

MEMO# 36030

February 24, 2025

EU T+1 Updates: Legislative Proposal and Consultation on Amendments to the RTS on Settlement Discipline

[36030]February 24, 2025TO:ICI Members

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T+1 UK/EU Implementation Working GroupSUBJECTS:International/Global

Operations

Settlement

Trading and MarketsRE:EU T+1 Updates: Legislative Proposal and Consultation on Amendments to the RTS on Settlement Discipline

European Commission Legislative Proposal

On 12 February, the European Commission (EC) introduced a legislative proposal with an amendment to the Central Securities Depository Regulation (CSDR) to support the shortening of the settlement cycle in the European Union (EU) from two days after the trade date (T+2) to one day after the trade date (T+1) for transactions in transferable securities executed on trading venues.[\[1\]](#)

The Legislative Proposal recognises that the CSDR already permits transactions to settle on a T+1 basis, but it is not required. Consistent with the recommendation of the European Securities and Markets Authority (ESMA),[\[2\]](#) the proposed revision would apply from the transition date of 11 October 2027 and is very targeted. The sole change is to the time by which settlement must take place, replacing the reference to the "second business day after the trading takes place" to the "first business day after the trading takes place."[\[3\]](#)

European legislators are advocating for the Legislative Proposal to proceed rapidly.

ESMA Consultation on Amendments to the RTS on Settlement Discipline

In further support of the transition to T+1, on 13 February, ESMA published a consultation paper with proposed amendments to the Regulatory Technical Standards (RTS) on

Comments on the Consultation are requested by electronic reply form by 14 April 2025. ESMA will consider the feedback and is expected to submit the revised RTS to the EC by October 2025.

Overview

The Consultation includes a set of proposals to increase settlement efficiency and requests some comments on potential future regulatory changes. In addition, ESMA is also proposing to update and add additional reporting and public disclosure requirements around settlement failures. ESMA is also using the Consultation to seek feedback on additional measures to enhance settlement efficiency, where regulatory action is not required.

Adjustments to the Settlement Timelines

The RTS currently establishes two alternative deadlines for clients to submit written allocation and confirmation of their investment firms. ESMA proposes to tighten these deadlines as follows.

Client typeScopeCurrentProposed

Professional Client

(Same time zone as Investment Firm)

Transactions executed before 16:00 Central European Time (CET)Close of business on trade date.
Close of business on trade date.Transactions executed after 16:00 CET12:00 CET on T+1
Close of business on trade date.Professional Client (More than two hours between time zone of client and Investment Firm)
All transactions12:00 CET on T+110:00 CET on T+1.
Retail ClientAll transactions12:00 CET on T+110:00 on T+1

ESMA asks whether it should pursue another option, which would oblige investment firms to notify professional clients of execution details upon execution (in a way that allows straight-through-processing (STP)), to facilitate the prompt start of the allocation and confirmation process. This approach would not include fixed deadlines but would rather give clients a specified number of business hours to allocate and confirm trades following the investment firm's notification.

At this stage, ESMA considered, but did not have evidence to support, a regulatory alignment of CSD opening hours and business day schedules.

Means for Sending Allocations and Confirmations

ESMA proposes to add a new requirement that written allocations and confirmations be in a machine-readable electronic form, which is necessary to promote the adoption of STP. As an alternative, ESMA would still seek to promote the use of machine-readable submissions. Investment firms would be given the option of setting earlier deadlines for clients using non-machine-readable formats.

ESMA also proposes to mandate using international standards for data usage and exchange to ensure automated information exchange among market participants, efficiency, and better data quality. The proposal does not specify any particular standard at this time, but ESMA is considering a future amendment to require the use of ISO 20022.

ESMA is considering mandating the use of Unique Transaction Identifiers (UTI), finding their use should be encouraged as market practice.

Standard Settlement Instructions (SSI)

ESMA is encouraging the industry's proposal to develop market standards for the storage and exchange of SSI and preliminarily finds that regulatory change is not necessary to support this development. ESMA also declines to require a specific timeframe for sending settlement instructions to securities settlement systems, observing that acceleration of the settlement cycle should naturally increase the speed of this part of the process.

