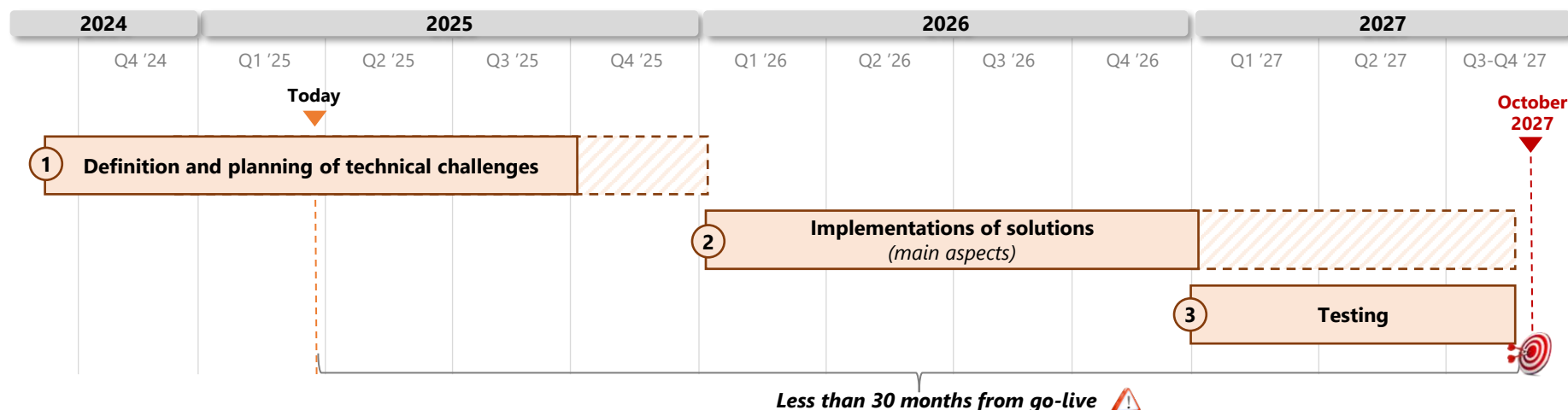
① **DEFINITION AND PLANNING OF TARGET ADJUSTMENTS**, TO BE COMPLETED BY APPROXIMATELY **Q4 '25**

② **START OF DEVELOPMENTS IDEALLY IN Q1 '26 WITH COMPLETION OF ACTIVITIES (AT LEAST MAIN ASPECTS) BY 2026**

③ **TEST PHASE**, EXPECTED TO START EARLY '27, **NO LESS THAN 6 MONTHS**. THIS PHASE WILL INCLUDE **INTERNAL AND END-TO-END TESTING** TO CERTIFY THE ENTIRE SETTLEMENT CHAIN



INDUSTRY
ROADMAP






- The objective is to identify, on the industry side, the **measures to make T+1 operational**, which could be independent of the regulatory framework¹
- **Considering the minimum timeframe for adaptation envisaged by ESMA** (no less than 32 months for the migration from T+2 to T+1), it is necessary to start as soon as possible an **assessment phase in 2025 for the definition / planning of target actions**, to allow for subsequent development activities in 2026

¹) ESMA and the EU Industry Task Force have already provided guidance on these aspects, highlighting a number of areas where interventions at industry level (trading venue, intermediaries, CCP, CSD, T2S) need to be assessed, including, for example, revision of operational processes and market standards, contractual arrangements, revision of market practices and functionalities offered by market infrastructures, modification of timetables and cut-offs of pre- and post-trading processes (assessment of the correct trade-off between advancing current trading venue side closing times vs. changing the cut-off times of post-trading processes)

US T+1 vs EU T+1

Migration comparison

Given the **complexity and fragmented nature** of existing settlement models in Europe, **the transition to T+1 will be more complex** than in North America. In particular, the introduction of **standardised and automated processes**, as has happened in the US market, **could be more difficult and costly** given the characteristics of the EU post-trading environment. Here are some examples

