Navigating the T+1 Landscape Podcast Episode 2

[Intro Music Fades In and Out]

00:00:03 - 00:00:19

Michele Pitts

The clock is ticking on T+1 in Europe's rapid technical climb to one day settlement is driving the industry to the very edge of efficiency. Compressed timelines, cross zone chaos. The pressure is on. Are you ready? This is navigating the T+1 landscape, where we cut through the noise and help you navigate your transition to a T+1 world with confidence.

Today, we're tackling the T+1 transition from the critical perspective of financial market infrastructures. We are joined by special guest Arnaud Jochems, Head of Settlement product, T+1 program at Clearstream. And Reto Faber, Citi’s custody head of UK Europe and EMEA. I'm your host, Michele Pitts. Having been deep in the trenches of the T+1 implementation in the U.S., I know firsthand that this transition is so much more than just a technical change.It is a fundamental shift in how our markets operate. Let's dive in.

Welcome to you both. It's great to have you here. I would like to start by setting the scene. When we were gearing up for this in the US, it felt like a slow burn that quickly turned to an intense sprint. From each of your perspectives. When did T+1 shift from being a theoretical concept to a concrete funded project on your roadmap?

Let's start with you Arnaud.

00:01:19 - 00:02:24

Arnaud Jochems

Thanks. Thanks for hosting us. I think it started December 2024- start 2025, when Giovanni Sabatini was appointed as chair. Internally we moved directly in create re created the structure that happened in the industry. So I think towards something like 12 technical workstreams. So internally we made sure that we were represented in all of them, whether from ETF, lending, settlement and matching.

And when we created the structure with weekly meetings, making sure we're following the progress. And of course we actively supported each of the industry stream being, present in all of them and making sure that we go in the right way in the recommendation. It started really with the structure and then it was really later on, and I can stop there, but we can discuss about it later, a deep dive into the specific task force working group. You know, there were three main ones - one partial settlement, one on SVT and one on SSI. And that's where the real key discussion started. And we went really into the detail that that's how it started on our side.

00:02:24 - 00:02:26

Michele Pitts

And Reto, what about you from a Citi perspective?

00:02:27 - 00:04:43

Reto Faber

I think from a Citi perspective, you can say it started the day after the US T+1 was completed. Indeed. We, clearly had the benefit of having gone through what was a very, very big project. We knew what was coming was even was going to be even bigger, even more complex. And while the exact timelines and details were not known yet, we started to think about how we would have to set ourselves up, in terms of, a large, multi-functional, vertically and, and horizontally aligned, project, organization and governance process.

We elected to third. We began to make sure that we are deeply represented in the local market user groups and steering committees and workgroups, etc., as well as at the regional level at the T2S level and EU Commission level. So we had the ability to project our advocacy focus, and to, work closely with the FMIs involved, work closely with the regulators involved to ensure that we could exert as much influence as possible as the continent was gearing up. Then, of course, the communication of the actual date was, in a way, the next starting shop. We geared up in terms of budgeting, about a year ago, so our budget cycles usually begin early summer. Summer 25 was the year when was the time when we, confirmed the budgets for a three year cycle out throughout the entire European experience, knowing that there is more to come as we finish with Europe.

We also started, to develop early 20, probably late 24, even early 25, best practice documents that were geared towards engaging the FMIs, to articulate from our perspective what we thought was sort of a minimum level of best practice in terms of levels of automation, in terms of, levels of harmonization across the Europe to try to address the perennial European fragmentation, problem that we're all struggling with.

And that's something we've, we're still working on. We've spent a lot of time on.

00:04:44 - 00:04:51

Michele Pitts

So if we expand on this, looking back, what was one of those internal milestones that made you think, okay, there's no turning back now.

00:04:52 - 00:06:08

Arnaud Jochems

It's really when the for me, the recommendation was published and we start our impact assessment. Even if I if I should say that there's a nice easy or at least for Clearstream, the recommendation were pretty light in the sense that if you look at all the recommendations, you know, most of the feature and the product we already implemented with CSDR to set them in discipline.

So it was mainly focusing on, for example, the new product being the gating. Even still we do that and we did our assessment really reviewing thoroughly what we had to change based on the recommendation. And I would say it's really started late 2025 in some IT development and making sure that the train started internally with all the budget and the key developments.

