

Investments Funds | Getting ready for T+1 Settlement in Europe

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Getting Started

Here with you today



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Agenda

- 1 Setting the Scene
- 2 Impacts and Challenges
- 3 What's next?

Setting the Scene

Introduction

Exploring T+1 settlement

What is T+1?

- Markets are transitioning to a shortened standard settlement cycle for most routine securities trades, moving from two business days after the trade date (T+2) to one business day after the trade date (T+1).

Why T+1?

- The shift to a T+1 settlement cycle is aimed at reducing the time between trade execution and settlement, thereby reducing risk and increasing market efficiency and is expected to be global norm soon.

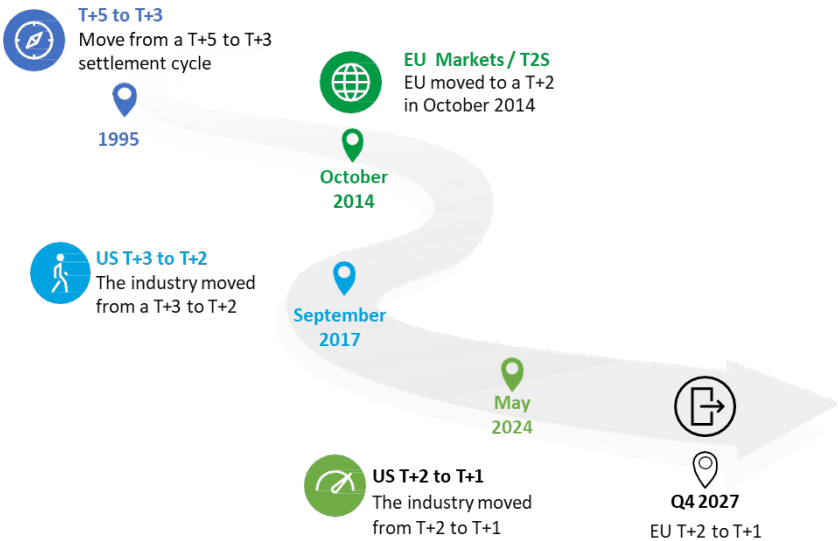


Context and Objectives

There are 30 months left for the ESMA-recommended move to T+1 in the EU

CONTEXT







Over the last years the capital markets and market infrastructure have reduced the trade and post-trade settlement cycle from T+5 to T+1



On 18 November 2024, ESMA released a report recommending the EU to move to a T+1 settlement cycle in October 11th 2027, aligned with the UK and Switzerland. The recommendation comes after the US, Canada, and Mexico moved to T+1 in 2024, with several other jurisdictions (e.g., in South America), planning a move in the future.

