PROSPECTS FOR THE DEVELOPMENT OF THE SETTLEMENT PROCESS OF BANKS

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Abstract

The paper is devoted to the most recent news and modern prospects for the development of the settlement process of banks. An analysis of the payment and securities settlement systems was made, and on this basis the tendency of the European financial markets to switch to a one business day settlement cycle (T+1) was highlighted. Europe is currently going through a lengthy legislative process to speed up its complex financial market infrastructure. European financial markets are believed to be ready to follow the example of the US and switch to one-day settlement in the medium term. T+1 settlement cycle marks the start of a global race to shorten the time it takes for trades to clear, which will not stop at T+1.

Keywords: *Settlement, Settlement cycle, European payment and securities settlement systems, European Central Bank*

1. INTRODUCTION

Payment and securities settlement systems have experienced unprecedented development in recent years. Payments have changed significantly over the past two decades due to technological developments, new regulatory requirements and changing consumer demands.

The most recent news in the field of payment and securities settlement systems is the move to one business day (T+1) securities settlement cycle. Settlement cycles have been progressively shortening around the world for years, with most developed markets now operating on two business days settlement cycle (T+2). The changes required for T+1 are of a different order of magnitude though.

That’s why the current paper analyzes the modern prospects for the development of the settlement process of banks. The US, Canada and Mexico transitioned to T+1 securities settlement cycle on 28th May 2024. India is the second largest market after China to implement the T+1 settlement cycle of stocks. However, Europe and Japan still follow the T+2 securities settlement cycle. Some analysts expect that the transitioning to T+1 securities settlement cycle marks the start of a global race to shorten the time it takes for trades to clear, which will not stop at T+1.

The structure of the paper is as follows: Section 2 is devoted to the main legislative characteristics of the European payment and securities settlement systems. The key changes in the legal framework of payment and settlement systems in recent years have been reviewed. The main features of the Bulgarian market profile are also presented. Section 3 is devoted to the payment and securities settlement systems operating in the country. Section 4 describes the new trends in the settlement process in the European and world financial markets such as the transitioning to shortened securities settlement cycle. The cases of the United States (US), Canada, Mexico, China, India and other countries are considered, with the European financial market taking center stage in the analysis. An analysis of the main benefits and risks of the introduction of T+1 settlement cycle in the European Union (EU) has been made. Finally, the paper ends with summarizing the results from the study.

2. LEGISLATIVE CHARACTERISTICS OF THE EUROPEAN PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Central banks are highly concerned about the financial soundness of payment and securities settlement systems because any disturbance affecting the payment systems and securities clearance and settlement process has the potential to spread to the financial sector in general.

Over the last years, payment and settlement infrastructures have evolved significantly and the knowledge of the complexities of the payment process has increased. Unprecedented developments in technology highlight the importance of a consistent analysis of the problems related to payment and securities settlement systems.

At the EU level the implementation of the single monetary policy and of the TARGET system (then TARGET2 and currently T2) within the Euro area (or during the Stage Three of the European Monetary Union (EMU)) gives an important cause for concern.

TARGET commenced operations on 4th January 1999, a few days after the launch of the euro. TARGET was built by linking together the different real-time gross settlement structures in Europe that already existed at national level as there was not sufficient time to develop a single system. However, this decentralized structure proved inefficient and costly in the long term.

TARGET2 – Trans-European Automated Real-Time Gross Settlement Express Transfer system – was launched on 19th November 2007 and fully replaced the first-generation TARGET by May 2008. The main objective of TARGET2 is to efficiently support the implementation of the Eurosystem's monetary policy by providing a reliable and secure mechanism for settlement of payments in euro on an real-time gross settlement (RTGS) basis, and by ensuring equal access to payment services for the participants as they play by the same set of rules and have the same rights and obligations in making transfers in euro.[1] TARGET2 was running smoothly for over a decade, ensuring safety and efficiency in European payments. However, payments changed significantly during this period due to technological developments, new regulatory requirements and changing consumer demands.[2]

TARGET2 remained in operation until March 2023 when T2 was launched. T2 is the RTGS system owned and operated by the Eurosystem. Central banks and commercial banks can submit payment orders in euro to T2, where they are processed and settled in central bank money, i.e. money held in an account with a central bank.[3]

The relations between securities settlement systems (SSSs) and monetary policy and payment systems within the Eurozone stem from Article 18 of the **Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB)**, according to which ESCB lending operations must be based on adequate collateral.[4]

Three major policy objectives are being pursued by the EMI/ECB and the national central banks (NCBs) in the field of SSSs[5]:

1. The efficient and safe execution of central bank credit operations;
2. The smooth functioning of payment systems and the stability of the financial sector;
3. The smooth functioning of the European Single Market.

According to Article 18 of the Statute of the ESCB and of the ECB: "*In order to achieve the objectives of the ESCB and to carry out its tasks, the ECB and the NCBs, first, operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement and by lending or borrowing claims and marketable instruments, whether in Community or in non-Community currencies, as well as precious metals; and second, conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral. The ECB establishes general principles for open market and credit operations carried out by itself or the NCBs, including for the announcement of conditions under which they stand ready to enter into such transactions*."[6]

[1] BNB, 2024, "Trans-European Automated Real-Time Gross Settlement Express Transfer TARGET", Bulgarian National Bank, <https://www.bnb.bg/PaymentSystem/PSTARGET2/PSTARGETDevelopment/index.htm>
[2] ECB, 2024, "What is T2?", European Central Bank, <https://www.ecb.europa.eu/paym/target/t2/html/index.en.html>
[3] Op. cit.
[4] EMI, 1998, *Standards for the use of EU securities settlement systems in ESCB credit operations*, European Monetary Institute, January, Frankfurt am Main, p. 1, <https://www.ecb.europa.eu/mopo/pdf/implement/assets/sssstandards1998.pdf>
[5] Op. cit., p. 10.
[6] Protocol on the Statute of the European System of Central Banks and of the European Central Bank, Annex to the Treaty establishing the European Community, p. 6, <https://www.ecb.europa.eu/ecb/pdf/orga/escbstatutes_en.pdf>

In September 1992 the Committee of Governors of the Central Banks of the Member States of the European Economic Community (EEC) published the so-called "Blue Book" – a descriptive guide to the payment systems of the then 12 Member States of the European Community (EC). The European Monetary Institute (EMI) published the second edition, which contained information on the 15 European Union (EU) Member States, in April 1996. This third edition contained revised texts and data for all 15 EU Member States, taking into account the fundamental changes taken place in the period from 1996 to 2000. It was published by the ECB in 2001.[7]

Before the start of the Stage Three of the EMU or before the establishment of the Eurozone, in November 1997, the European Monetary Institute (EMI) established 9 standards which securities settlement systems (SSSs) seeking to qualify for ESCB monetary policy and intraday credit operations have to comply with. They were published in January 1998 and are available on the ECB's website [8].

In September 2002, the Governing Council of the ECB decided that the ECB should assist accession country central banks in carrying out a self-assessment of their securities clearing and settlement systems against the "**Standards for the use of EU securities settlement systems in ESCB credit operations**" ("the Standards"). The standards create the necessary framework for the mitigation of risks related to the settlement of credit operations and the safekeeping of collateral during these operations.

Within the framework of Article 18 of the Statute of the ESCB/ECB, the EMI and the NCBs, in selecting instruments and defining procedures for the conduct of the single monetary policy and in seeking to ensure the smooth functioning of the TARGET system in Stage Three of EMU, have paid special attention to the settlement procedures of debt instruments which will be eligible for collateralizing the monetary policy and payment systems operations of the ESCB.

The implementation of the single monetary policy and the provision of intraday credit to participants in payment systems call for the relevant securities settlement systems to be capable of ensuring[9]:

1. Reliable links between the ESCB and a broad range of counterparties;
2. Speedy, smooth and safe transactions;
3. Safe and reliable procedures for the cross-border use of eligible assets (e.g. reliable links between SSSs).