So it's really when it started on our side and obviously, you know, putting aside all the industry work where we really involve, you know, I was mentioning that, throughout the different group, we were actively, for example, going into this more detailed workshop about the key initiative, once again, partial settlement, SSI, SFT, but as well with the SMPG.

So for those who don't know SMPG is a bench of reporting expert. Well, we defined the standard and we really made sure that with T+1 we had everything in the pipeline for this release in order to support the T+1 implementation.

00:06:08- 00:06:09

Michele Pitts

And Reto

00:06:10 - 00:06:27

Reto Faber

I think very similar. Really, from the moment we started to engage at market level, we started to engage, internal levels to bring together the teams, and then really the if you wish to the official point of no return was the communication of the October date (27th).

00:06:28 - 00:06:48

Michele Pitts

Thank you both. That's great perspective. I know from experience the real devil is in the details beyond the high level project plans, what was the most challenging operational change you had to wrestle with on the ground? Was it a massive tech upgrade, re-engineering a process that hasn't been touched in ten years or something else entirely, then maybe took you by surprise?

We'll start with you Reto.

00:06:49 – 00:08:58

Reto Faber

I want to maybe highlight two things. One is the overall scale and scope of this project. I think it's absolutely unprecedented for our industry to have to deliver something in really quite a short timeline across, the breadth that we have to deal with 32 countries, 11 currencies, 36 CSDs, 11 or 12 CCPs , and all at the same time, and all in an environment that, again, is not well harmonized at all.

So we have as a significant challenge to bring together to a much more closely aligned overall process across the region, an environment that is very, very dispersed, today. So the scope of it, the need to coordinate across so many players and layers, in the industry, and across the geographies, and the, growing recognition as we got deeper into it, just how significantly and fundamentally this will begin to change, not just a settlement process.

It's much bigger than that. Right? I think that was probably not a 100%, recognized and understood at the beginning. But as we go into it, the the breadth of the functional implications, is constantly extending, the second one is client readiness. The entire ecosystem has to convert every single component, every single layer, in the ecosystem has to be ready. And, it is very clear as we go through our very, very deep and very engaged, client engagement program that there are different levels of readiness. And I think we may be talking about that a little bit later among our clients, and among the entire value chain. And everybody has to be ready. So the entire value chain has to be able to, to deliver this.

And that's a big concern. We're not anywhere near that level yet. There are some segments of the industry that are behind others. And, we are spending, again, a lot of energy to work with all levels to ensure that we get to where we need to be.

00:08:59 - 00:09:02

Michele Pitts

And Arnaud from a Clearstream perspective, what are your thoughts?

00:09:03 - 00:10:30

Arnaud Jochems

So on, on outside, you know, as I mentioned, most of the functionality were already implemented. Unlike our competitors, a big advantage that we have is that we've got a netting throughout the day, all times real time netting when something in industry, when people talk about Europe to compare it with T2S, whether it's a nighttime process, a daytime process, and to really focus, we must set on the nighttime because of the netting on our side its continuous netting which is a big plus.

That's why we have not changed our operation tight timeline. Then what we really focus is, to be honest, it was really on the gating event. Because when you look at it, the only thing we had to develop was the gating events. Now, to put that aside, because we were already, I would say red in terms of T+1 development, and there was not so much change except the gating event, we really focused on the client readiness and we focus on two things. How could we help our client in the transition to T+1 to really two focus in terms of data, we provided some tools like a scorecard really to tell them where they would stand in the T+1 readiness, what was their scorecard compared to others with a benchmark. And the second thing is, if you look at the industry, the first, pain point that the clients were mentioning was inventory management. So we built this new service called Smart Realignment, which is really helping clients to move inventory from one place to another automatically. So we were looking beyond and say, let's not rest on our laurels because we've got all this features, what can we do next?

00:10:31 - 00:10:41

Michele Pitts

So let's zoom out a bit. In the U.S., a huge source of anxiety was the readiness of buy side and smaller firms. Are you seeing similar pattern here in Europe or the pain points different.