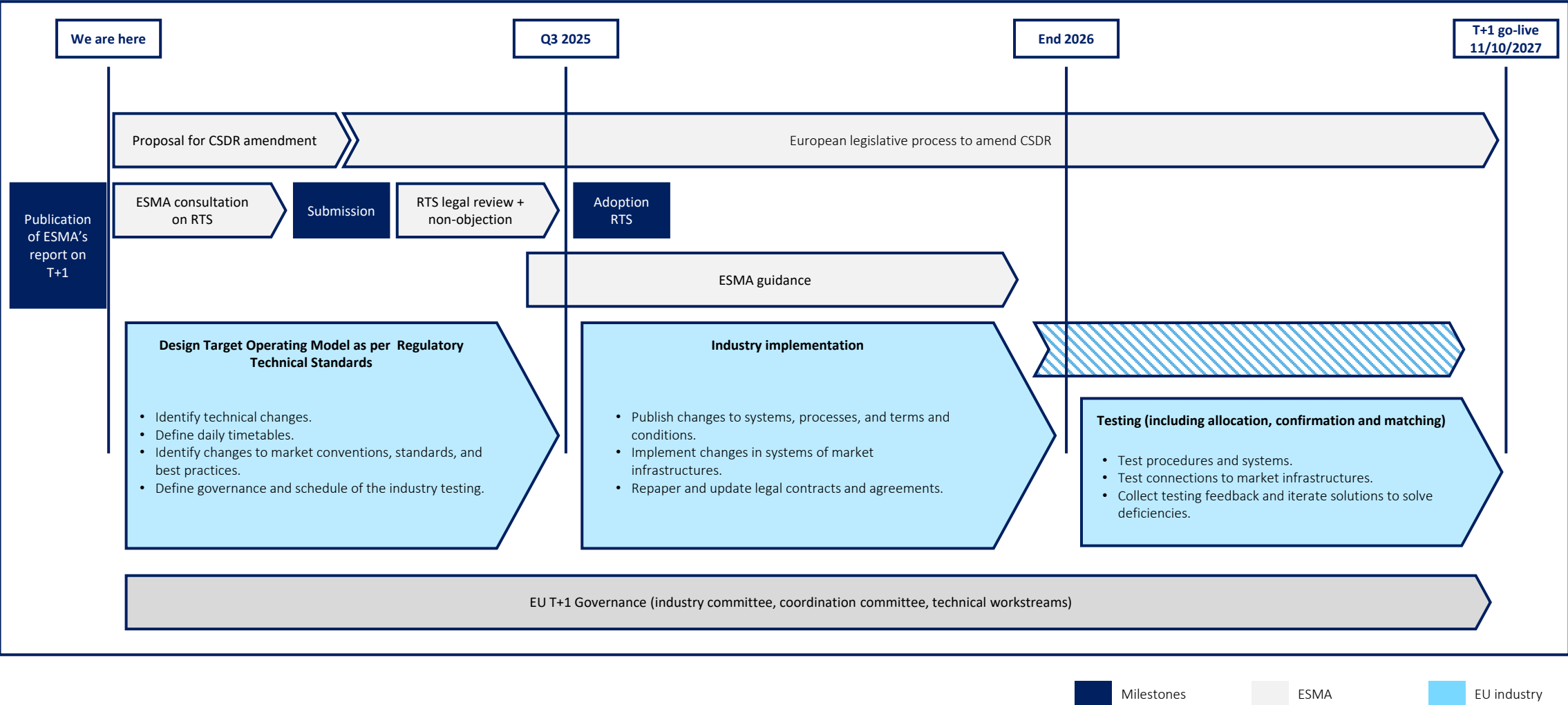
OBJECTIVES

T+1 is expected to meet the following objectives and benefits:

-  Reducing open positions and CCP margin requirements (up to 42% daily margin reduction).
-  Aligning with T+1 jurisdictions (China, India, US, Canada, Mexico, etc.) and improving the EU markets attractiveness.
-  Correcting the misalignment between securities (T+1) and ETF share (T+2) settlement.
-  Solving market fragmentation of the T+2 vs. T+1 approach for corporate events in the EU.
-  Enabling to deploy enhanced operational efficiency within your organization.
-  T+1 will have a major impact in the entire securities value chain (including trade, post-trade, and custody activities). ESMA assumes a higher level of automation for a successful transition. In the US, firms not investing in automation faced up to 20% increase in staff cost.

Timeline and Approach of T+1 in the EU

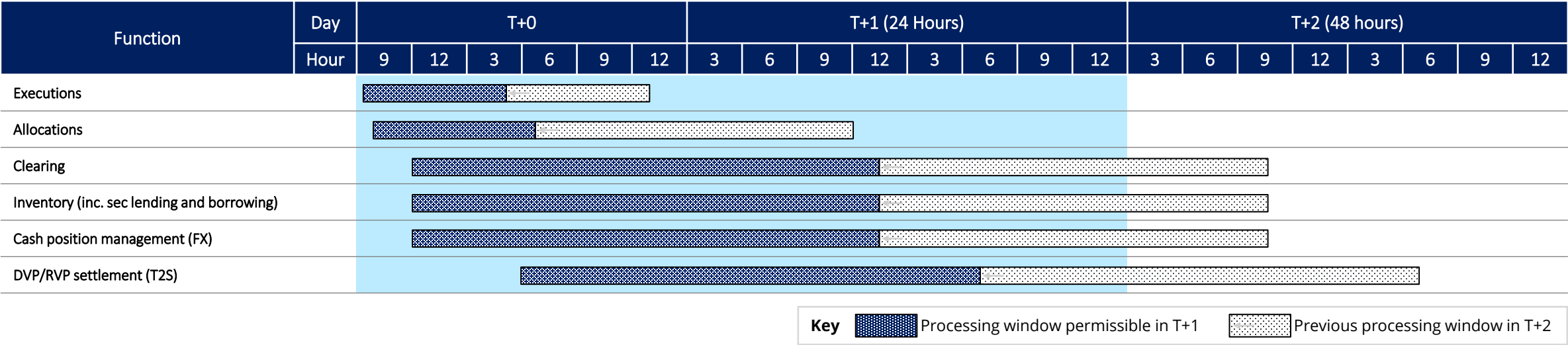
ESMA recommends that European firms start to focus on defining solutions to the technical challenges and impacts of T+1, a work that should be finalized by Q3 2025.



