

Navigating the T+1 Landscape Podcast Episode 1 - Tackling FX and Time Zones

[Intro Music Fades In and Out]

Pitts: Welcome to " **Navigating the T+1 Landscape**," Citi's dedicated podcast to support you wherever you are on your T+1 journey.

In October 2027, the European Economic Area, the UK, and Switzerland will shift to a T+1 settlement cycle. This means that securities transactions will be settled in one business day instead of two. While this may sound like a simple change, it represents a fundamental rewiring of the global financial system.

Following the transition of the US market in 2024, this next phase is vastly more complex. We're talking about a coordinated shift across 32 distinct markets, over 30 central securities depositories, and 11 different currencies. Once complete, approximately 75% of the global market will be operating on a T+1 cycle.

But with this change comes a monumental challenge: a drastic reduction in the overlapping business hours for teams working across the globe. Critical deadlines for European trades will now fall in the middle of the night for teams in Asia and late in the evening for those in Europe. This compression of timelines makes real-time collaboration and issue resolution incredibly difficult, increasing the risk of failed trades and creating a need for unprecedented levels of automation.

That's where we come in. Over the course of this podcast series, we'll be your trusted guide through this transition.

Each episode will feature a deep dive into a specific topic, from the challenges of time zone differences to dealing with FX and liquidity and automation of settlement instructions.

The journey to T+1 requires careful planning, collaboration, and a commitment to new ways of working. So, whether you're in sales, product, operations, technology, or on the trading desk, join us as we unpack the challenges and opportunities that lie ahead.

This is Navigating the T+1 Landscape, and I'm your host, Michele Pitts.

Today we're tackling an aspect of T+1 that touches every trade, every currency and every time zone out there : foreign exchange.

FX is one of the most complex and consequential pieces of the T+1 puzzle. And in Europe, the stakes are even higher than they were in North America.

Joining us today is **Diana Shapiro**, Citi's Head of Investor Services FX — a leading expert on the front lines of this industry-wide shift. Diana, welcome to the podcast.

Shapiro: Thanks for having me, Michele. It really is a critical moment for the industry, and FX is right at the centre of it. I'm glad we're having this conversation.

Pitts: It's good to have you with us.

Let's start with the big picture. We've been through T+1 in North America. Many firms might assume Europe will follow a similar playbook. Why is that a dangerous assumption — particularly from an FX perspective?

Shapiro: It's a completely different challenge, and I think that's genuinely underappreciated. The US is a homogenous market: one regulator, one currency, a relatively simple financial market infrastructure. Europe, by contrast, is a mosaic of 32 different regulators, 40 Central Securities Depositories, 13 Central Counterparty Clearing Houses, and — critically — 11 national currencies. That fragmentation alone makes the FX dimension exponentially more complex.

In North America, FX operations proved remarkably resilient during the T+1 transition, but that was because firms invested enormous time and effort in preparation and testing ahead of the deadline. Europe will require the same level of commitment — and then some. A like-for-like strategy simply won't work.

Pitts: And the AFME has put a striking number on this. They've calculated that the condensed settlement cycle will give firms 83% less time to carry out their post-trade operations. What does that actually mean on the ground for an FX desk?

Shapiro: That 83% figure is the one that really focuses minds. Think about what happens today under T+2. Investors can wait until the end of the trading day to aggregate and net their FX transactions. That netting is incredibly efficient — it reduces the number of trades, reduces costs, and reduces risk. Under T+1, that luxury disappears. The deadlines to verify, execute, confirm, and settle FX trades are significantly compressed, and this applies equally to European transactions and to trades occurring in North America.

So instead of netting at the end of the day, firms will be forced to execute FX on a gross basis throughout the day. And we know what that means for costs — in North America, FX costs shot up by around 4 to 5 basis points post-T+1.

We expect the same, if not a greater, jump in Europe. Firms will either absorb the cost of wider spreads, build out global desks, outsource the FX execution, or they'll choose to pre-fund their settlements — which creates portfolio drag. There's no easy answer, and firms need a thoughtful plan to navigate both options.

Pitts: You've mentioned settlement risk, and I want to dig into that because it's where Europe's complexity really comes into sharp focus. Can you explain the role of the Continuous Linked Settlement system — CLS — and why it's so central to this conversation?

Shapiro: CLS is absolutely foundational to how the FX market manages settlement risk, and it's the lens through which we need to understand the European T+1 challenge.

Here's how it works: CLS operates on a Payment-versus-Payment basis, meaning one currency leg of an FX transaction only moves if the other leg moves simultaneously. This eliminates the principal risk — the risk that you pay out one currency and never receive the other. It also provides multilateral netting, which dramatically reduces the volume of payments that need to be settled and the cost. For the FX market, CLS is the safety net.