00:10:42 - 00:11:50

Reto Faber

And yeah, definitely. The buy side is the area that, has the longest path ahead of them. We have, conducted, our own readiness survey on the basis of, a Q1review with our client base and participants in the market. So with the help of the ValueExchange and the buy side, at the time, only 57% of the buy side client base or respondents still had to start the development process. And, only 24% had completed, their full cost analysis. And that's quite a significant gap to the, to the, to the rest of the industry at a FMI level. Interestingly, there is also a segment in the custodian cohort that isn't ready, the second tier European based custodians, not EU based custodians. 49% still have to start their work. That is actually a significant concern of the buy side clients. So there's definitely a number of pools within the ecosystem that aren't where they should be at this stage.

00:11:51 - 00:12:04

Michele Pitts

And so when we talk with clients, what are the main concerns they're bringing to you right now are not if we could focus on you mentioned the scorecard and inventory management. Is that what you're hearing or something else?

00:12:05 - 00:13:07

Arnaud Jochems

So first of all, like Reto was mentioning, we co-sponsors as well, through ValueExchange, a survey where we had the similar result, where the struggle really, are with the SSI. But let's be honest, on our side as ICSD, the first of all, we are not involved at all in this SSI process is rather and I want to make the distinction because always there is a mix between SSI, which happened before the instruction reached the CSD, and the instruction format on the our side is rather the instruction format.

So when the struggle with SSI there is not much we can do. So that's why we tried to help them and show them with, as you mentioned, the scorecard. Where do you fit? How much usage do you have today of partial settlement, partial release of hold and release? Where do you stand compared to the benchmark? We have seen as well in the surveys that the dependency on us on the ICSD, were reducing, So on our side, we really try to reassure the client, which is the fact that nothing is changing except the gating event, which is fully optional when we try to help them in the journey. But it's true that regarding what happened up in the change, there's not much we can do.

00:13:08 - 00:13:12

Michele Pitts

And Reto what are Citi’s clients saying?

00:13:13 - 00:15:34

Reto Faber

So I think we can probably bucket it into four principal groups of concerns, one around automation and the required technology build, one that goes very much hand in hand around the operational procedures, the acceleration, the elimination of inefficiencies. One, very big one around FX and liquidity and management and funding and then ultimately strategic resource pressures. I think, to look at just highlight, double click quickly on each of these - automation, there's a tremendous amount of work that has to be delivered, to adjust the processes. A lot of the industry is operating on pretty old legacy systems, which complicates that significantly. Operational processes we have to work the manual processes out as much as possible. We have to, ensure that everything is as streamlined as possible, and that we take out duplications. We are actually not looking at a 50% reduction of cycle time. We're looking at something closer to 80% reduction of actual time available. And that is for European based clients. It's even worse for Asia based clients, who have to fund, pretty much overnight and execute most of their processes overnight. So the machine has to be very, very tightly run managed and oiled. I've already mentioned FX and liquidity management, a significant part of activity across Europe. This, settled on a cross-border and cross-currency basis. So the FX components, the availability and ability to, trade and settle FX on the same day basis as the same day as the, securities settlement is absolutely fundamental to this. And the funding window is materially reduced. And then ultimately, the resources, this isn't the only project. It's a very, very big project. But of the industry across the region is grappling with a range of other very fundamental, projects, and initiatives that all absorb significant resource. There's a fundamental tidal change going on in the FMI landscape with the significant moves, there, we have faster we have, the entire AI and digital asset, evolution or revolution, that all have to be dealt with at the same time. So this is a big task and tax on everyone.

00:15:35 - 00:15:52

Michele Pitts

So it sounds like we're dealing with all the same issues we did, but with the added complexity of cross-border transactions, is it fair to say that the multi market multi-currency nature of Europe is the single biggest headache compared to the more homogenous U.S market? How does that manifest in the challenges you're trying to solve? Arnaud?