Impacts and Challenges

Where are the challenges and impacts of T+1 on your organization and your clients

Under T+1, the work time to perform the 75+ subprocesses along the entire securities value chain can be reduced by up to 90%



15* out of 75 (20%)
post-trade subprocesses impacted by the move to T+1.

2-4h of worktime
to perform all settlement activities (down from 24h under T+2).

16-18% staff cost increase
on average for firms which did not prepare in advance for T+1 in the US.

2.5 years
time recommended by ESMA as the ideal duration for the transition period.



With these challenges in mind, you should:



Assess ESMA’s timeline and plan your T+1 readiness journey to ensure sufficient time for testing.








Evaluate your current STP rates and identify improvement opportunities and implementation needs.



Identify needs to update or renegotiate contractual documentation and engage with suppliers / partners.

Why does it matter?


Due to the challenges of the reduced timeline, significant improvement of trade and post-trade process efficiency will be needed

Challenge*	Impact description	Firm	Clients	Required operational efforts
 Trade processing automation	Under T+1, processing time reduces from 24h to 2-4h , requiring efficient and automated trade processing and client adherence to new operational requirements to support this automation, including client interfaces.	✓	✓	<ul style="list-style-type: none"> Analysis of exceptions, including KYC checks (i.e., scenarios preventing STP). Deployment of changes to resolve exceptions. Testing and mitigation of deficiencies (processes, systems, and communication with counterparties).
 Settlement batch increase	To ensure sufficient time to perform residual manual intervention , additional settlement batches (and changes to T2S) could be implemented.	✓	✓	<ul style="list-style-type: none"> Adjustment of system parametrization and follow-up on changes to T2S. Adjustment of process timings due to counterparties defining new trading cut-offs and communication of new internal cut-offs to clients.
 Accurate and timely matching	Trade matching/processing must be close to 100% STP . The number of time zones, work times, and CCPs further complexify the situation. Firms might need to increase their workforce to tackle any exceptions.	✓	✗	<ul style="list-style-type: none"> Review of contracts with counterparties to ensure processing alignment (timing and covered hours). Review of processes and/or expansion of workforce / work hours to accommodate potential increase in manual intervention needs.
 Manual handling of exceptions	Firms may need to increase their workforce to address exceptions (e.g., night shifts to handle exceptions across time zones).	✓	✗	<ul style="list-style-type: none"> Analysis of manual exceptions to be processed (sample-based). Assessment of manual intervention needs and their seasonality.
 Efficiency of Business Processes	<ul style="list-style-type: none"> FX: Mismatch between T+1 securities settlement and T+2 FX settlement cycles creates funding pressure. NAV: In case the securities settlement and the sub./red. cycles are not aligned, discrepancies might arise in fund accounting and NAV calculations. Allocation, Affirmations and confirmations: reduced timing. 	✓	✓	<ul style="list-style-type: none"> FX: Analysis of possible pre-funding needs and cash forecasting. NAV: Review of current NAV calculation timings and preparation for potential impacts.


Lessons learned from the US

Despite the increased complexity of moving to T+1 in the EU when compared to the US, some lessons can be learned


Lessons learned




The preparation to T+1 should start early (>1 year in the US).




STP rates of close to 100% are required to ensure timely settlement.



Implementation costs average EUR3-10m, with average EUR0.5m yearly run costs.




Workforce costs are the major contributors to the cost increase (approx. 2/3 of cost).




Match-to-instruct tools (e.g., DTCC CTM) are key to ensure timely settlement.


How the transition was managed




Industry-led “big bang” transition (all asset classes at once).




Most large players invested in upgrades to their systems.



Focus was put on ensuring high automation rates.




Significant adherence from market players to testing with CCPs.




Extensive industry coordination (via guidelines, workgroups, etc.) by SIFMA, DTCC, ICI, and others.