The objective of the standards is to limit the risks to which the ESCB is exposed in settling its credit operations, which must be based on adequate collateral. The ECB thus assesses the securities settlement systems used in the light of these standards. For this purpose, the ECB developed a special assessment methodology for assessing the securities clearing and settlement systems against the standards. According to this assessment methodology[10]:

1. As soon as an accession country joins the EU and connects to TARGET system, the assets potentially available for euro intraday credit operations must comply at least with the Eurosystem Tier 1 eligibility criteria (i.e. in addition to Government debt instruments all other debt instruments meeting tier 1 criteria must be on the list), with the exception of the location, and currency of denomination which can be the local one. However, it is up to that accession country central bank to decide if only part of potentially eligible collateral should be available to TARGET2 participants of their country (for instance it is possible to limit eligibility to Government debt instruments for the initial period). Consequently, some NCBs where there are different SSSs for different types of securities have decided not to assess their SSSs, but have made a selection.

[7] For more detailed information about the Blue Book, see also: ECB, 2024, *Blue Book*, European Central Bank, Frankfurt am Main, <https://www.ecb.europa.eu/press/intro/book/html/index.bg.html>
[8] EMI, 1998, *Standards for the use of EU securities settlement systems in ESCB credit operations*, European Monetary Institute, January, Frankfurt am Main, p. 1, <https://www.ecb.europa.eu/mopo/pdf/implement/assets/sssstandards1998.pdf>
[9] Op. cit., p. 6.
[10] ECB, 2003, *Assessment of Accession Countries Securities Settlement Systems against standards for the use of EU Securities Settlement Systems in ESCB Credit Operations*, European Central Bank, Frankfurt am Main, p. 5.

2. As soon as accession countries join the Euro area, however, the entire Eurosystem collateral framework applies to them. The current framework is composed of two tiers of assets. The accession country central banks must be prepared to accept all potential Tier 1 assets without restrictions. In addition, the accession country central banks can consider to add Tier 2 assets – in accordance with Tier 2 eligibility criteria which allow for equities and less standardized debt instruments.

Standard 2 regulates that the "*SSSs must use central bank money for the delivery versus payment (DVP) settlement of ESCB credit operations*"[11]. NCBs must not be exposed to settlement bank risk when settling transactions with counterparties in an SSS: where transactions cannot be settled DVP, NCBs will only use systems on a free delivery basis, and then will only use an SSS for the settlement of transactions on a DVP basis when they receive payment, on delivering securities to a counterparty, in central bank money.

The requirement to use central bank money as the settlement asset for central bank credit operations aims at avoiding the risk of settlement bank failure. It is important to point out that the use of central bank money in this case means settling through an account held at the central bank. In the cases of central banks using a pledge pooling system, the SSS is typically used on a free of payment basis, while the cash part is settled independently and directly in central bank accounts. This is also the case for some central banks using repo technique with pre-deposited securities.

Clearing (or clearance) is the process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement.[12] Sometimes the term is used (imprecisely) to include settlement.

Settlement is the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller. A settlement may be final or provisional[13]. Settlement is an act that discharges obligations in respect of funds or securities transfers between two or more parties[14]. When investors buy and sell securities the security and payment need to change hands – this process is securities settlement. Gross settlement means that the settlement of funds or securities transfer instructions occurs individually (on an instruction by instruction basis).[15] On contrary, a net settlement system is a funds transfer system whose settlement operations are completed on a bilateral or multilateral net basis.[16]

According to Article 1, para. 41 of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFiDII), central securities depositaries (CSDs) are systemically important institutions for financial markets that ensure the initial recording of securities, the maintenance of the accounts containing the securities issued and the settlement of virtually all trades of securities.[17] CSDs are specifically regulated under Union law and subject, in particular, to authorization and certain operating conditions. However, CSDs might, in addition to the core services referred to in other Union law, provide investment services and activities which are regulated under MiFiDII.

According to Article 37 of MiFiDII, member states should require that investment firms from other member states have the right of direct and indirect access to central counterparty (CCP), clearing and

[11] EMI, 1998, *Standards for the use of EU securities settlement systems in ESCB credit operations*, European Monetary Institute, January, Frankfurt am Main, p. 1, <https://www.ecb.europa.eu/mopo/pdf/implement/assets/sssstandards1998.pdf>
[12] BIS, 2003, *A glossary of terms used in payments and settlement systems*, Committee on Payment and Settlement Systems, Bank for International Settlements, March, p. 15, <https://www.bis.org/cpmi/glossary_030301.pdf>
[13] Op. cit., p. 45.
[14] Op. cit., p. 45.
[15] Op. cit., p. 25.
[16] Op. cit., p. 34. (Also, netting is an agreed offsetting of mutual obligations by trading partners or participants in a system, including the netting of trade obligations, for example through a central counterparty, and also agreements to settle securities or funds transfer instructions on a net basis.)
[17] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast), (Text with EEA relevance), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065>

settlement systems in their territory for the purposes of finalizing or arranging the finalization of transactions in financial instruments.[18] A central counterparty (CCP) is defined in Article 2(1) of Regulation (EU) No. 648/2012[19] - it means a legal person that interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer. According to Article 2(3) of Regulation (EU) No. 648/2012[20] 'clearing' means the process of establishing positions, including the calculation of net obligations, and ensuring that financial instruments, cash, or both, are available to secure the exposures arising from those positions.

TARGET2-Securities (or T2S) is a Eurosystem infrastructure that provides the European post-trading industry with a single, borderless, pan-European platform for securities settlement in central bank money.[21] T2S is a safe platform where the exchange can happen simultaneously, i.e. where delivery versus payment (DVP) is possible.

The systemic importance of T2S is, as follows[22]:

- It provides core settlement services in central bank money to many Euro area and non-Euro area central securities depositories (CSDs) and central banks.
- It concentrates large settlement volumes, including Eurosystem credit operations, on one platform.
- The settlement finality of the securities transactions is achieved in T2S accounts.

The Eurosystem has legal competence to conduct oversight of T2S. The ECB has primary oversight responsibility for T2S and leads and coordinates all oversight activities. "*The main objective of the oversight of T2S is to ensure the safety and efficiency of the critical services T2S provides on a continuous basis and to foster the compliance of T2S with the relevant oversight standards. Additionally, the oversight of T2S aims at ensuring that T2S facilitates compliance of participating CSDs and NCBs with the oversight standards and regulatory requirements to which each are expected to comply*."[23]

The Eurosystem has set up the T2S Cooperative Arrangement in line with "Responsibility E: Cooperation with other authorities" of the "Principles for financial market infrastructures" (PFMIs)[24] (2012) issued by the Committee on Payment and Settlement Systems (CPSS), currently Committee on Payments and Market Infrastructures (CPMI), and the International Organization of Securities Commissions (IOSCO). The aim is to ensure that all authorities with a legitimate interest in the smooth functioning of T2S are adequately involved.[25]

The oversight of T2S aims to ensure the safe and efficient operation of T2S as a critical infrastructure taking into account the technical platform, legal basis, governance structure, comprehensive risk management framework and services provided. The oversight assessments are conducted against an applicable subset of the principles and key considerations of the CPMI-IOSCO PFMIs as defined in the

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[18] Op. cit.
[19] Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, (Text with EEA relevance), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0648>
[20] Op. cit.
[21] ECB, 2024, "TARGET2-Securities", European Central Bank, <https://www.ecb.europa.eu/paym/pol/target2-securities/html/index.bg.html>
[22] Op. cit.
[23] Op. cit.
[24] BIS, 2012, *Principles for financial market infrastructures*, Committee on Payment and Settlement Systems, Technical Committee of the International Organization of Securities Commissions, Bank for International Settlements, April, <https://www.bis.org/cpmi/publ/d101a.pdf>
[25] The Principles for financial market infrastructures (PFMIs) (2012) contain new and more demanding international standards for payment, clearing and settlement systems, including central counterparties. Issued by the CPSS and the International Organization of Securities Commissions (IOSCO), the new standards are designed to ensure that the infrastructure supporting global financial markets is more robust and thus well placed to withstand financial shocks.

"Applicability of CPMI-IOSCO Principles for financial market infrastructures to TARGET2-Securities"[26].

The T2S Cooperative Arrangement includes the ECB, overseers and supervisors of CSDs using T2S services, central banks of issue for currencies settled in T2S, and the European Securities and Markets Authority (ESMA) in its role as coordinator of the competent authorities for the supervision of CSDs.