	 US T+1	 EU T+1	INTESA SANPAOLO POINT OF VIEW 
MEANS FOR SENDING ALLOCATIONS AND CONFIRMATIONS	Automation of pre-matching processes is facilitated by centralised management within the Tradesuite / CTM Platform	The T2S platform is highly articulated and has features that do not exist in the US context (e.g. partial settlement, penalty mechanism, hold & release..)	<i>The requirement to handle pre-matching processes in electronic, machine-readable format could increase the complexity of the current EU post trading environment</i>
SCOPE OF APPLICATION FOR PRE-MATCHING ACTIVITIES	Confirmation and affirmation processes applied to “market / broker leg” only	Request to apply pre-matching processes electronic, machine-readable format to the “Client leg” as well	<i>Need for considerable intervention on both the intermediary and client side, which in some cases may be difficult to sustain</i>
COMMUNICATION PROTOCOLS AND MANDATORY FIELDS	Harmonisation of standard messages is facilitated by centralised management within the Tradesuite / CTM Platform	At European level, there are several possible solutions for electronic communication , but each provider can use its own protocols / SSI	<i>It may be useful to define at industry level the common adoption of a standard market platform and related communication protocols, as was the case for the adoption of T2S</i>

Intesa Sanpaolo main impacted areas



Liquidity Management

- Need to review and optimize the **management of treasury forecast flows** in order to have liquidity available (reduced margins but different coverage times)
- *Possible reintroductions of **settlement Risk** for those FX transactions that are now netted within CLS with impact also on bilateral credit lines*



The output of the analysis could differ depending on the T2S model adopted by FMI (direct or indirect participant)

In the case of DCP (Direct Connected Parties), the impact could be lower as the process is centrally managed and the intervention modalities are clearer. In the case of connection through the local CSD the impact could be different (e.g. assessment in terms of liquidity needs - central bank money vs. commercial money, analysis of models offered by UK and CH)



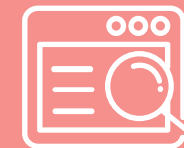
Central Counterparties

- Discussions with central counterparties on the **margin management and reporting they intend to provide** in terms of timing and channel of communication due to reduced settlement timeframes.



Business Lines

- **Analysis of Business models and processes** (Custody services provided to Financial Institutions, Captive Clients, Brokerage activities and Proprietary Trading, Asset management) **and relative client-side impact**
- Evaluations on **changes to communication protocols** and processes and on IT platforms with the introduction of AI for what has not been centralized



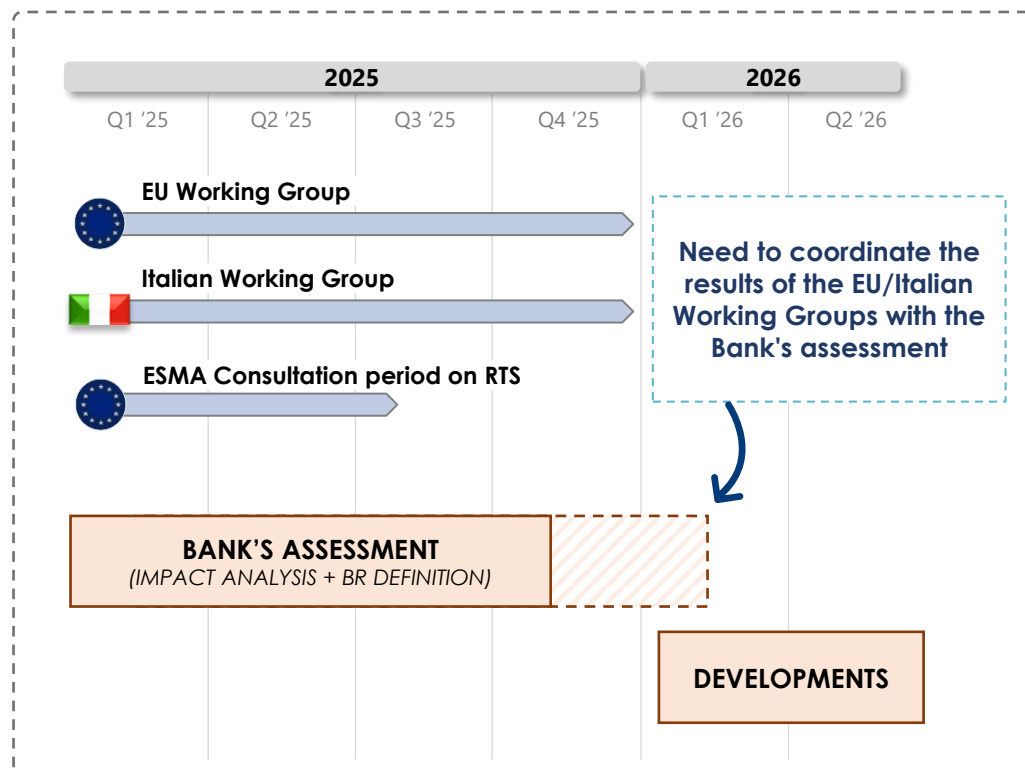
Vendors target model

- Analysis of the **target operating models** of the providers we rely on to understand how the **processes and timing of service models will evolve**

