All Aboard the Train Bound for T+1 – Next Stop October 2027

On 11 October 2027, the financial markets of the European Union (EU), United Kingdom (UK), and Switzerland and Liechtenstein, will, or are considering moving to a T+1 settlement cycle, bringing them into line with other financial centres that have already commenced or completed the move.

In this article we consider each of these proposals in more detail in terms of background leading up to the proposals, suggested approaches, along with actions still to be taken.

European Union

Why move to T+1

The EU needs to do more to unlock the financing necessary for the digital, green and social transition as well as to boost growth according to the European Commission's (EC) Staff Working Document on Amending CSDR as regards a Shorter Settlement Cycle in the EU.

The EC's paper notes that efficiently functioning and deep capital markets are a necessary condition for achieving that goal, but that EU capital markets remain fragmented despite substantial efforts to integrate them over the years.

This was also confirmed by a number of reports during 2024, including the Draghi report and the Letta report. These reports, as well as the Noyer report, also underline that the competitiveness and attractiveness of EU capital markets, and their ability to deliver the financing that the EU needs, can only be achieved if those markets embrace innovation.

The Savings and Investments Union (SIU) also needs to be built on efficient and safe post-trade services which, amongst other things, play a key role in the issuance of securities, finalisation of trades (settlement), keeping track of the ownership of securities as well as managing and reducing risks (clearing).

Regulation of settlement cycles in the EU

As regards the settlement cycle in the EU, this is regulated by the Central Securities Depository Regulation (CSDR) and has been harmonised at T+2 since October 2014 (in advance of the 1 January 2015 regulatory deadline).

Many jurisdictions have followed the EU move to T+2. However, since then, financial markets and technology have continued to evolve and, today, a growing number of capital markets have moved or are planning to move to T+1 settlement. See our article "The sliding scale for global settlement cycles" for further details.

In anticipation of the global trend to reduce the settlement cycle timeline, CSDR refit, adopted in December 2023, mandated the European Securities and Markets Authority (ESMA) to prepare a report assessing the appropriateness of shortening the settlement cycle in the EU. ESMA published its report on 18 November 2024, recommending that the EU move to T+1 no later than 11 October 2027.

On 12 February 2025, the European Commission (EC) also published a proposal on shortening the settlement cycle in the EU from two days to one along with a legislative proposal to introduce a targeted amendment to the Central Securities Depository Regulation (CSDR).

The CSDR amendment is simply an amendment to Article 5, where paragraph 2 is replaced by: "…the intended settlement date shall be no later than on the first business day after trading takes place…"

The requirement above will not apply to transactions which get negotiated privately but executed on a trading venue, to transactions which are executed bilaterally but reported to a trading venue or to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form under Article 3(3) of CSDR.

The aim of the proposed amendment is to shorten the settlement cycle in the EU from two days (so called "T+2") to one ("T+1") for transactions in transferable securities – such as shares or bonds – executed on trading venues.

Additional complexity of EU markets moving to T+1
According to the EC Q&A published alongside the proposal, T+1 settlement in the EU is already technically and legally possible, and already happening for some asset classes, such as sovereign debt.

However, the complexity of EU capital markets – due to multiple different actors, systems and currencies involved, compared to other jurisdictions which settle at T+1, would make coordinating the move in the EU challenging for the industry.

EU market participants have therefore indicated a strong preference for amending the CSDR, whilst legal certainty as to the date of the transition will also ensure market buy-in and facilitate a harmonised and coordinated shortening of the settlement cycle in the EU.

The EU proposals
The EC is proposing 11 October 2027 as the appropriate date for the move to T+1 settlement. This takes account of the recommendations set out in the ESMA report as well as input gathered via meetings with public and private sector stakeholders.

The EC noted that this proposed timeline would give market participants approximatively 6-9 months to develop an operational roadmap and agree on standards and processes, 12-18 months for implementation, and 9-12 months for testing to help ensure an orderly and successful introduction of T+1 on EU capital markets.