"*T2S revolutionized securities settlement in Europe because it brought an end to complex cross-border settlement procedures and the problems caused by different settlement practices among countries. Instead with T2S we have a common platform on which securities and cash can be transferred between investors across Europe, using harmonized rules and practices. Currently 23 European countries use T2S. Banks pay for securities on the platform using the account they have with their central bank, so the money used to settle transactions is central bank money. As a result, transaction risk is greatly reduced.*"[27]

24 central securities depositories (CSDs) from 23 European countries, and by extension their local market communities, are now connected to T2S. [28]A central securities depository (CSD) is a facility (or an institution) for holding securities, which enables securities transactions to be processed by book entry. Physical securities may be immobilized by the depository or securities may be dematerialized (i.e. so that they exist only as electronic records). In addition to safekeeping, a central securities depository may incorporate comparison, clearing and settlement functions.[29] An international central securities depository (ICSD) is a central securities depository which clears and settles international securities or cross-border transactions in domestic securities.

Currencies other than the euro can be used for settlement in T2S if the central bank concerned is connected to the platform and willing to add its currency. In addition to the euro, the Danish krone is available for settlement in T2S since October 2018.

At the moment there are two ICSDs located in EU countries, Clearstream and Euroclear.[30]

Clearstream provides links to over 30 domestic markets in Europe. The following markets use the TARGET2-Securities (T2S) central pan-European settlement infrastructure platform for the cross-border and domestic settlement of securities against central bank money: Austria - ICSD – CSD; Belgium - ICSD – CSD; Bulgaria – ICSD; Croatia –ICSD; Denmark - ICSD – CSD; Estonia - ICSD – CSD; Finland - ICSD – CSD; France - ICSD – CSD; Germany - ICSD – CSD; Greece - ICSD – CSD; Hungary – ICSD; Italy – ICSD – CSD; Latvia - ICSD – CSD; Lithuania - ICSD – CSD; Luxembourg - ICSD – CSD; Malta - ICSD – CSD; Netherlands - ICSD – CSD; Portugal - ICSD – CSD; Romania – ICSD; Slovak Republic – ICSD; Slovenia – ICSD; Spain - ICSD – CSD; Switzerland - ICSD – CSD.[31]

As concerns Bulgaria, **the key features of Bulgarian market profile can be summarized, as follows**[32]:

- The Central Securities Depositories (CSDs) in Bulgaria are the following two institutions: 1/ Central Depository AD (CDAD) and 2/ Bulgarian National Bank (BNB). The Custodian/Account operator in Bulgaria is Eurobank Bulgaria AD. The Legal Entity Identifier (LEI)[33] of CDAD:

[26] ECB, 2013, *Applicability of CPMI-IOSCO Principles for financial market infrastructures to TARGET2-Securities*, European Central Bank <https://www.ecb.europa.eu/paym/pol/critical/shared/pdf/CPMI-IOSCO_Principles_TARGET2-Securities.bg.pdf>

[27] ECB, 2024, "What is TARGET2-Securities (T2S)?", European Central Bank, <https://www.ecb.europa.eu/paym/target/t2s/html/index.en.html>

[28] Op. cit.

[29] BIS, 2003, *A glossary of terms used in payments and settlement systems*, Committee on Payment and Settlement Systems, Bank for International Settlements, March, p. 12, <https://www.bis.org/cpmi/glossary_030301.pdf>

[30] Op. cit., p. 27.

[31] Clearstream, 2024, "Europe T2S", Clearstream. Deutsche Börse Group, <https://www.clearstream.com/clearstream-en/securities-services/market-coverage/europe-t2s>

[32] Clearstream, 2024, "Market Link Guide – Bulgaria", Clearstream. Deutsche Börse Group, 07.06.2024, <https://www.clearstream.com/clearstream-en/securities-services/market-coverage/europe-t2s/bulgaria/market-link-guide-bulgaria-1279284>

[33] The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique

74780000G07H7WL0WI31. The LEI of BNB: 5299001WEKCK7E65TI48. The LEI of Eurobank Bulgaria AD: 549300IRGNL8Q3O8Y413.

- The Central Depository AD (CDAD) was established as a joint-stock company on 13th August 1997 on the grounds of Article 91 of the Securities, Stock Exchanges and Investment Companies Act[34] (SSEICA) in Bulgaria. The Public Offering of Securities Act (POSA), effective from 31.01.2000, the Markets in Financial Instruments Act, effective from 16.12.2008, and Ordinance No 8 of the Financial Supervision Commission (FSC), effective from 15.09.2020, regulates the activities of the Central Depository AD (CDAD).
- Country of incorporation of the CSD and of the Custodian/Account operator: Bulgaria.
- There is a CSD link as defined under Article 2(29) of the CSD Regulation (EU) No. 909/2014 – this is Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (Regulation (EU) No. 909/2014) and the relevant delegated and implementing acts adopted pursuant to Regulation (EU) No. 909/2014.[35]
- The type of the link is: 1/ Indirect link to Central Depository AD (CDAD) via Eurobank Bulgaria AD; 2/ Direct Operated link to Bulgarian National Bank (BNB) via Eurobank Bulgaria AD.
- Account type of the CSD: Omnibus account. Account type of the Custodian/Account operator: Omnibus account[36]; Mirror Omnibus account. In an omnibus account, "…*fungible interests in the same securities are commingled, and held in the name of the custodian bank. It is such a standard feature of the securities services industry today that global custodians are reluctant to enter markets that do not permit omnibus accounts, and expect their sub-custodians to plead with local regulators for them to be allowed. Both at the time of the Clearstream settlement and in subsequent guidance to the industry as a whole, Office of Foreign Asset Control (OFAC) has made clear that it expects custodian banks to undertake closer scrutiny of omnibus accounts to identify the ultimate beneficiaries.*"[37] [38] According to M. Gem (p. 3), "*Omnibus accounts create tremendous economies of scale, with consequent reductions in processing costs, which makes markets more open to a wider range of investors. It is difficult, on a named account basis, to see how capital markets could operate*

identification of legal entities participating in financial transactions. Each LEI contains information about an entity's ownership structure. (GLEIF, 2024, "Introducing the Legal Entity Identifier (LEI)", <https://www.gleif.org/en/about-lei/introducing-the-legal-entity-identifier-lei>)

[34] Securities, Stock Exchanges and Investment Companies Act, Reflected the denomination from 07/05/1999, Promulgated, State Gazette (SG) No. 63 of July 14, 1995, Repealed by § 2 of the transitional and final provisions of the Law on the Public Offering of Securities - SG No. 114 of December 30, 1999, in force since January 31, 2000. [in Bulgarian]

[35] Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 Text with EEA relevance, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0909>

[36] Omnibus account is a single account for the commingled funds or positions of multiple parties. A clearing member will often maintain an omnibus account at the clearing house for all of the clearing member's clients. In this case, the clearing member is responsible for maintaining account records for individual clients. (BIS, 2003, *A glossary of terms used in payments and settlement systems*, Committee on Payment and Settlement Systems, Bank for International Settlements, March, p. 35, <https://www.bis.org/cpmi/glossary_030301.pdf>)

[37] Hobson, D & M Gem, 2009, "Dominic Hobson talks to Mark Gem. The future of the omnibus account", Clearstream. Deutsche Börse Group, <https://www.clearstream.com/resource/blob/1312332/bc8ff5e084310b7a98ec5f39eff47c0a/hobsonseries14mgem-data.pdf>

[38] Omnibus accounts refer to accounts that hold more than one item (omni- meaning 'many' and -bus meaning 'business'). A minimum of two individuals are required to create an omnibus account. An omnibus account allows for managed trades of more than one person, and allows for anonymity of the persons in the account. Transactions within the account are carried out in the name of the broker, protecting the individual identities of the two or more people invested in the omnibus account. The broker managing the omnibus account typically has the ability to execute trades on behalf of investors with funds inside the omnibus account. Trades are made in the name of the broker, although trade confirmations and statements are provided to customers within the account. All transactions occurring within an omnibus account appear under the name of the associated broker, leaving the details of individual investors private. (Chen, J 2020, "What Is an Omnibus Account? How It's Managed", Investopedia.com, December 28, 2020, <https://www.investopedia.com/terms/o/omnibusaccount.asp>)

in the way that they do today."[39]