00:15:53 - 00:17:03

Arnaud Jochems

So thats why you need cross-border settlement or cross CSD settlement in T2Sis a real challenge. And before T+1 in in the context of you know project which was a project with enhance our own, and pan-European CSD solution, we already look at different solution. If you check in T2S a change request that we have raised recently, there's really a couple which are really meant to embrace the cross-border settlement model from T2S and make sure it's on point because we have detected and I will not go into it into the specific detail. But there were some cross CSD settlement that were not possible in T2S. And for example, to just set an example we have change request 797, which we have raised and we have develop in order to smoothen the whole cross-border settlement, which is true. It's if you look in terms of settlement efficiency, cross-border settlement is the main challenge. And usually in term of asset class is around equities and ETF. And that's why specifically we have raised some enhancement and some change request in T2S in order to tackle these challenges. So I fully agree with you, Michele. Cross-border settlement will be a challenge to maintain the settlement efficiency in the new environment.

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Michele Pitts

And Reto, what about your perspective?

00:17:07- 00:19:09

Reto Faber

Yeah. Again, let me bucket it a little bit. I think the big bang nature and the scale of this is unprecedented, its a major challenge. If we think about T2S - that was probably the next biggest project this region had to deal with. But that took ten years or so, and it was delivered in multiple tranches and much, much more manageable project. Now we have to do everything at the same time. I mentioned before the sort of key fundamental challenges, typically we would address these on a linear basis. Now we have to work through all of those at the same time simultaneously, with quite a significant amount of interdependency. As, as we develop both within an organization as well as across the market. The second one, relates to what I like to call the European malaise and the capital market environment. The very high levels of fragmentation, across the markets at the FMI level, the differences in process infrastructure and connectivity, cutoff times, you name it. This is both a challenge and an opportunity at the same time. Right? We are forced the market is forced to reconsider this at the policy level, even there's a growing recognition that we need to get past this, and we need to move towards much more harmonization. But this is a catalytic event that, hopefully will drive us as a region, to much, much higher levels of integration. And then, maybe the last one is the overall ecosystem. Back to the readiness question. Every single component, every single layer, every single player in the in the system has to be ready. That's a very, very big ask. And it would be, dependent on that actually happening because the fallback from even relatively small breaks is going to be quite significant and has compounding effects, then that will hurt the entire industry if that happens.

00:19:10 - 00:19:26

Michele Pitts

Yeah. Of course, necessity is the mother of invention.In the face of these unique European challenges, are you seeing any particularly clever or innovative solutions emerge? Are these new technologies or collaborative models that are making you optimistic? We'll start with you Reto.

00:19:27 - 00:21:08

Reto Faber

Thank you. So I want to point that at AI. So as a firm, we're very focused on, understanding the potential, of AI across the firm. We are looking at the entire T+1 project as an excellent opportunity to teach ourselves how to use AI multiple levels. We're using it for the diagnostics and the analytics to understand the requirements, documents and, sift through the masses of information that, we need to be able to digest. We're using it, in the tech development process to develop, specifications, to actually, use it, we use it actually for a significant amount of coding. And of course, it will drive our testing, processes. So for the actual development process, AI is proving to be a significant accelerator. At the same time, the governance process is very, very complex. And again, we are actually in 24 of the 20 of the 32 markets or 36 CSDs, that are impacted. So we have to deliver this as Citi across two thirds of the of the region. And we have a couple of, surprises like Pakistan and Nigeria and potentially Turkey, that add to the numbers and have to be all delivered. So the ability to track and monitor and control, is a fundamental importance across so many variables. The ability to identify problem areas, to identify delays, to identify dependencies is for the equally is very, very important. And AI's fundamental tool for us to allow us to make that happen.

00:21:09 - 00:21:12

Michele Pitts

Great. And what about Clearstream’s perspective?

00:21:13 - 00:22:00

Arnaud Jochems

So I fully agree that AI can really help, especially with discussing automation and the need to automate everything. For sure, AI can help. On other side, and being more specific on our difference, to what we try to do beginning with industry is to recap and re-explain all our different services that could help the client in the journey to T+1.

But as I mentioned earlier, we have big data tool to help the clients, you know, to predict the settlement, to see where they do stand. As well, we are working some AI solution that unfortunately I cannot disclose for the moment, that goes in the same direction as what you mentioned. And once again, I want to highlight this new service that we really focus on, which was smart realignment to help in the context of inventory management, which will be a challenge as well, but otherwise fully agree on the AI journey that everybody is going through.