DIFFERENCES BETWEEN THE EU AND THE US




Market complexity

The **multiple CCPs and jurisdictions** in the EU, increase the difficulty in making changes and ensuring practices which work for everyone.




Difficult market timings

Different market closing times and several CCPs **working until much later** in the day complexify the EU landscape against the US.




Lack of automated distribution

In the EU **there is no tool to automate the distribution of information** from CCPs to market players (such as DTCC CTM in the US).



Punishing settlement landscape

The EU applies **fines for failed settlement** under the CSDR, in addition, settlement of cash happens in DTCC compared to T2S in Europe.

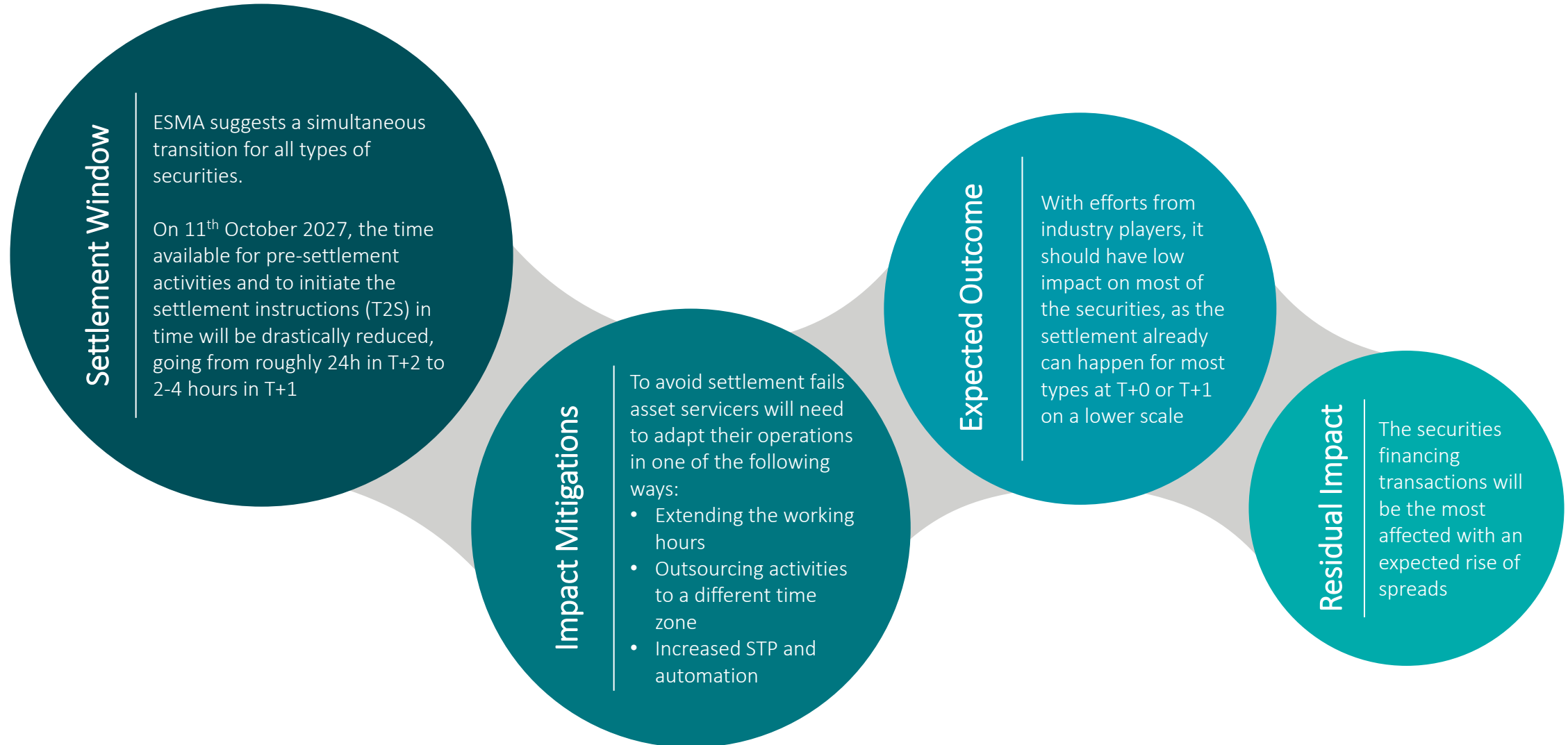


Lower automation

With the automation of settlement processes being a success factor in the US, the **lower automation rates in the EU** are concerning.