- Legal Account name/holder of CDAD: Clearstream Banking S.A. clients account. Legal Account name/holder of BNB: Clearstream Banking S.A. Legal account name/holder of Custodian/account operator: Clearstream Banking SA clients account.
- Key operational arrangements:
    - Settlement in T2S is only for EUR-denominated securities.
    - There is settlement free of payment. In accordance with the rules of the BNB system, transactions on behalf of clients of direct participants in the BNB system settle free of payment only. Consequently, CBL customers may instruct domestic settlement of government securities free of payment only.[40]
    - There is settlement against payment: 1/ in EUR for EUR-denominated securities only; 2/ in Bulgarian levs (BGN) for all other securities at CDAD only.
    - Moment of entry of instructions: 1/ BNB: The moment of entry of a transfer order (request) is considered to have entered in the Electronic System for Registration and Servicing of Trade in Government Securities (ESROT) system as soon as it has successfully passed the entry check and admitted to further processing. 2/ CDAD: The moment of receiving syntactically matched messages. 3/ T2S: The moment of successful validation in T2S.
    - Irrevocability of instructions: 1/ BNB: If there are matching requests from the two parties to the transaction, the transaction shall become irrevocable. 2/ CDAD: The moment of participants' messages matching and the formation of a common settlement request. After that moment no one can deny or cancel the transfer. 3/ T2S: The moment when the instruction receives "matched" status in T2S.
    - Finality of instructions: 1/ BNB: The settlement of government securities transactions should be deemed final after crediting the government securities settlement account of the acquirer. 2/ CDAD: The moment of transferring the money and the securities. 3/ T2S: The moment when the instruction receives "settled" status in T2S.

3. BULGARIA'S PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

The payment and securities settlement systems currently operating in Bulgaria are the following:

I. Real-time INterbank Gross-settlement System (RINGS)

This is the RTGS system operating in Bulgaria. RINGS performs irrevocable and unconditional settlement of payments in the national currency on the territory of the Republic of Bulgaria. RINGS is owned and operated by the Bulgarian National Bank (BNB). The BNB acts as the settlement agent. The BNB sets up, organizes, regulates, controls, operates, administers, supports, develops and oversees RINGS.[41]

RINGS is a settlement finality payment system, which carries out the transfer of funds between the settlement accounts of its participants finally, individually (transaction by transaction) and in real time, following receipt into the system of a transfer order.[42]

[39] Hobson, D & M Gem, 2009, "Dominic Hobson talks to Mark Gem. The future of the omnibus account", Clearstream. Deutsche Börse Group, <https://www.clearstream.com/resource/blob/1312332/bc8ff5e084310b7a98ec5f39eff47c0a/hobsonseries14mgem-data.pdf>

[40] Clearstream, 2024, "Settlement services – Bulgaria", Clearstream. Deutsche Börse Group, 07.06.2024, <https://www.clearstream.com/clearstream-en/securities-services/market-coverage/europe-t2s/bulgaria/settlement-services-bulgaria-1279312>

[41] BNB, 2024, "Real-time Gross Settlement System RINGS", Bulgarian National Bank, <https://www.bnb.bg/PaymentSystem/PSRealTimeGrossSettlementSystem/PSRTGSSIntroduction/index.htm>

[42] Op. cit.

The following payments are executed in RINGS[43]: 1/ All payments for which the original initiator and the ultimate recipient have settlement accounts with the BNB; 2/ Payments initiated by payment systems or securities settlement systems whose settlement agent is the BNB. Payments at the order of commercial banks' customers are also executed in RINGS subject to no amount limit restrictions.

The participants in RINGS are[44]: 1/ the Bulgarian National Bank; 2/ Banks and bank branches licensed by the BNB and conducting operations on the territory of Bulgaria. Participants in RINGS may also be banks from the EU Member States conducting operations on the territory of the Republic of Bulgaria through a branch.

The Rules and Procedures of RINGS regulate the order in which payments are settled in BGN through RINGS.[45] These rules and procedures are mandatory for implementation by the BNB, banks and system operators when making payments through RINGS.[46] These rules are adopted, amended and approved by the Deputy Governor, leading the "Banking" Department of the BNB. The BNB notifies the participants and system operators in RINGS of the changes made to the rules at least seven days before the relevant changes enter into force.

The payment systems and securities settlement systems with access to the Bulgarian RTGS system – RINGS, are BISERA6, BORICA, BNBGSSS and CDAD securities settlement system.[47]

BISERA6

This payment system services customer transfers in Bulgarian levs (BGN) on the territory of the country. The maximum value of customer transfers is BGN 999,999,999.99. The system accepts for execution orders for transfer on bulk, instant and budget payments in BGN, based on Single European Payments Area (SEPA)'s schemes of the European Payments Council, using the following payment instruments: credit transfer and direct debit (based on Request-To-Pay).[48] BISERA6 accepts payment orders from banks and other licensed payment service providers operating on the territory of the country 24 hours a day, 7 days a week. From April 2021, the system is open for processing of instant payments in BGN in real time, on all calendar days of the year, in accordance with the Blink program for immediate payments by account of the National Card and Payment Scheme[49]. Bulk and budget payments in BGN are made in the system only on the working days of BISERA6, according to the schedule of the system. The settlement of the transfer orders for bulk, instant and budget payments is performed by BORICA AD according to a prepaid model, in the presence of available cash on the settlement accounts of the banks participating in the system.[50] BISERA6 executes prepaid settlement of finalized interbank budget requests for payments, initiated through the System for Electronic Budget Payments (SEBRA), owned by the Ministry of Finance. Participants in BISERA6 are: the BNB, central banks of EU member states, banks licensed by the BNB to carry out banking activities, third-country bank branches licensed by the

[43] Op. cit.
[44] Op. cit.
[45] BNB, 2023, *Real-time Gross Settlement System RINGS Rules and Procedures*, version 8, effective as of 01.10.2023, Bulgarian National Bank, <https://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/au_lf_principle_rings_1_bg.pdf> [in Bulgarian]
[46] In separate documents, which are an integral part of the RINGS Rules and procedures, the following are regulated: Schedule of the RINGS system day; RINGS Tariff; RINGS participation/access certification request; Correspondence between standard Bulgarian primary payment documents and the format of SWIFT messages used in the RINGS system (mapping); Requirements for participants and system operators when submitting a payment order/settlement request to the BNB in the event of a technical problem; Request to withdraw a transfer order in RINGS; Notification of the occurrence of a technical problem; Request to conduct tests in RINGS; List of SWIFT messages used in RINGS; RINGS generated error codes; Systemically important participants in RINGS. Each participant in RINGS must enter into an agreement for inclusion and participation in the real-time gross settlement system (RINGS).
[47] Op. cit.
[48] Op. cit.
[49] Bcard, 2024, "National Card and Payment Scheme Bcard", <https://www.bcard.bg/en>
[50] BORICA Bank services, 2024, "Regulated and Payment Services BISERA6", <https://www.borica.bg/en/products-and-services/BISERA6>

BNB pursuant to Article 17 of the Law on Credit Institutions[51] bank branches from an EU member state carrying out activities in the Republic of Bulgaria pursuant to Articles 20 and 21 of the Law on Credit Institutions.[52] BISERA6 is under the supervision of the BNB. A total of 33 payment service providers (PSPs), 25 of which are banks and bank branches, and 8 are other licensed PSPs, have access to services of the BISERA6 payment system.[53]

BORICA

This is payment system with settlement finality, processing card-based payment operations, run by BORICA AD. BORICA AD is registered in the BNB Register of licensed payment system operators in the country, pursuant to Article 139 of the Law on Payment Services and Payment Systems[54] and as the system operator it manages, administrates, maintains and develops the payment system. BORICA executes settlement of interbank payments with payment cards on the territory of the country. It accepts settlement transaction files 24 hours a day, 7 days a week. It performs net settlement at a predefined time in RINGS – two times a day on business days – at 09:30 h and at 14:00 h. The settlement via RINGS of interbank financial transactions includes: 1/ Processing of the received information for executed interbank transactions; 2/ Charging interbank fees for the executed operations; 3/ Recalculating on a multilateral basis the mutual obligations of bank; 4/ Preparation of the request for settlement based on the recalculated net positions of the participants; 5/ Sending the request for settlement to RINGS; 6/ Receiving the result from RINGS; 7/ Providing the result from RINGS to the banks.[55]