The EU T+1 project at ISP

How we are moving forward

The assessment to be carried out by the Industry could be partially independent of regulatory requirements, as it is linked to the specific context and processes of each operator in the chain. Therefore, Intesa Sanpaolo is activating an analysis phase to define the necessary measures for migration



INTESA SANPAOLO APPROACH

- ✓ Ongoing launch of an impact analysis considering the results of the technical working groups and recent ESMA publications (Final Report, RTS Consultation)



IMPACT
ANALYSIS

- ✓ Ongoing analysis on key impacted areas with the aim of defining adjustments and main Business Requirements by October '25



BR
DEFINITION

- ✓ Assessments for the implementation of AI solutions to reduce manual activities and to speed up processes



AI
SOLUTIONS

Final messages



HARMONISATION OF MARKET STANDARDS

- GIVEN THE HETEROGENEITY AND COMPLEXITY OF THE EU CONTEXT, IT IS DEEMED NECESSARY TO **HARMONISE THE MARKET STANDARDS AND SOLUTIONS TO BE ADOPTED FOR PRE-MATCHING ACTIVITIES** IN LINE WITH THE NEW SETTLEMENT TIMING

STRAIGHT-THROUGH PROCESSING

- THE MOVE TO T+1 WILL INEVITABLY **LEAD ALL PLAYERS IN THE SETTLEMENT CHAIN TO AUTOMATE THEIR INTERNAL PROCESSES** WITH A HIGH LEVEL OF STRAIGHT-THROUGH PROCESSING (STP). **THE ADOPTION OF AI SOLUTIONS COULD BE AN ACCELERATOR IN THE T+1 ADJUSTMENT PATHWAY**



COORDINATION AT INDUSTRY LEVELS

- AT THIS STAGE, IT IS IMPORTANT TO **STRENGTHEN COORDINATION BETWEEN NATIONAL AND INTERNATIONAL WORKING GROUPS**, INCLUDING UK AND SWISS PERSPECTIVES
- THE ADOPTION OF HARMONISED SOLUTIONS IS THE ONLY WAY TO **CONTAIN TRANSITION COSTS AND AVOID THE PROLIFERATION OF CUSTOM AND INEFFICIENT PROCESSES / INFRASTRUCTURES**



SCOPE OF APPLICATION OF MATCHING ACTIVITIES

- CONSIDERING THE EFFORT REQUIRED TO ADAPT PROCESSES AND APPLICATION SYSTEMS, **THE SCOPE OF PRE-MATCHING PROCESSES NEEDS TO BE PRECISELY DEFINED, HOPEFULLY EXCLUDING PRIMARY MARKET TRANSACTIONS**



GRACE PERIOD FOR PENALTY MECHANISM

- MIGRATION TO T+1 COULD HAVE A NEGATIVE IMPACT ON LIQUIDITY MANAGEMENT AND ON THE COST OF LATE SETTLEMENT OF TRADES. IT IS CONSIDERED **APPROPRIATE TO INTRODUCE A GRACE PERIOD FOR THE PENALTY MECHANISM IN THE INITIAL PHASE OF MIGRATION**

THANK YOU

Intesa Sanpaolo in brief



Loans to customers
€ 421,512 M



Direct deposits from banking business
€ 584,508 M



Market capitalisation¹
€ 74.7 Bn



Cost/Income ratio
42.7%



Shareholders' Equity²
€ 65,176 M



2024 Net Income
€ 8,666 M



3,925 Branches,
of which
24.3% abroad



21.4 million customers, of which
35% abroad

- In Italy, Intesa Sanpaolo is the banking group leader with 13.9 million customers and with a market share of approx. 22% in customer deposits and 18% in customer loans
- Intesa Sanpaolo is one of the top banking groups in the Eurozone with a market capitalisation of 74.7 billion euro¹.
- Significant ESG commitment of Intesa Sanpaolo, with a world-class position in Social Impact and strong focus on climate

Rating	Moody's	S&P Global Ratings	Fitch Ratings	DBRS
Long term senior preferred (unsecured)	Baa1	BBB	BBB	BBB (high)
Short term	P-2	A-2	F2	R-1 (low)

Market shares in Italy		Ranking
Loans	17.8%	1°
Deposits ³	21.6%	1°
Assets Management ⁴	21.2%	1°
Pension Funds ⁵	24.4%	1°