00:22:01 - 00:22:22

Michele Pitts

One thing that was absolutely critical for us in the in the States was the intense collaboration between DTCC and the major players. It looks like a similar effort is underway here, with numerous task forces. How is that collaboration working in practice across the different FMIs? When you get in a room together, how do you ensure everyone is truly singing from the same hymn sheet to avoid fragmentation?

00:22:23 - 00:23:45

Arnaud Jochems

So on our side, it was a very good collaboration, I should say, with Euroclear on different sides. So first of all, on the bridge project that we have together, because we detected the need that the volume of instruction for us will shift from the nighttime to the daytime. So later during the day, how do we ensure that the bridge is resilient and is faster? So we have this ongoing project on the bridge, which work really well and on which there was a good true collaboration between both ICSDs. But on top of it, when you look at the once again, the gating event, it was really a request from the industry from the SFT working group and said, guys, you must find a solution. The existing functionalities are not sufficient. You need to come with something else. And both ICSDs worked hand-in-hand to create this gating event together with and for the ECB. So it was really a great collaboration in the sense that we put aside all the competitive aspect and said, let's create something standard, because let's be honest, we're all clients. I mean, stakeholders, are clients of both Clearstream, Euroclear, crest, Iberclear, you name it. And you do not want to have a solution which is very specific to ICSD or one CSD you want something standardized. And I think that's what really work is what can happen. And in hand, in order to make sure that we have a true new feature protocol, whether you want to call it for the for the gating event, which is standardize.

00:23:46 - 00:23:52

Michele Pitts

And Reto, we turn to you as a custodian. And how are you working hand-in-hand with the FMIs for that collaborative approach?

00:23:53- 00:24:52

Reto Faber

Yeah. Thank you. So this is where our network presence really comes out strong and helps us. As I mentioned, within 24 of the countries impacted and we are evidently working very, very closely with the ICSDs. We are, in leading roles in every single market. We have presence in the local user groups, in the local steering committees. We're very actively engaged at the local market advocacy process. We're working bilaterally with each of the FMIs. I made reference to our best practices guide earlier that we continue to use and leverage as we engage, with them when we actually have a number of very tangible, let's say, impacts of successes. At the same time, we're, very actively involved again, in many cases in chairman roles or leading roles at the, at the European level in T2S user committee, at the commission level, etc.. So our regional engagement and regional advocacy is a is a big part of the same effort.

00:24:53 - 00:25:15

Michele Pitts

That collaboration is vital, especially with some big deadlines on the horizon. The end of 2026 milestone of T+0 allocations and confirmation is one that everyone is watching. The data suggests a lot of investors and small firms might struggle to meet it. Let's be frank, what happens on day one of 2027 if a third of the market is not ready.

What does that look like from your seat? Reto.

00:25:16 - 00:26:44

Reto Faber

So to be frank, it looks a bit like systemic failure. And the, that the if a significant part of the market isn't ready, and therefore a significant amount of the daily flows aren't flowing as they should either, because they don't settle at all or we have a build up of delays. That will translate into a systemic risk issue, a risk and the systemic breakdown very, very quickly. We've seen the most recent example in Denmark at the T2S migration, where the market ended up with weeks of very, very significant problems, and weeks of, overtime. And we can work as required to unwind, the backup and the build-up of, block transactions. The problem is we're in a flow business, and, it's a bit like a crate coming down from a hill. The trades keep coming, all right? And, backlog begins to build up very, very quickly. We're used to that. But, with move from T+2 to T+1, the reaction time is materially reduced. So our ability to recover on an intraday basis overnight basis is very much curtailed. So that is a very significant risk. And we're going to spend the rest of the time in particular also the testing period to scenario plan for that, to test for that, to learn from what we see during that process to help minimize that risk.

00:26:45 - 00:26:54

Michele Pitts

And so I guess from that, it's important to build out our, continuity of business plan and, go live strategy then.

00:26:55 - 00:26:56

Reto Faber

Yes, yes.

00:26:57 - 00:27:00

Michele Pitts

So from a Clearstream perspective, anything you'd like to add there?

00:27:01 - 00:27:35

Arnaud Jochems

I'll just to piggyback on what Reto mentioned, I think what is really key to insist on is start testing from now. First of all, looking at in production, most of it if you want this in the testing environments, feasible as well. Why? Because there is not much we need to have. For example, on our side we will have a specific testing environment for the gating event. But as I mentioned, nothing is changing in terms of operational timeline. So you can test as from now event production in this testing environment. So that's why we want to reinstate and highlight at industry level is do not wait for testing ,test now. Do not wait even for 2027. You can do it today.