BNBGSSS

This is Government securities settlement system (GSSS), developed, run and organized by the BNB. BNB is the settlement agent for government securities. Settlement of transactions with government securities in the BNB is the transfer of government securities with or without the transfer of funds based on a request/notification for a transaction submitted through the Electronic System for Registration and Servicing of Trade in Government Securities (ESROT).[56] The BNBGSSS is organized with three or more members, who can be primary dealers, sub-depositories of Government securities or other persons determined pursuant to Article 3 of Ordinance No. 5 of Ministry of Finance and BNB on the Procedure and Terms for Acquisition, Registration, Redemption and Trade in Government Securities[57] under common rules ensuring the fulfilment of obligations by the System participants based on an agreement. BNBGSSS comprises an Electronic System for Registration and Servicing of Trade in Government Securities (ESROT) and a System of Government Securities Settlement Accounts (GSSA) connected through a direct interface for automated data exchange. The ESROT participants are also participants in GSSA.

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[51] Law on Credit Institutions, Adopted by the 40th National Assembly on 13 July 2006, Promulgated, State Gazette, No. 59 as of 21 July 2006; effective on the date of entry into force of the Treaty for Accession of the Republic of Bulgaria to the European Union, <https://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_creditinstitutions_en.pdf>

[52] BORICA Bank services, 2024, "Regulated and Payment Services BISERA6", <https://www.borica.bg/en/products-and-services/BISERA6>

[53] BORICA Bank services, 2023, *Payment System BISERA6*, October, p. 7, <https://www.borica.bg/attachments/BobsProduct/6/docs/Brochure-BISERA6-October-2023-ENG.pdf>.

[54] Law on Payment Services and Payment Systems, Adopted by the 44th National Assembly on February 22, 2018, Promulgated, State Gazette, No. 20 of March 6, 2018, <https://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_payment_services_bg.pdf> [in Bulgarian]

[55] BORICA Bank services, 2024, "Regulated and Payment Services BORICA Payment System", <https://www.borica.bg/en/products-and-services/Platejna-sistema-BORIKA>

[56] Ordinance No. 31 of 4 October 2007 on Government Securities Settlement, Effective from 01.11.2007, Issued by the Management Board of the Bulgarian National Bank, Promulgated, State Gazette, No. 85 of 23 October 2007. [in Bulgarian]

[57] Ordinance No. 5 of the MF and the BNB of 4 October 2007 on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities, Promulgated, State Gazette, No. 85 of 23 October 2007, <https://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/regulationno5_en.pdf>

Central Depository AD (CDAD) securities settlement system

The CDAD performs its operations in accordance with the requirements set out CSD Regulation (EU) No. 909/2014 and the relevant delegated and implementing acts adopted pursuant to Regulation (EU) No. 909/2014. The CDAD holds a valid authorization in accordance with the provisions of Regulation (EU) No. 909/2014. The authorization was issued by the FSC in September 2018.[58] A Settlement Guarantee Fund for transactions in financial instruments is set up with the CDAD. The Fund guarantees the settlement of transactions in financial instruments concluded on a regulated market in financial instruments and on other trading venues for financial instruments on the basis of an agreement with the operator of the trading venue. The CDAD provides the services described in its Rules of Procedure and fully aligned with the requirements of Regulation (EU) No 909/2014 of the European Parliament and of the Council. The CDAD is subject to regulation and control by the FSC, the BNB and the Ministry of Finance. In addition, CDAD is subject to oversight by a separate Payment Systems Oversight Division established within the BNB, which is in charge of the analysis and the assessment of systems, rules and regulations. In October 2022 the CDAD joined T2S.

II. TARGET2 National Component System (TARGET2-BNB)

TARGET2-BNB was launched in February 2010. The BNB as a central bank operates the component system TARGET-BNB, administers the National Service Desk of TARGET, and is responsible for the business relationships with the participants in this component and for the coordination with the ECB and the participating central banks.[59] The BNB and the Bulgarian banking community have been participating in TARGET2 since 1 February 2010.

With the aim of achieving greater integration of Europe’s financial market and of offering harmonized payment and settlement services, the Eurosystem has launched three initiatives:

1. A consolidation of TARGET2 and TARGET2-Securities;
2. Instant payments in central bank money (TIPS – TARGET Instant Payment Settlement);
3. Development of a Eurosystem Collateral Management System (ECMS).[60]

The central banks of Germany, France, Spain and Italy are responsible for developing the new platform and acting as a service provider on behalf of the Eurosystem.

“TARGET Instant Payment Settlement (TIPS) is a market infrastructure service launched by the Eurosystem in November 2018. It enables payment service providers to offer fund transfers to their customers in real time and around the clock, every day of the year. Thanks to TIPS, individuals and firms can transfer money between each other within seconds, irrespective of the opening hours of their local bank.”[61] TIPS processes instant customer payments (from the debit in the payer’s account to the credit in the payee’s account) in euro in accordance with the European Payments Council’s SEPA Instant Credit Transfer scheme based on ISO 20022 messaging standard.[62]

On 20th March 2023 the Eurosystem launched a new consolidated platform for TARGET Services, which comprises: T2 (for settling payments), **T2-Securities** (for settling securities) and **TIPS** (a service for instant payments in euro), in terms of both technical and functional aspects. With the start of ECMS’s operation in 2024, the consolidated platform also encompass the collateral management system. TIPS settles payment transfers in euro and, as of February 2024, in Swedish kronor, as well as Danmarks Nationalbank is also preparing to onboard to TIPS, and Norway has shown interest in joining.[63]

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[58] Central Depository, 2024, “The Company”, <https://www.csd-bg.bg/au/activityCompany.xhtml> [in Bulgarian]
[59] BNB, 2024, “Trans-European Automated Real-Time Gross Settlement Express Transfer TARGET”, Bulgarian National Bank, <https://www.bnb.bg/PaymentSystem/PSTARGET2/PSTARGETDevelopment/index.htm>
[60] Op. cit.
[61] ECB, 2024, “What is TIPS?”, European Central Bank, <https://www.ecb.europa.eu/paym/target/tips/html/index.en.html>
[62] BNB, 2024, “Trans-European Automated Real-Time Gross Settlement Express Transfer TARGET”, Bulgarian National Bank, <https://www.bnb.bg/PaymentSystem/PSTARGET2/PSTARGETDevelopment/index.htm>
[63] Op. cit.

TIPS was developed as an extension of TARGET2. **Now TIPS is replaced by T2 – the real-time gross settlement (RTGS) system owned and operated by the Eurosystem**.

T2 settles payments in central bank money and those payments are related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions. Central banks and commercial banks can submit payment orders in euro to T2. As the ECB declares: "*Every five days, T2 processes a value close to the entire Euro area GDP, which makes it one of the largest payment systems in the world. More than 1,000 banks use T2 to initiate transactions in euro, either on their own behalf or on behalf of their customers. Taking into account branches and subsidiaries, more than 43,000 banks worldwide and all their customers can be reached via T2.*"[64]

4. NEW TRENDS IN THE SETTLEMENT PROCESS IN THE EUROPEAN AND WORLD FINANCIAL MARKETS

The most recent news for the European payment and securities settlement systems is the move to a one business day settlement cycle (or T+1 settlement cycle).

Settlement is a crucial step in the life cycle of securities – where the buyer receives the purchased securities and the seller receives the corresponding cash in exchange for those securities.[65] This process is similar to that of any commercial transaction, happening physically across the counter of a shopkeeper. However, in the case of securities transactions, the settlement process does not occur simultaneously with the execution of the trade. There is a window or interval between trading and settlement which allows for several important processing steps to take place, ensuring a high degree of control and efficiency, as required for processing high volumes and values of securities transactions.[66]

The settlement window or interval is the amount of time that elapses between the trade date (T) and the settlement date (S).[67] It is typically measured relative to the trade date, e.g. if three days elapse, the settlement interval is T+3, or two days elapse, the settlement interval is T+2, etc.