T+1 Impacts

ESMA has concluded that with industry efforts it is possible to avoid the negative impacts of T+1



Optimizing T+1 Settlement for IFMs

Key Recommendations for IFMs and their Market Participants

High-level impact

Depository Bank

- Adapt settlement infrastructure, including **speeding of DVP processes**
- Enhance collaboration with **FA, brokers, and TA** to **ensure intraday settlement**
- Enhance **risk management frameworks**

Portfolio Manager

- Focus on **liquidity management** and **funding**
- Processing of **real-time data**
- Operational **risks and process adjustments**
- Handling of **currency exchanges** and management of **foreign exchange risk** adjustment

Brokers

- System and process adjustment
- Stakeholder **communication** and **risk management**

Investment Fund Manager

Fund Administrator

- Accelerate **NAV processing**
- Enhancement of **custodian collaboration**
- **Streamline settlement** changes across functions and processes

Transfer Agent

- Consider to implement **real-time order processing** and **reconciliation**
- Enhance **monitoring** and **reporting capabilities**
- Conduct comprehensive impact analysis on **special pricing mechanism**

Distributors

- Educate and inform clients
- Update **client communications** and enhance **client support**
- Ensuring readiness to adapt to process changes

Investors

- Ensuring readiness to adapt to process changes

General Recommendations

- Ensure effective settlement throughout implementation & post-implementation phase, and maintain oversight over delegated processes
- Update of legal and communication documents (e.g. general terms and procedures, prospectus, KID, etc...)
- Leveraging on insights and lessons learned from US T+1 implementation

What's next?

Next steps

Priorities for firms to start their implementation journey



Check ESMA's proposed timeline and adjust your planning accordingly.



Assess current STP rate and prepare to implement changes to get close to 100%.



Evaluate need to adjust or renegotiate contracts with clients and providers to ensure respect for new deadlines.



Quantify workforce appropriateness and prepare for potential hiring needs.

How can Deloitte support you?

We have developed a strong knowledge of the requirements and challenges related to T+1

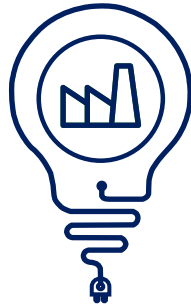
We've already guided the industry to T+2 and were central to the US T+1 transition



Deloitte has assisted SIFMA with studying T+1 impacts in the US and we have supported firms with the US T+1 migration.

- Facilitated daily SIFMA working group sessions with 100+ participants and issued an industry report with SIFMA with recommendations on the move to T+1.
- Successfully supported Clients in Luxembourg with readiness for the US T+1.
- Published the T+1 Implementation Playbook with SIFMA.
- Published the T+2 Industry Implementing Playbook in 2017 and supported several major firms with implementation.

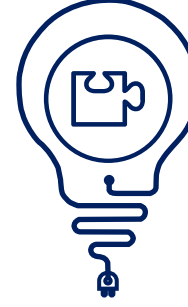
We're leading industry-wide transformations



Deloitte is a leader in major industry organizational, operational, and technical transformation projects.

- As one of the largest professional services firms worldwide, we have a proven track record in delivering end-to-end business transformations for financial institutions on a global scale in capital markets and beyond.

We understand market infrastructure and securities markets



Deloitte is uniquely positioned to support the move to T+1 due to our extensive knowledge of market infrastructures and securities.

- We understand securities markets in Luxembourg and have collaborated with the major securities services' providers for the past 25 years.
- We have extensive experience in market infrastructure topics, from both a regulatory as well as operational perspective.

We have extensive experience in capital markets



Deloitte has supported the largest participants in the banking and capital markets industries for over 25 years.

- We have led a successful US T+1 assessment and implementation project for a major Custodian in Luxembourg.
- We have extensive experience and expertise of your industry, processes, and clients.
- We understand the processes related to the entire securities' value chain.
- You will benefit from our expertise in EU capital markets, financial markets infrastructure, and regulatory knowledge.

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Next Link'n Learn webinar

Date: 16/04/2025

**Topic: Risk & Asset
management | Distribution
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management - The ManCo as
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