00:27:36 - 00:27:58

Michele Pitts

Yeah that's a great perspective. So let's switch gears a little bit. As someone who has gone through a go live weekend in the U.S, I know it's a unique mix of excitement and sheer terror. As you look towards 2027, what is the one thing that gives you real confidence? The developments or trends that help you sleep at night knowing the industry is right on track, Reto?

00:27:59 – 00:29:12

Reto Faber

So I take a lot of comfort from the fact that we have built a tremendous internal muscle memory, of how to deal with these sort of, big conversion projects. Over the years, across the geographies, we've done a lot of them, we have very, very strong teams across all the functions in the products, in the technology, in the operations world, in the management teams. We have, well-developed playbooks, and, patents that allow us to both get sufficiently prepared and then manage the actual, migration. We can very efficiently we will pull together, pick war rooms, and control centers at multiple locations. Everybody will be in the office, working over the weekends. There's going to be a very, very high level of monitoring again, to be able to detect problems as early as possible. And, of course, there's going to be a lot of preparation for that dress rehearsals, etc.. So I think we will be well prepared both from an internal perspective and we will, touching on the point we've just made, also spend a lot of time in the run up of it to prepare ourselves for eventualities.

00:29:13 - 00:29:19

Michele Pitts

And Arnaud you mentioned testing, any other developments that give you that confidence that we're on track?

00:29:20 - 00:29:54

Arnaud Jochems

It's really the client readiness that we've been working on, you know, really put a lot of work on, on the website, the linking the webinar, being close to our client. And when I see the client every day, you know, you know, for example, in the due diligence visit and really reassure that they really start looking into T+1 deeply, whether they contact us in order to get some data I was mentioning THE scorecard, it gives me confidence that we will be ready, that WE will be ready for T+1. And on top of it, you know, was mentioning the project. You know, we had a big milestone with the wave two in the US market and we had to work really hard in the weekend. So we know the team are there in terms of hard work, and I'm sure it's going to be fine.

00:29:55 - 00:30:07

Michele Pitts

Now let's look at the flip side. What is the one nagging scenario that keeps you up at night? That 1 in 1,000,000 risk that your team is spending the most time and energy trying to solve for right now to ensure everything goes smoothly on launch day.

00:30:08 - 00:30:40

Reto Faber

So I think that takes us back to this issue of the interconnectivity of the ecosystem. We're only as to some extent as strong as the weakest part of it. Right. And if the and there will be issues, no doubt, I think it would be unrealistic to expect that this is going to go, across, the stage without any glitches at all. But if the scale and scope of those are bigger than we're all expecting, then, we are going to have a very difficult time to unwind that. So that is definitely a concern that we will all have.

00:30:41 - 00:30:42

Michele Pitts

And what is your perspective from Clearstream?

00:30:43 - 00:31:43

Arnaud Jochems

This is on my side to be transparent, as I was saying, because a lot of these functionality were already implemented on our side. I didn't want to be overconfident, and we really did a deep dive into making sure that we cover absolutely all the angles. And I think we did. But, just to to piggyback as well on what Reto was mentioning, is really interesting. We discussed before the podcast is and then you mentioned Michele the devil is in the detail. What we cannot foresee is this little detail on client side. For example, client having a legacy system, working still on the mainframe, that will put the whole T+1, at risk in a sense that everything is interconnected. And even if your client is prepared, your success depends of your counterparty readiness and that this all these thing that we cannot control that will happen. We know that we will have some of them this little legacy problem on the client system side that will be challenging to to, to tackle.

00:31:44 - 00:32:09

Michele Pitts

Thank you both for your honesty. It's been fascinating, an incredibly insightful discussion. It is clear that while Europe's path to T+1 is complex, the level of preparation, collaboration and strategic thinking at the heart of its market infrastructure is truly world class. A thank you to our guests for sharing their invaluable perspectives with us today. And thank you to our audience for tuning in to the second episode of Navigating the T+1 Landscape.