In particular, the trade date is "*the date on which a trade/bargain is executed*"[68], while the settlement date is "*the date on which the parties to a securities transaction agree that settlement is to take place. The intended date is sometimes referred to as the contractual settlement date.*"[69]

In currency trading we talk about the term 'settlement lag', which is "*in an exchange-for-value process, the time lag between entering into a trade/bargain and its discharge by the final exchange of a financial asset for payment.*"[70]

'Settlement cycle' refers to the time period between trade date, when a transaction is agreed and executed by a buyer and seller, and settlement date, when the transaction is completed and the securities and cash are exchanged. When an investor buys or sells a stock, bond or any other security, or a commodity or a currency, there are two critical aspects to it: one is the transaction date i.e. T, and the second is the settlement date.

Therefore, the abbreviations T+1, T+2, T+3 and so on refer to the settlement cycle dates of asset transactions that happen on a transaction date plus one day, two days, and three days, respectively. As the term suggests, the transaction date represents the exact date on which the actual transaction was carried out. This date doesn't change, as it will always be the date on which the investor made the transaction.

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[64] ECB, 2024, "What is T2", European Central Bank, <https://www.ecb.europa.eu/paym/target/t2/html/index.bg.html>
[65] AFME, 2022, *T+1 Settlement in Europe: Potential Benefits and Challenges*, Association for Financial Markets in Europe, September, p. 3, <https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_Tplus1Settlement_2022_04.pdf>
[66] Op. cit., p. 3.
[67] BIS, 2003, *A glossary of terms used in payments and settlement systems*, Committee on Payment and Settlement Systems, Bank for International Settlements, March, p. 45, <https://www.bis.org/cpmi/glossary_030301.pdf>
[68] Op. cit., p. 49.
[69] Op. cit., p. 45.
[70] BIS, 2003, *A glossary of terms used in payments and settlement systems*, Committee on Payment and Settlement Systems, Bank for International Settlements, March, p. 45, <https://www.bis.org/cpmi/glossary_030301.pdf>

For instance, if the settlement cycle is T+2, when an investor buys a stock or bond or other financial instrument, it will start reflecting into his/her account after a period of 2 days. When he/she sell it, again, it will take two days to reflect into his/her system. Alternatively, if the settlement cycle is T+1, when an investor buys a stock or bond or other financial instrument, it will start reflecting into his/her account after 1 day. When he/she sell it, again, it will take 1 day to reflect into his/her system.

Final settlement is the settlement, which is irrevocable and unconditional. Also, it is the discharge of an obligation by a transfer of funds and a transfer of securities that have become irrevocable and unconditional.[71]

In previous decades, security transactions were done manually as compared to today's electronic and now the world is also moving towards blockchain. Investors had to wait for the delivery of their securities, which was in an actual certificate form, and the payment happened only after receiving the hard copy of the certificate. Since delivery times vary and prices tend to fluctuate, market regulators had to set a cut-off period in which the overall trading transaction needs to be settled.[72]

In 2014 the Central Securities Depositories Regulation (CSDR)[73] introduced for the first time a requirement for all transactions in transferable securities which are executed on trading venues to be settled by no later than the second business day after the trade date (T+2 settlement cycle).

Most international financial markets are experiencing rapid development in 2023-2024 and such is expected in the following years as well.

From 2020-2022, expectations are increasing that most international financial markets will move to a shortened settlement cycle from T+2 to T+1. The US, Canada, Mexico and other countries are announcing their intentions to do so.

In the US financial market, based on extensive industry engagement conducted throughout 2020, early indications suggest that market participants increasingly favor the move to T+1. In 2021 the Depository Trust & Clearing Corporation (DTCC) released a two-year industry roadmap for shortening the settlement cycle for US equities to one business day after the trade is executed (T+1).[74]

In February 2022, the US Securities and Exchange Commission (USSEC) shared a proposal which aimed to rule changes to reduce risks (such as credit, market, and liquidity risks in securities transactions faced by market participants and American investors) in the clearing and settlement of securities by shortening the standard settlement cycle for most broker-dealer transactions in securities from T+2 to one business day after the trade date (T+1).[75] On 28th May 2024 this rule was officially adopted and the United States, the world's biggest and most liquid capital market, transitioned to T+1 settlement cycle for transactions in US equities, corporate debt and unit investment trusts.

In Canada and in Mexico T+1 settlement cycle was implemented on 27th May 2024[76], in coordination with the US capital markets due to the strong correlation among these markets.

The Canadian Capital Markets Association (CCMA)'s first priority for the period 2022-2024 is focused entirely on shortening the standard securities settlement cycle of many investment products to T+1, the day following trade execution. The CCMA's second priority – the CDS Post-Trade

[71] Op. cit., p. 24.
[72] Rai, S 2023, "What is the T-1 Settlement cycle? Understand the basics of the new T+1 Settlement", NSE/NSEIT, January, <https://www.nseit.com/what-is-t-1-settlement-understand-the-basics-of-the-new-t1-settlement/>
[73] Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (Regulation (EU) No. 909/2014) and the relevant delegated and implementing acts adopted pursuant to Regulation (EU) No. 909/2014.
[74] DTCC, 2021, "DTCC Proposes Approach to Shortening U.S. Settlement Cycle to T+1 Within 2 Years", Press Release, The Depository Trust & Clearing Corporation (DTCC), February 24, 2021, <https://www.dtcc.com/news/2021/february/24/dtcc-proposes-approach-to-shortening-us-settlement-cycle-to-t1-within-two-years>
[75] Ghosh, D 2024, "T+1 settlement cycle: Risks and impacts for European markets", <https://parvaconsulting.com/t1-settlement-cycle-risks-and-impacts-expected-for-european-markets/>
[76] Clearstream, 2024, "Mexico: Move to a T+1 settlement cycle approved by financial authorities", Clearstream. Deutsche Börse Group, 16.04.2024, <https://www.clearstream.com/clearstream-en/securities-services/settlement/a24028-3924644>

Modernization program – has been paused at this time, and will be duly relaunched once T+1 has been successfully implemented in 2024.[77]

In Mexico, T+1 settlement migration was only driven by the Mexican Association of Brokerage Firms (AMIB), which stated their interest in May 2023. The AMIB requested the migration to T+1 simultaneously with the US and Canada, due the strong interaction between markets. Mexican authorities did not actively participated in the decision, they only supported AMIB´s request by approving changes in the regulatory framework.[78] The Contraparte Central de Valores (CCV) initiated the formal process with Mexican authorities to obtain approval to reduce the settlement cycle. On July 11, 2023, CCV officially announced its intention to shorten the settlement cycle to one business day. In Mexico, according to local regulation, Mexico's Equities CCP, the Contraparte Central de Valores (CCV), is responsible for establishing the terms and conditions for the settlement cycle.[79] The eligible securities for T+1 settlement cycle are equities – Mexican securities and securities listed in the International Quotations System (SIC)[80], following US and Canada market rules, while non-eligible securities are: SIC securities from Europe, Asia or any market that has not yet announced the shortening and Mexican Government securities.[81]

The US and other jurisdictions' move to a one business day settlement cycle is the next big stage in a historic compression of settlement cycles, at each stage driving further advancement in trade efficiencies, and reducing systemic risk.

Financial institutions around the world have been preparing for the move to US overnight settlement by moving staff, adjusting shifts and overhauling work processes. Those preparations seem to have paid off as the transition to T+1 settlement cycle in the US has gone smoothly so far, without the increase in trade failures that many had feared. This transition to T+1 settlement cycle was accompanied by an extensive technological overhaul that has been taking place for 15 months among financial institutions worldwide due to this change in settlement cycles.[82]

In China, T+0 settlement cycle has been implemented since January 2023.[83] But China continues to operate at T+1 for cash settlement.[84] Since January 2023, T+0 settlement cycle of A shares has been introduced in China. In the T+0 settlement system or in the "instant settlement system trades in securities (shares, bonds, mutual funds, etc.) are settled on the same day. This means securities will quickly transferred to the buyer's account while funds are swiftly deposited in the seller's account.

