



T+1 Europe: The Next Big Test for Global FX Operations

While the T+1 settlement cycle is now a reality in North America, firms cannot afford to be complacent about its looming introduction across European markets – namely the European Union (EU), the European Economic Area (EEA), the UK and Switzerland. Scheduled for October 11, 2027, this transition is expected to have an even greater impact on the industry's FX processes than the North American roll-out.

That FX operations were so resilient during North America's T+1 transition was because financial institutions put lots of time and effort into preparing and testing their systems ahead of the deadline. If the move to T+1 in Europe is to be as frictionless for FX markets as it was in North America, a similar strategy will be required.

The Double Squeeze: Shrinking Timelines and Rising Costs

Unlike the US, which is a homogenous market with a harmonized regulatory regime, a simple financial market infrastructure (FMI) framework, and a single currency, the transition across European markets comprises of 32 different regulators, 40 Central Securities Depositories (CSDs), 13 Central Counterparty Clearing Houses (CCPs), and 11 national currencies.

Despite their structural differences and Europe's post-trade idiosyncrasies, the impact of T+1 on FX timings and costs in Europe will not be too dissimilar from the North American experience.

Once Europe implements T+1, financial institutions will be under greater time pressure to process FX transactions – with the Association for Financial Markets in Europe (AFME) calculating that the condensed settlement cycle will give firms 83% less time to carry out their post-trade operations.¹

“The deadlines for investors to verify, execute, confirm, and settle their FX trades will be significantly compressed under T+1, and this applies as much to transactions in Europe as it does to trades occurring in North America,” says Aziz Arib, EMEA Head of Custody FX for Citi's Investor Services.

The cost of trading FX is also expected to rise in Europe, mirroring trends in North America, where FX costs shot up by around 4–5 basis points (bps) post-T+1.²

“In a T+2 environment, investors wait until the end of the day before executing FX trades, as this allows them to net their transactions. When T+1 went live in North America, investors began executing FX trades gross during the day, which meant they were unable to obtain the netting benefits, resulting in a jump in FX spreads. We expect the same will happen in Europe,” says Arib.

This contrasts with other firms that opted to pre-fund their securities settlement activity, a strategy that avoids intraday execution challenges but creates its own issues, such as long balances and portfolio drag.

With fewer netting opportunities available during T+1 and added operational complexities to match, firms will need to have a thoughtful plan in place to finance their securities settlement activity if they are to minimize the cost and fund performance impact.

The Non-CLS Challenge: A Hidden Layer of FX Risk

Adding to the complexity, not all of Europe's multiple currencies are part of Continuous Linked Settlement (CLS). Arib warns that this presents an entirely different set of FX challenges compared to North America's T+1 experience.

This is because CLS plays an instrumental role in mitigating FX settlement risk, by offering Payment Versus Payment (PVP) settlement and liquidity optimization via multilateral netting.³



CLS/Non-CLS currencies in Europe

EU 27 Countries	Currency	CLS Eligible
Austria	EUR	Yes
Belgium	EUR	Yes
Bulgaria	EUR	Yes
Croatia	EUR	Yes
Cyprus	EUR	Yes
Czech Republic	CZK	Yes
Denmark	DKK	Yes
Estonia	EUR	Yes
Finland	EUR	Yes
France	EUR	Yes
Germany	EUR	Yes
Greece	EUR	Yes
Hungary	HUF	Yes
Ireland	EUR	Yes
Italy	EUR	Yes
Latvia	EUR	Yes
Lithuania	EUR	Yes
Luxembourg	EUR	Yes
Malta	EUR	Yes
Netherlands	EUR	Yes
Poland	PLN	No
Portugal	EUR	Yes
Romania	RON	No
Slovakia	EUR	Yes
Slovenia	EUR	Yes
Spain	EUR	Yes
Sweden	SEK	Yes

Other Countries	Currency	CLS Eligible
Liechtenstein	EUR	Yes
Switzerland	CHF	Yes
United-Kingdom	GBP	Yes

EEA Countries	Currency	CLS Eligible
Iceland	ISK	No
Norway	NOK	Yes

“With the compressed T+1 timeframe, there is a heightened risk that a significant number of FX transactions will miss the CLS deadlines. Consequently, market participants may be forced to engage in bilateral settlements, which inherently carry a greater risk of trade failure. This not only exposes firms to increased counterparty risk but can also trigger penalties related to the non-settlement of the underlying security transaction, creating a cascade of operational and financial repercussions,” according to Arib.

These risks can be very costly for impacted financial institutions. If FX transactions are not settling properly, then firms could be hit with punitive cash penalties for trade failures under the EU’s Central Securities Depositories Regulation.

It is therefore critical that operations teams fully understand the unique liquidity profiles of the non-CLS European currencies that underpin their FX trades.

“Certain non-CLS European currencies are not that widely traded. These currencies also tend to be more liquid at the market opening, so investors need to be careful at what time of day they trade those currencies,” notes Arib.

He adds: “Asian investors are at a greater disadvantage than those in North and Latin America because of the extreme time-zone differences. When European markets open, the Asian trading day is nearly over, leaving a compressed, overnight window for critical tasks like trade allocation, funding, and FX execution. While investors in the Americas also face tight deadlines, the challenge for Asian investors is significantly more acute.”

It is not all plain sailing for Asian investors, as they will still probably have to execute their FX trades in Europe on a same-day basis during the morning of T+1. Firms will need to consider what to do when T+1 falls on a base currency holiday, as FX will not be able to settle on those days. A pre-funding approach may also be challenging given the sheer number of currency pairs involved.