Future proofing
Whilst the proposal sets a maximum duration for the settlement cycle at T+1, it does allow market participants to settle their transactions faster, at T+0. Though this will of course likely require automation, with the associated budget approvals.

EU's next steps
Following submission of the proposal to the European Parliament and the Council for their consideration and adoption, the changes will only enter into force once the co-legislators have reached an agreement on the proposal and after its publication in the EU Official Journal.

United Kingdom

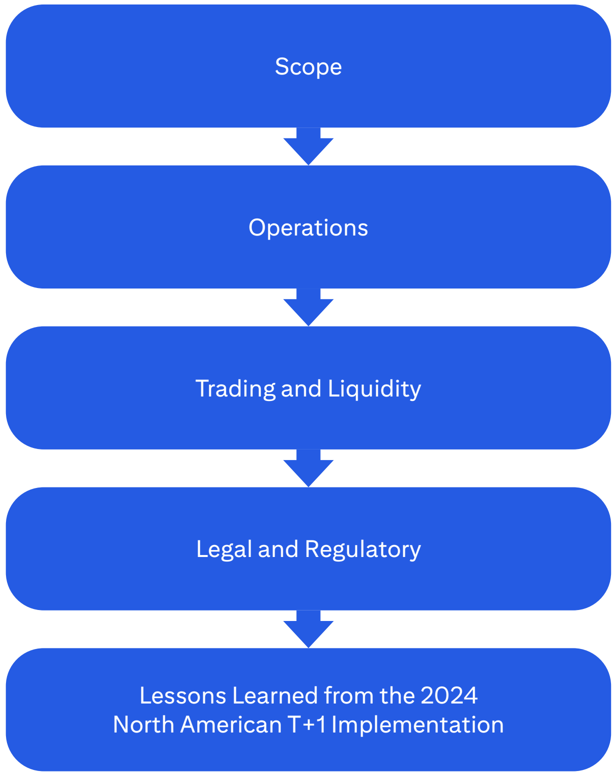
The UK adopted CSDR (now UK CSDR post-Brexit) and T+2 along with the EU in 2014.

With UK financial markets facing the same pressures as their EU counterparts, the UK government announced the creation of the UK Accelerated Settlement Taskforce (AST) in December 2022, tasked with examining the case for trades to be settled more quickly in the UK, including moving to a T+1 standard settlement period.

Following an interim report in March 2024, the AST published, on 6 February 2025, a plan (UK Plan) to move to faster settlement of securities trades on UK financial markets.

The publication of the UK Plan represents the final deliverable from the AST in its current form and is the culmination of two years of detailed analysis, debate, and design by 450+ subject matter expert volunteers from 116 Market Participant firms across the UK post-trade industry.

The AST created five focused workstreams:



The UK Plan recommends that the first day of UK cash securities trading for settlement on a T+1 cycle should be 11 October 2027, and that this date should be set by the government by amending the relevant part of the UK CSDR.

It also recommends the scope of changes needed to UK CSDR to facilitate the transition to T+1 in the UK whilst remaining flexible enough to accommodate additional jurisdictions such as the EU and Switzerland (which have now chosen to transition on the same date as the UK). These scope changes will be amendments to UK CSDR executed by statutory instrument.

The UK Plan also defines a UK T+1 Code of Conduct containing the scope, a timetable of recommended actions to enhance market practices and a set of expected behaviours necessary for UK Market Participants to meet their T+1 legislative obligations under UK CSDR.

Finally, the UK Plan answers the two most asked questions in relation to a transition to T+1. What do I need to do? When do I need to do it by? It also identifies twelve critical actions in four business areas which all Market Participants need to implement to help ensure a sustainable transition to T+1.

The UK Plan breaks down the actions by instrument and transaction types.

Mutual Funds
Whilst mutual funds are not within scope of T+1, the UK Plan notes that they are nonetheless directly impacted as their underlying securities will settle more quickly than their subscription and redemption periods, exacerbating the existing funding gap given that many mutual funds currently have a T+3 or T+4 subscription and redemption cycle.