According to some analysts and market watchers believe that the introduction of T+0 settlement cycle would benefit traders and investors who are looking for immediate liquidity, allowing them to utilize

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[77] CCMA, 2024, "T+1 Portal", Canadian Capital Markets Association (CCMA), <https://ccma-acmc.ca/en/wp-content/uploads/All-about-the-CCMA-Tour-savoir-sur-lACMC.pdf>

[78] CCV, 2023, "Road to T+1", La Bolsa de Mexico, the Contraparte Central de Valores (CCV), October, p. 2, <https://www.contraparte-central.com.mx/wb3/wb/CCV/archivos_publicos/_rid/151/_mto/3/T1__October_2023.pdf?repfop=view&reptp=CNFWB_Rep151&repfiddoc=730&repinline=true>

[79] Op. cit., p. 2.

[80] The International Quotations System (SIC) is a platform that allows investing in stocks and Exchange Traded Funds (ETFs) whose securities were listed in other parts of the world. (S. D. Indeval, 2024, "SIC International Quotations System", Indeval Grupo BMV, <https://www.indeval.com.mx/en/product?p=sic>)

[81] CCV, 2023, "Road to T+1", La Bolsa de Mexico, the Contraparte Central de Valores (CCV), October, p. 3, <https://www.contraparte-central.com.mx/wb3/wb/CCV/archivos_publicos/_rid/151/_mto/3/T1__October_2023.pdf?repfop=view&reptp=CNFWB_Rep151&repfiddoc=730&repinline=true>

[82] FINBOURNE, 2024, "Transitioning to T+1 Settlement: Measuring the Operational Impact in the UK", 05/06/2024, <https://www.finbourne.com/thought-leadership/transitioning-to-t1-settlement-measuring-the-operational-impact-in-the-uk/>

[83] Ryzner, J 2024, "T+1 settlement cycle. Impact, risks, challenges and benefits", ECB OMG Group, <https://www.ecb.europa.eu/paym/groups/pdf/omg/2023/230620/item_3_T_1_Settlement_cycle.pdf>

[84] Op. cit.

[84] FINBOURNE, 2024, "Transitioning to T+1 Settlement: Measuring the Operational Impact in the UK", 05/06/2024, <https://www.finbourne.com/thought-leadership/transitioning-to-t1-settlement-measuring-the-operational-impact-in-the-uk/>

funds and react to the market quickly in the high volatile sessions.[85] According to Prashanth Tapse, Senior VP (Research), Mehta Equities, "*T+0 settlement could be highly beneficial to retailers who come with limited cash into market and this would revolutionize the trading landscape for the same small investor*".[86] In addition, he also says that: "*Shortening of the settlement cycle means optimal utilization of funds to make best-in-time returns to swing traders. This shift will substantially reduce the risk exposure for retail investors and the system guarantees same-day access to funds and securities, thereby mitigating counterparty and duration risks*"[87].

Counterparty risk is the probability that the other party in an investment, credit, or trading transaction may not fulfil its part of the deal and may default on the contractual obligations.[88] This risk is also defined as the probability that one of those involved in a transaction might default on its contractual obligation. Counterparty risk can exist in credit, investment, and trading transactions.[89]As concerns the duration risk, we should say that the duration measures the sensitivity of bonds to changes in interest rates and can pose a growing risk to bond returns, especially when interest rates are rising.[90] With this regard, bond duration risk refers to the sensitivity of a bond's price to changes in interest rates. When interest rates rise, bond prices typically fall, and the longer the duration is, the more significant the impact.[91]

India, which is the second largest market after China, has taken a phased approach of migration to T+1 settlement cycle, which commenced in February 2022. India completed shortening its settlement to T+1 of stocks in January 2023. Initial feedback indicates the T+1 implementation in India has been a success, producing efficiencies and no significant issues.[92] Initially, only 25 stocks are qualified for same-day settlement.[93] India began introducing T+0 for a select few cash segment stocks in March 2024.[94]

The Bombay Stock Exchange (BSE) being an older exchange has almost 5,000 active companies listed and being transacted, and National Stock Exchange has virtually 1,800 active companies. Around 3,000 additional on BSE are lower market cap companies (mostly penny stocks). "So, this means that in around ten months from February, or by October 2022, all the stocks in Indian markets will be on the T+1 settlement cycle"[95]. Analysts wonder why there is still no instant settlement in India in today's world where UPI powers almost 4+ billion bank transfers per month, all settled instantly.[96] As C. Papillard argues (2023): "*The benefits of T+1, especially for banks and brokers, are well understood across the*

[85] Oberoi, R 2024, "T+0 settlement is finally here: What does it mean for investors and traders?", Bt Market Today, 28.03.2024, <https://www.businesstoday.in/markets/stocks/story/t0-settlement-is-finally-here-what-does-it-mean-for-investors-and-traders-423232-2024-03-28>
[86] Op. cit.
[87] Op. cit.
[88] Office of the Controller of the Currency, "Counterparty risk", <https://www.occ.treas.gov/topics/supervision-and-examination/capital-markets/financial-markets/counterparty-risk/index-counterparty-risk.html>
[89] Murphy, C. B. 2023, "Counterparty risk", Investopedia.com, March 28, 2023, <https://www.investopedia.com/terms/c/counterpartyrisk.asp>
[90] Hatfordfunds, "Are You Prepared For Duration Risk?", <https://www.hartfordfunds.com/practice-management/client-conversations/investing-for-income/duration-risk-is-rising.html>
[91] Hayes, A. 2024, "Duration Definition and Its Use in Fixed Income Investing", Investopedia.com, <https://www.investopedia.com/terms/d/duration.asp>
[92] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>
[93] Oberoi, R 2024, "T+0 settlement is finally here: What does it mean for investors and traders?", Bt Market Today, 28.03.2024, <https://www.businesstoday.in/markets/stocks/story/t0-settlement-is-finally-here-what-does-it-mean-for-investors-and-traders-423232-2024-03-28>
[94] Rai, S 2023, "What is the T-1 Settlement cycle? Understand the basics of the new T+1 Settlement", NSE/NSEIT, January, <https://www.nseit.com/what-is-t-1-settlement-understand-the-basics-of-the-new-t1-settlement/>
[94] FINBOURNE, 2024, "Transitioning to T+1 Settlement: Measuring the Operational Impact in the UK", 05/06/2024, <https://www.finbourne.com/thought-leadership/transitioning-to-t1-settlement-measuring-the-operational-impact-in-the-uk/>
[95] Rai, S 2023, "What is the T-1 Settlement cycle? Understand the basics of the new T+1 Settlement", NSE/NSEIT, January, <https://www.nseit.com/what-is-t-1-settlement-understand-the-basics-of-the-new-t1-settlement/>
[96] Op. cit.

region [Asia – author's notes]. *Moving though will be challenging. The large number of markets are even more fragmented than in Europe*."[97]

Whilst some countries have taken a phased approach to migration, the largest stock markets as the US, Canada and other countries adopted T+1 settlement cycle in a single 'big bang' implementation, at the end of May 2024.

However, Europe, and Japan, still follow the T+2 settlement cycle of trade settlement.

As concerns **Australia and New Zealand**: "*They are nearly a day ahead of large parts of the globe, making T+2 effectively T+1.5 for the rest of the world. The time difference between Australia and the US eastern seaboard is 14 hours, with 17 hours to the West Coast, so a US investment manager investing into Asia has lost nearly a day when it trades. Settlement in Australia at present occurs in a single batch at 11:30. That is why some analysts ask: Would a later batch be necessary in a T+1 environment? Would single batch settlement even work?*"[98]

In the last two years, the main issues that are the subject of discussion in Europe in the field of financial markets and settlement process are the following:

1. Should Europe (i.e. the European Economic Area (EEA), the United Kingdom (UK), and Switzerland) move to T+1 settlement cycle?
2. And if so, how can this be achieved?

The current settlement cycle for most transactions in equities and fixed income markets in Europe is two business days, referred to as 'T+2'.