Adapting FX Models for the T+1 Era

Effectively managing FX operations in a T+1 environment will require firms to make critical changes to their technology and processes.

Most importantly, firms should be pivoting away from legacy technology stacks and manual processes and embracing front-to-back automation – one of the key recommendations of the EU T+1 Industry Steering Committee. The good news is the industry recognizes the intrinsic value add of automation, with 38% of European respondents (43% in the UK) noting that improved internal operational processes will be a key enabler for T+1, according to [Citi’s Securities Services Evolution 2025 paper](#).

Firms should not only automate their processes but also actively test their systems to ensure they can handle the pressures of the new settlement cycle.

Expanding FX operations in Europe or doubling down on headcount is another potential option.



“Investors might establish FX trading desks in Europe. While some Asian investors set up or expanded their FX desks in the US back in 2023/4, they may be reluctant – on cost grounds – to add more desks when Europe goes live with T+1. From a cost perspective, increasing headcount may not be sustainable, especially as more markets outside of Europe transition to T+1,” says Arib.

Alternatively, some firms may choose to outsource FX operations ahead of T+1, citing the cost-benefits and economies of scale this offers. “A growing number of financial institutions are increasingly externalizing FX execution to specialist providers or leveraging their custodians’ auto-FX solutions and intraday credit facilities. These solutions not only remove operational complexity and mitigate costs, but they also minimize fund performance impact as pre-funding is not required,” continues Arib.

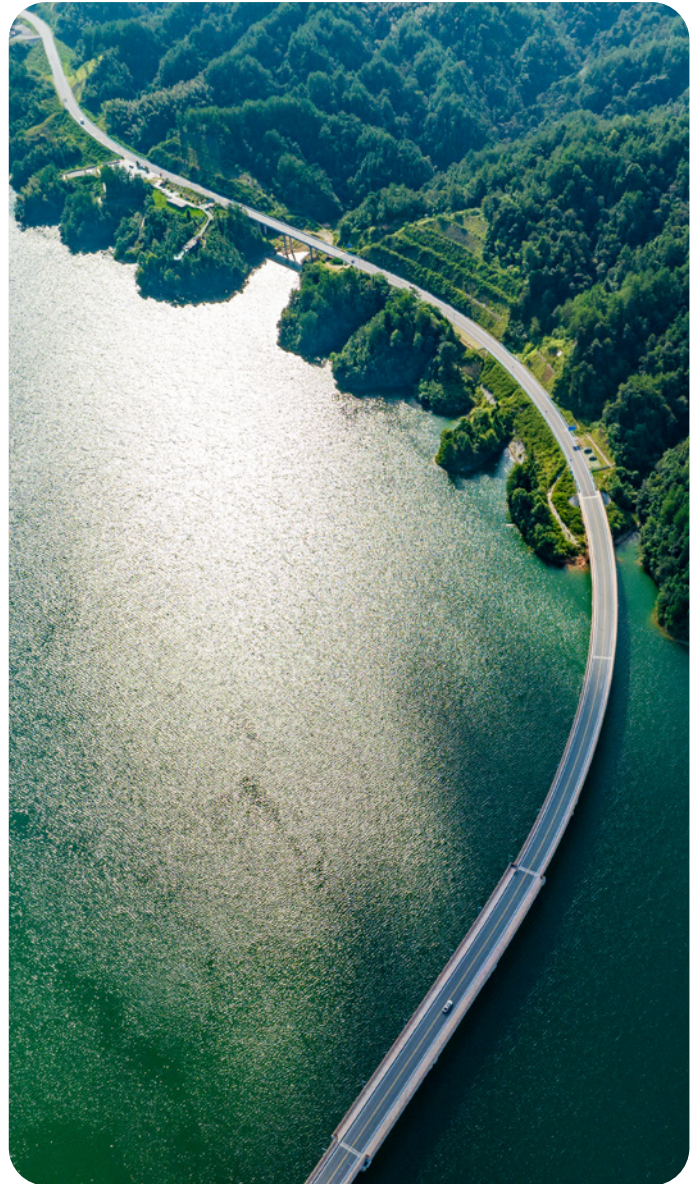
The Readiness Gap: Preparations remain far from consistent

With the compliance window for T+1 settlements in Europe getting progressively narrower, financial institutions should be moving away from the planning phase to the implementation stage. However, the industry’s FX preparations ahead of T+1 can best be described as mixed.

“Sell-side firms do seem to be more prepared for T+1 than the buy-side. A lot of buy-side firms globally do not realize how much of an impact these FX changes will have on their operating models. Clients in Asia also seem to be behind the curve on T+1. The decision to automate for T+1 in Europe should have been made in 2025. If firms are only just beginning to think about it now, they may have left it too late,” says Arib.

Despite these concerns, the industry appears to be moving broadly in the right direction, with a study by the ValueExchange finding that 25% of firms have already onboarded the EU T+1 Industry Committee’s Recommendations on FX.

As the T+1 deadline in Europe rapidly approaches, the path forward is clear. While the transition will affect European FX operations differently than in North America, the core message is identical: proactive and thorough preparation is not just recommended—it is essential.⁴



1. AFME – September 21, 2022 – [T+1 settlements in Europe: Potential benefits and challenges](#)
2. Euromoney - October 4, 2024 – [T+1 impact on FX costs: The story so far](#)
3. CLS – [T+1, the FX ecosystem, and CLS: What a difference a day makes](#)
4. The Value Exchange – [EU T+1 Industry Committee Readiness Survey](#)

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