The Consultation asks questions but declines to require several fields in written allocations or settlement instructions, including:

- Place of settlement (PSET): ESMA recommends that this should be established through market practice.
- Place of safe keeping (PSAF): ESMA states that there is insufficient evidence to require PSAF as a mandatory field for settlement instructions and supports industry efforts to develop a template or instructing cross-border realignments.
- Transaction Type: ESMA is concerned that mandating transaction type would contribute to a rise in settlement fails because of inconsistent usage of transaction codes.

ESMA is also considering whether clients should be required to submit static data for settlement in advance. ESMA has preliminarily determined such a requirement would improve settlement efficiency and facilitate T+1 settlement but has not decided to make a regulatory change at this point.

Hold and Release and Partial Settlement

Under the current framework, CSDs are required to set up a "hold and release" mechanism that permits participants to block pending settlement instructions for the purpose of settlement and subsequently release that hold. However, CSDs do not need to ensure this functionality when the value or rate of settlement fails is below certain thresholds. ESMA observes that most CSDs already offer the hold and release function. ESMA also finds that consistent use across CSDs can help reduce settlement fails.

ESMA proposes to revise the RTS to remove the provision that allows CSDs to disapply the hold and release function, so that hold and release is available at all times.

The Consultation distinguishes between two types of partial settlement. Auto partial settlement is a feature that allows transactions to be automatically settled throughout the day. If the full quantity of securities is not available, the CSD will settle the available portion. No manual intervention is required. Partial release involves a manual release of part of a transaction that has been placed on hold due to insufficient securities.

Under the current RTS, CSDs may provide for partial settlement, but are not required to do so when the value or rate of settlement fails is below certain thresholds.

ESMA proposes to require all CSDs to offer partial settlement unless one of the participants opts out or a settlement instruction is put on hold. In addition, ESMA asks whether there are other ways to incentivise partial settlement and whether there are any types of transactions that should not be subject to partial settlement.

Given these changes, ESMA declines to require the implementation of a shaping process that splits delivery of large amounts of securities or collateral into several smaller deliveries. Rather, ESMA encourages market participants and CSDs to adopt shaping as a

best practice.

Real-Time Gross Settlement and Batch Settlement

The RTS currently permit CSDs to offer participants the option of real-time gross settlement throughout each business day or a minimum of three settlement batches per business day, with the batches spread across the day in accordance with market needs.

ESMA is seeking feedback on whether CSDs should be required to offer real-time gross settlement for a minimum window each business day in addition to the requirement for the minimum number of settlement batches. The Consultation also asks whether the minimum number of settlement batches should be adjusted.

Credit Mechanisms to Support Settlement

ESMA proposes to require CSDs to implement an auto-collateralisation facility for the provision of intraday credit. Auto-collateralisation is a credit operation that is triggered when a buyer does not have sufficient funds to settle a securities transaction. The credit must be secured with securities. At the end of the day, all auto-collateralisation operations are reimbursed, so that no overnight credit is extended. The securities used for collateral may be those which are about to be purchased, if the buyer has sufficient cash to cover the possible haircut, or other securities that the buyer already holds.

ESMA reached a preliminary view that auto-securities lending could be useful, but that it is not strictly necessary to implement T+1 and would require some CSDs to implement significant changes.

Amendments to Reporting Requirements and Public Disclosures

ESMA is proposing to make several amendments to CSD reporting requirements and public disclosures.

- Top failing participants: ESMA proposes to add requirements to specify the calculation method and format of ranking to increase the consistency and usefulness of this information.
- Reasons for settlement fails: The Consultation proposes to add a reporting requirement to specify the reason for settlement fails at the participant level. This revision would require participants to provide this information when it is not available to the CSD.
- Breakdown of settlement fails by asset class: The Consultation proposes revisions to CSD public disclosures on settlement fails to include information on the breakdown of the settlement fails by asset class.

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Notes

[1] EC, [Proposal for a Regulation of the European Parliament and of the Council amending Regulation \(EU\) No 909/2014 as regards a shorter settlement cycle in the union](#) (12 February 2025) (Legislative Proposal).

[2] ESMA, Report: [ESMA assessment of the shortening of the settlement cycle in the](#)

[European Union](#) (18 November 2024) (ESMA Report).

[3] Revising Paragraph 2 of Article 5 of the CSDR (Regulation (EU) No 909/2014)).

[4] ESMA, [Consultation Paper on the Amendments to the RTS on Settlement Discipline](#) (13 February 2025) (the Consultation) (proposing amendments to CDR 2018/1229).

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