Pitts: So which European currencies are inside that safety net, and which are outside?

Shapiro: The good news is that the major European currencies are CLS-eligible. The Euro, Sterling, Swiss Franc, Swedish Krona, Norwegian Krone, Danish Krone — these are all in CLS, and they're well-positioned to handle T+1's FX risks.

The problem — and this is where Europe diverges sharply from North America — is the currencies that sit outside CLS. The Polish Zloty, the Romanian Leu, the Icelandic Króna — these are not CLS-eligible. FX transactions in these currencies must settle bilaterally, which means there's no Payment-versus-Payment protection. And under the compressed T+1 timeframe, the risk of settlement failures in these currencies rises significantly.

Pitts: And what's the knock-on effect of that?

Shapiro: It can cascade very quickly. A failed FX transaction involving a non-CLS currency can trigger a failed securities trade. And a failed securities trade under the EU's Central Securities Depositories Regulation — the CSDR — can result in punitive cash penalties. So you have a chain reaction: missed CLS deadline, bilateral settlement failure, securities trade fail, regulatory penalty. That's a cascade of operational and financial repercussions that no firm wants to be caught in and also did not exist in US T+1.

Pitts: And it's not just about which currencies are in CLS — it's also about timing, isn't it? There's a hard deadline for getting trades into CLS.

Shapiro: Exactly, and this is where the time pressure becomes very real. To be included in the CLS settlement process, FX transactions must be submitted by midnight Central European Time on the settlement date — that's midnight Central European Time on T+1. Miss that deadline, and your trade falls out of CLS and into bilateral settlement, with all the risks that entails. Furthermore, end clients may be subject to tighter cut-offs applied by their custodians.

There's also a liquidity dimension here that's easy to overlook. Some of the non-CLS European currencies are not widely traded. They tend to be more liquid at the market open rather than the close. So investors need to be very deliberate about *when* during the day they execute those trades — not just *how*. Timing is everything.

Pitts: This brings us to a challenge that extends well beyond Europe's borders. T+1 in Europe isn't just a European problem, is it? How does this affect international investors — particularly those based in Asia?

Shapiro: Asian investors face a significantly more acute challenge than anyone else in this transition, and I don't think that's fully appreciated yet. When European markets open in the morning, the Asian trading day is nearly over. That leaves a very

compressed, overnight window for critical tasks: trade affirmation, funding decisions, and FX execution. It's an incredibly tight squeeze.

Pitts: So what happens to the "follow-the-sun" model that many global firms rely on breaks down?

Shapiro: It becomes extremely difficult to manage. Asian investors will likely need to execute their European FX trades either past midnight Asia time, which means maintaining a night desk, or on a same-day basis during the morning of T+1 — which means having the right infrastructure, the right automation, and the right partners in place to act quickly. And there's an added wrinkle: when T+1 falls on a base currency holiday, FX simply cannot settle on that day. A pre-funding approach is also challenging given the sheer number of currency pairs involved across 30-plus markets.

The alternative — pre-funding trades or holding larger cash balances — This can negatively impact investment performance. It's a real cost, and it's one that many Asian buy-side firms haven't fully modelled yet but should be considered in their plans for T+1.

Pitts: And what about US-based investors trading into Europe?

Shapiro: They face a different but equally real challenge. When the US market opens, European markets are starting to close. That means bid-offer spreads could be wider and liquidity lower at precisely the moment US investors need to act. Firms operating across time zones will need to ensure their systems are live and their teams are available at the critical points of the European day — which, for a US firm, means very early morning or overnight coverage.

Pitts: These are significant, interconnected challenges. It's clear that firms can't afford to be complacent, and this is far more than just a technology upgrade. What is Citi's role in helping clients through this?

Shapiro: Our role is to remove operational complexity and help clients protect their performance. We're uniquely positioned to do this because we have an integrated Custody and FX platform — we're not just a custodian, and we're not just an FX bank. We're both, and that integration is exactly what allows us to offer solutions that address these specific pain points end-to-end.

Pitts: Can you walk us through what that looks like in practice?

Shapiro: Absolutely. Let me take you through the toolkit.

The first and most important solution for many clients is our **Passive AutoFX service**. This is a fully automated, "lights-out" solution — it handles FX for securities settlements, corporate actions, and income activity automatically, based on standing instructions. There's no manual intervention required, which eliminates friction in the post-trade process and is exactly what you need in a compressed T+1 environment.

In addition, through this service Citi will be offering our custody AutoFX clients the ability to leverage benchmark times as well as the ability to settle their FX on base currency holidays, effectively removing their need to pre-fund and ensure a smooth security settlement process.