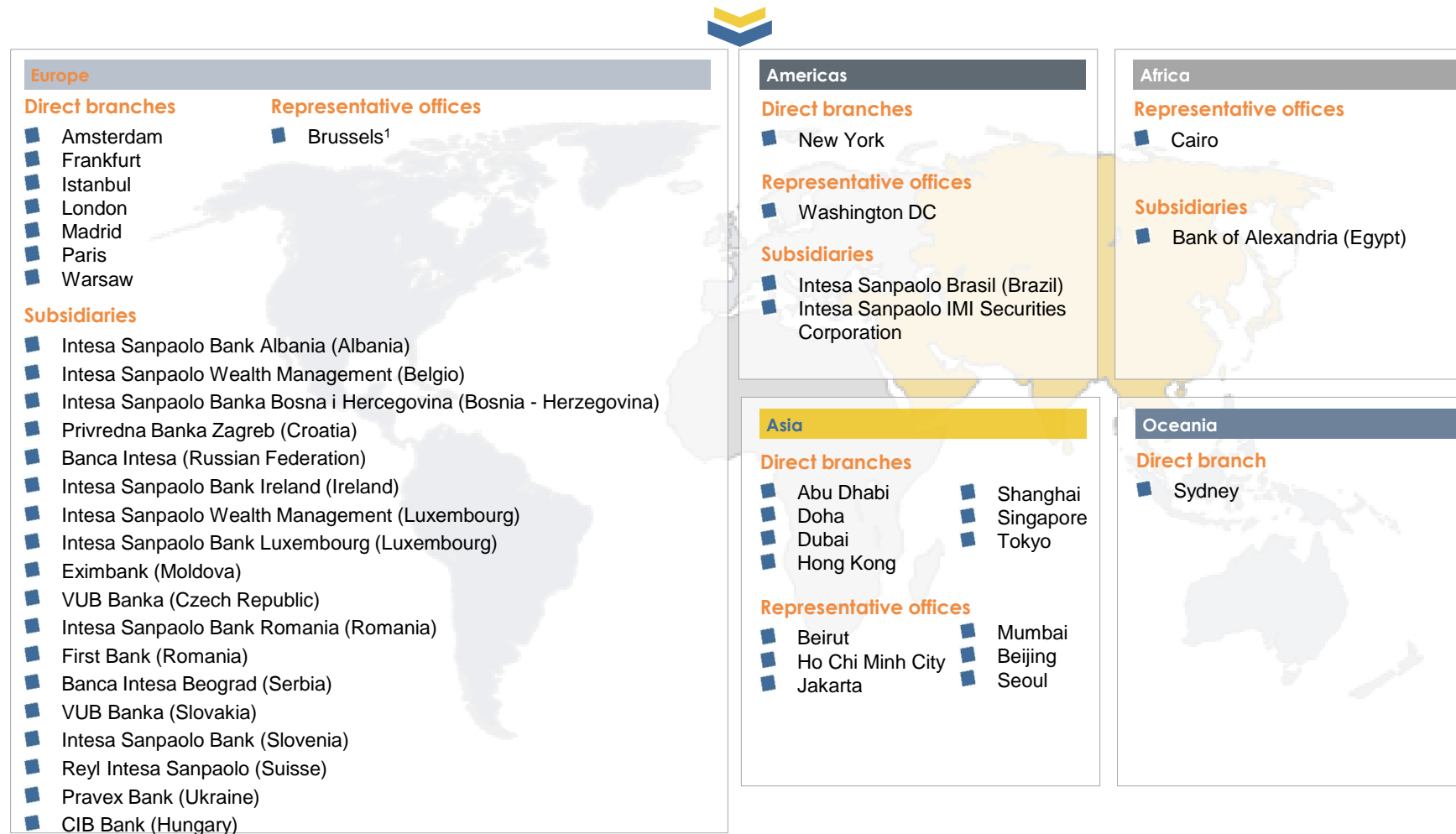
Note: Figures as at 31 December 2024

1. As at 31 January 2025 2. Including Net Income 3. Including bonds 4. Mutual funds; figures as at 30 September 2024 5. Figures as at 30 September 2024

Source: Intesa Sanpaolo website (About us)

Intesa Sanpaolo: the international network

Intesa Sanpaolo can boast a strategic international presence with more than 900 branch offices and 7.5 million customers, including subsidiary banks dealing in commercial banking, in 12 Central Eastern European countries, the Middle East and North Africa, and an international network specialised in supporting corporate customers in 25 countries.



Figures as at 31 December 2024
1. European Regulatory and Public Affairs