

## T+1 IN EUROPE, FROM COMPLIANCE TO COMPETITIVE ADVANTAGE



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In May 2024, North American (NA) markets shortened their settlement cycle from T+2 to T+1 for equities, bonds, ETFs, certain mutual funds, and limited partnerships that trade on an exchange. This SEC-driven reform aimed to reduce systematic risk by shortening counterparty exposure.

The transition impacted approximately 7,000 securities within NA equity markets, processing USD 550-600 billion daily. By comparison, European equity markets handle EUR 300-400 billion daily, across a far more fragmented landscape.

The result of this reform has seen North America steal a march over Europe, as the gap between the competitiveness and attractiveness of these markets has widened.

To address this, the European Securities and Market Authority (ESMA) published its T+1 report on the reduction of the securities settlement cycle in the European Union, in alignment with the UK and Switzerland. This would ensure a more integrated and efficient financial market, avoiding fragmentation between member states. The new rule is expected to enter into force on 11 October 2027, allowing for a smooth transition and adequate preparation of market participants.

### CHALLENGES & LESSONS FOR EUROPE AND SWITZERLAND

Europe has a more complex landscape than NA for post-trade services, with more than 30 Central Securities Depositories (CSDs), 41 trading venues, multiple

currencies and time zones. As a result, the introduction of T+1 will be more complex to coordinate.

In addition, the current definition of the regulatory framework makes it hard to assess the overall impact of the changes with negotiations ongoing within the European Union to finalise the agreement.

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However, the North American transition shows that a reduction in execution times, throughout the supply chain, has operational impacts on matching trades, reconciliation and settlement activities, corporate actions and events management. In shrinking the resolution window, there is no more one-day buffer to correct trading errors or mismatches in confirmations.

With T+1, each fail is more costly, and the time to detect it is cut in half. The transition may lead to a higher risk of settlement failure and financial penalties. In Europe, which has a 2-3% rate of settlement fails (30-40 billion EUR at risk), the transition to T+1 will amplify both risks and penalties under the Central Securities Depositories Regulation (CSDR). Impact on liquidity management may also occur due to a tight timeline when operational issues occur.

### KEY ADVANTAGES FOR CLIENTS

The NA experience shows that speed brings both resilience and pressure. For Europe and Switzerland, the stakes are higher due to market fragmentation and cross-border complexity. However, the transition to T+1 should not be seen merely as a compliance burden, but as an opportunity to deliver real value to private banking clients.

Indeed, the shift to T+1 brings several tangible benefits. It ensures faster access to liquidity, as proceeds from securities sales become available a day earlier.

This allows clients to reinvest more swiftly in opportunities such as IPOs, private placements, or bond issues, enhancing their ability to act in volatile markets. At the same time, a reduction in settlement times can increase portfolio agility with less capital tied up in pending transactions, allowing clients to mobilise their wealth more flexibly across asset classes and currencies.

The shorter cycle also reduces counterparty and operational risk, providing clients with stronger assurance that their assets are safeguarded throughout the transaction process. At the same time, the push for automation and Straight-Through Processing (STP) will gradually reduce the indirect costs of transactions, a gain that will ultimately benefit clients as banks streamline their operations. Finally, by aligning with NA and adopting global best practices, Swiss banks can demonstrate that their clients are served under the most advanced international standards, reinforcing Switzerland's position as the trusted hub for cross-border wealth.

For Swiss private banks, managing over USD 2.5 trillion in cross-border assets, even a 0.1% improvement in settlement efficiency translates into billions unlocked for reinvestment. This convergence of tighter settlement deadlines with broader regulatory reforms positions operational excellence as a strategic enabler.



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