The second is our **Execution to Custody, or E2C, AutoFX** offering. This synchronises a client's equity trading directly with their FX funding needs. So as trades are executed, the FX leg is automatically triggered and managed — the two processes are joined up seamlessly.

For clients with more complex requirements — fund managers running currency overlay strategies, for example — we have our **Passive Currency Overlay** service, which ingests securities dealing data and automatically executes the necessary FX transactions for fund-level cash management and hedging.

Pitts: And for clients who want more direct control over their FX execution?

Shapiro: We offer full connectivity via SFTP, FIX, and REST API for global FX execution, with straight-through reporting back to client systems. Clients can also deal directly through leading FX platforms, including our own CitiFX Pulse and CitiVelocity platforms. And critically, we offer **intraday credit facilities** — which means clients don't need to pre-fund their FX transactions. That's a significant advantage, because pre-funding ties up capital and creates portfolio drag.

Ultimately, we're the number one FX bank globally, with trading desks in over 60 countries, access to more than 100 markets, and coverage of over 500 currency pairs — 24 hours a day, five days a week. That global footprint is what allows us to support clients across every time zone, in every currency, at every point in the T+1 cycle.

Pitts: As we approach the 2027 deadline, how would you characterize the industry's readiness right now? Are firms where they need to be?

Shapiro: Honestly, the picture is mixed — and that concerns me. The sell-side does seem to be more prepared than the buy-side. But a lot of buy-side firms globally don't yet realise how much of an impact these FX changes will have on their operating models. And clients in Asia, in particular, seem to be behind the curve.

The data does not lie. A recent benchmarking exercise found that 60% of Asia-Pacific firms still manage their trade processing on a purely local model — the highest of any region globally — and 73% of Asian firms view T+1 as just one of many competing priorities. Meanwhile, our Securities Services Evolution 2025 whitepaper shows that institutional investors on the buy-side have the lowest T+1 project activity of any firm type, with only 29% running active projects for the European transition.

The gap between awareness and action is real — and the clock is running.

Pitts: So what's the single most important thing firms should be doing right now?

Shapiro: Automate. The decision to invest in front-to-back automation for T+1 in Europe is one that should have been made in 2025. If firms are only just beginning to think about it now, they may have left it too late. The time for manual processes and legacy technology is over.

But automation alone isn't enough. Firms need to be actively testing their systems — stress-testing them against the volumes and timelines of a T+1 environment. They need to be talking to their custodians, their brokers, and their FX partners, to understand exactly what cut-offs and capabilities will be available to them. And they need to be modelling the funding gaps — understanding where they'll need to pre-fund, where they can rely on intraday credit, and where the risks lie.

The good news is that 25% of firms have already onboarded the EU T+1 Industry Committee's recommendations on FX according to a recent EU T+1 survey.

The industry is moving in the right direction. But the window is narrowing fast.

At Citi, we do have resources to help clients take the next step. The UK T+1 Accelerated Settlement Task Force and EU T+1 Industry Committee, together with Citi and the ValueExchange, recently published a T+1 Implementation Guide for European Markets — and it comes with a benchmarking survey that allows firms to assess exactly where they stand.

Pitts: Exactly. The Guide is a really practical resource, and I'd encourage every firm to use it. It is built around a simple framework: Plan in 2025, Build in 2026, Test in 2027. It

walks firms through the key questions they need to be asking right now — are your clients ready? Are your processes ready? How good is your data? Are you prepared for 30-plus different market processes?

The benchmarking survey is particularly valuable because it allows firms to compare themselves against their peers. Where are you on automation? How are you managing FX and liquidity? What's your testing plan? These aren't abstract questions — they're the difference between a smooth transition and a very difficult October 2027.

And the benchmarking data is already revealing some important gaps.

Shapiro: It is indeed. For example, 9% of respondents believe their current technology cannot scale to handle FX and funding under T+1. That might sound like a small number, but in a market of this size, that represents a significant number of firms that are at real risk of operational failure on day one. The guide helps firms identify those gaps and build a concrete plan to close them.

Pitts: Diana, this has been a genuinely illuminating conversation. The message is clear: T+1 in Europe is not a repeat of North America. It's more complex, more fragmented, and the FX implications are more far-reaching than many firms have yet appreciated. The time to act is now.

Thank you so much for joining us today and sharing your expertise.

Shapiro: It's been my pleasure, Michele. And to anyone listening — please don't wait. The deadline is fixed. Your preparation doesn't have to be and Citi is here to support you, our clients.

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Pitts: To our listeners, thank you for tuning in to Navigating the T+1 Landscape. Wherever you are in your journey, let our expertise be your guide. If today's episode has prompted questions about your own firm's readiness, reach out to Citi's Investor Services team.

And join us next time as we continue to cut through the noise and help you navigate your transition to a T+1 world with confidence.

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