The UK Plan therefore recommends that subscriptions and redemptions take place on T+2, which would be the day after underlying securities of the funds settle.

For further details of all instrument and transaction types, refer to the full UK Plan.

HM Treasury to legislate
On 19 February 2025, HM Treasury (HMT) published its response to the AST report, accepting the recommendation of 12 'critical' and 26 'highly recommended' actions to facilitate a successful transition to T+1 and will introduce legislation making this change.

HMT further accepts the recommendation of T+1 coming into effect on 11 October 2027 and will legislate for T+1 to be mandatory from this date.

On this basis, HMT states that firms should now begin preparations for 11 October 2027 to be the first day of trading under a T+1 standard. HMT says it is engaging with European bodies to support aligning this outcome with the EU markets.

In addition, HMT has also published a policy paper on the Terms of Reference of the AST, confirming that they have accepted all recommendations made and to update the objectives and governance structure of the Taskforce as it moves into the next phase of its work.

UK industry engagement
Further to this, on 20 February 2025, representatives of the UK government and regulators spoke at the UK T+1 Accelerated Settlement Market industry event to confirm their support of the UK's move to a T+1 settlement cycle on 11 October 2027.

The FCA also published a new webpage the day before, confirming that the FCA expects firms to engage with the recommendations of the AST to understand which are relevant for them, determine what is required to move to a T+1 settlement cycle, and plan early to deliver this transition.

This can include budget considerations, operational systems changes and testing, agreements with third-party providers and counterparty arrangements. The FCA may have discussions with firms directly or via trade associations to understand how firms are preparing for the deadline.

Switzerland
The Swiss Securities Post-Trade Council (swissSPTC) has also made a recommendation in line with the EU and UK ambitions.

The recommendation is that the transition to a T+1 Settlement Cycle for the domestic markets in Switzerland and Liechtenstein should occur in October 2027.

SIX, the operator of the Swiss exchange, has acknowledged the recommendation and will commence the process of seeking approval to adjust the Rule Book of SIX Swiss Exchange to accommodate the change of the settlement cycle at the appropriate time.

The proposal has also been confirmed by the State Secretariat for International Finance.

The swissSPTC Task Force T+1 will now commence detailed assessments on specific proposals and produce recommendations for the transition.

Conclusion
Citi is fully supportive of a move to T+1 in the EU, UK, and Switzerland, and recognises the potential benefits in terms of efficiency improvements and risk reduction.

A move to T+1 will be a complex, multi-year undertaking, and requires the collaboration of all industry stakeholders to help ensure that no new risks are introduced that could damage the existing efficiency, liquidity and functioning of Europe's securities markets.

> "Given the high-level of interconnectedness between EU capital markets and those of the United Kingdom and Switzerland, it makes sense to have a coordinated approach."
>
> Marcello Topa, Director of Global Market Advocacy in Citi's Investor Services.

Cross-industry engagement has already commenced, as it will be essential that all involved parties are in alignment. Firms should start preparatory work immediately, as whilst the 11 October 2027 seems a long way off, previous experience with other T+1 transitions demonstrates that time passes very quickly.

As of October 2024, capital markets that represent 60% of the global market capitalisation are settling on T+1, so the trend to faster settlement is gaining momentum.

Globally, we can see that the T+1 settlement train will also have other journeys to make, with Hong Kong, Japan, and Australia (and many others) having already committed to, or are considering, moving to T+1 as well.

And as we look further forward, we can ask - will the T+1 train become the T+0 train over time? We may not need to wait too long, as mentioned earlier in this article, these proposals do not stop Central Securities Depositories that are already technologically capable, from trading T+0 on a voluntary basis now.

For up-to-date information on the implementation of T+1 in the UK and EU please refer to the websites of the AST and ESMA.

This article was correct at the time of writing: 1 April 2025.

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CBS38997 03/25