Because of market interconnectivity, on 5th October 2023, the European Securities and Markets Authority (ESMA) released a "call for evidence" to understand the possible impacts that a change from T+2 into T+1 could have in Europe, and will subsequently release the CSDR Refit guidance in Q3/Q4 2024 before the given legislative deadline of 17th January 2025.[99]

The EU is currently going through a lengthy legislative process to speed up its complex financial market infrastructure. The EU could move to one business day settlement at the end of 2027 at the earliest. The question is no longer if, but how and when that will happen in the EU, according to the European Commissioner for Financial services, financial stability and Capital Markets Union (2020-2024) Mairead McGuinness.

European financial markets appear to be ready to follow the US lead in moving to a one business day settlement cycle. The European Securities and Markets Authority (ESMA) is targeting the fourth quarter of 2027, the first quarter of 2028 or the fourth quarter of 2028 as potential timelines for accelerating securities settlement times from two days to one.

"*The fourth quarter of 2027 is a realistic deadline*", according to Sebastijan Hrovatin, a policy officer at the European Commission during a discussion hosted by the ESMA and attended by EU officials.[100] He added that any date "put on the table" by the European Commission will reflect what the EU executive body thinks is "realistic and acceptable".

According to Jesus Benito, head of domestic custody and trade repository at SIX: "*Q4 2027 is achievable if regulators, market participants and market infrastructures work together. The agreement from the panelists that it is preferential to have unity between the EU, Switzerland and UK on the timing for this move is very positive*."[101]

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[97] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>
[98] Op. cit.
[99] Ghosh, D 2024, "T+1 settlement cycle: Risks and impacts for European markets", <https://parvaconsulting.com/t1-settlement-cycle-risks-and-impacts-expected-for-european-markets/>
[100] FINADIUM, "The Banker: EU officials say T+1 by end-2027 is "feasible"", July 11, 2024, <https://finadium.com/the-banker-eu-officials-say-t1-by-end-2027-is-feasible>
[101] Op. cit.

The UK has announced it will introduce one business day settlement by the end of 2027. In March 2024, the UK Government's Accelerated Settlement Task Force recommended that the UK commit to moving to a T+1 settlement cycle by no later than 31st December 2027.[102]

The preparation of financial institutions around the world for the transition to overnight settlement in the US, Canada, Mexico and the other countries has been successful, involving moving staff, adjusting shifts and revising work processes.

However, it is not clear how successful these preparations will be in the European financial markets, where the transition to T+1 settlement cycle is still underway. Concerns are not to increase trading failures.

The problem is that introducing the same in Europe is more complicated and expensive, since the EU never built its single capital market. So far, there is no solution at the political level, but officials are working at the technical level to overcome the obstacles to the introduction of T+1 settlement cycle.[103]

As Mairead McGuinness argues, "*Despite the progress made, the Capital Markets Union is far from complete and we must go further still… The EU needs well-functioning, deep and integrated capital markets to support our economic recovery, finance the green and digital transitions, provide extra income for citizens, especially for older generations, and to support a competitive, open and strategically autonomous Europe in an increasingly complex global environment. The Capital Markets Union action plan, just adopted by the Commission on 24 September, is a necessary and well-timed step. The action plan is a balanced proposal that is both ambitious and targeted. Some of the proposed actions are ambitious, especially in the areas of taxation, insolvency law and pensions. However, progress on these actions is needed if we want to achieve truly integrated capital markets*"[104].

According to C. Papillard (2023), for Europe "*getting to T+1 will be complicated though. Unlike the US, Europe is not a single market with a harmonized legal framework and unified post-trade infrastructure. T2S does offer a common platform for the transfer of securities and cash between investors across 20 European countries, and can support a compressed settlement cycle. But Europe's diverse markets still have a plethora of rules and operating nuances, with a fragmented trading, clearing and settlement environment boasting multiple CCPs and central securities depositories (CSDs)*.[105]

Asset managers, banks and trade groups are concerned that settlement of trades on a T+1 basis could potentially be disruptive to the industry, according to a compilation of responses to an ESMA consultation published earlier in 2024.

At the same time, settlement differences in Europe and the US pose challenges for investors in both markets. Andrew Douglas, chair of the UK's T+1 technical group, says: "*The elephant in the room is our joint divergence with the US*". He adds that the EU and United Kingdom must follow the US example as soon as possible.[106]

In order to move to T+1, industry participants must align and agree to shorten the settlement cycle by implementing the necessary operational and business changes, and regulators must be engaged.

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[102] FINBOURNE, 2024, "Transitioning to T+1 Settlement: Measuring the Operational Impact in the UK", 05/06/2024, <https://www.finbourne.com/thought-leadership/transitioning-to-t1-settlement-measuring-the-operational-impact-in-the-uk/>

[103] Ivanova, M 2024, "The EU could move to one-day settlement at the end of 2027 at the earliest", Investor.bg, 10.07.2024, <https://www.investor.bg/a/538-pazari/397254-es-mozhe-da-premine-kam-ednodneven-setalment-nay-rano-v-kraya-na-2027-g?fbclid=IwZXh0bgNhZW0CMTAAAR020Dd7zmHp5yAmR0QLEFdCdy-egCqCT2N8hSqIVN0FGuH-HAQsUCArahA_aem_zu6S8BCnFKX4S-bV8qvjYw> [in Bulgarian]

[104] McGuinness, M 2024, Answers to the European Parliament Questionnaire to the Commissioner-Designate Mairead McGuinness Commissioner for Financial Stability, Financial Services and Capital Markets Union p. 10, <https://commissioners.ec.europa.eu/document/download/2862fe92-05a2-4ed1-beab-5eef8c010df4_en?filename=en-mcguinness-written-questions-and-answers.pdf>

[105] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>

[106] Ivanova, M 2024, "The EU could move to one-day settlement at the end of 2027 at the earliest", Investor.bg, 10.07.2024, <https://www.investor.bg/a/538-pazari/397254-es-mozhe-da-premine-kam-ednodneven-setalment-nay-rano-v-kraya-na-2027-g?fbclid=IwZXh0bgNhZW0CMTAAAR020Dd7zmHp5yAmR0QLEFdCdy-egCqCT2N8hSqIVN0FGuH-HAQsUCArahA_aem_zu6S8BCnFKX4S-bV8qvjYw> [in Bulgarian]

The main benefits of T+1 settlement cycle are summarized in Table 1.

As some authors argue, shortening the settlement cycle aims to create more efficient financial markets that better serve investors.[107] The prospective benefits are substantial.

Benefits of T+1 settlement cycle	Description
1. Reduction of the exposure against counterparty financial risk	The time to settlement equals counterparty risk. Especially during market shocks, the counterparty risk can become elevated. It can also lead to the need for higher margin requirements, which are critical to protecting the financial system and investors against a firm default. With T+1 settlement, the time between the execution of a trade and the settlement is shorter. This reduces the exposure to counterparty risk, the risk that one party in the transaction fails to fulfil its obligations. A shorter settlement cycle minimizes the time during which market conditions or financial positions may change, reducing the likelihood of default. This leads to a reduction in counterparty risk and corresponding reduction in funding costs.
2. Increased liquidity	Faster settlement increases market liquidity. Investors can gain faster access to the proceeds of their sales, allowing them to reinvest or withdraw funds sooner. This can contribute to a more dynamic and responsive financial market.
3. Operational efficiency	T+1 settlement requires more efficient and streamlined operational processes, as transactions need to be settled within a shorter timeframe. This can lead to improvements in back-office operations and the adoption of more advanced technologies to facilitate faster and more accurate settlement.
4. Alignment of the markets and harmonization of settlement practices	Moving to a T+1 settlement cycle would align European markets more closely with global standards and best practices, as many other major financial markets already operate on a T+1 or shorter settlement cycle. This harmonization is beneficial for international trading, as it reduces the complexities associated with different settlement periods in various financial markets.
5. Enhanced investor confidence	Faster settlement cycles could increase investor confidence in the integrity and reliability of the financial markets, as transactions would be settled more quickly and with reduced risk of settlement delays or failures.
6. Decreasing capital and margin requirements	T+1 settlement cycle will reduce the pre-settlement risk of counterparties not delivering on settlement date. Where that risk has been margined, as with transactions cleared at central counterparties (CCPs), decreasing the risk in turn decreases the margins and associated capital required. Capital efficiency and liquidity improve, and costs are reduced – with the US Depository Trust & Clearing Corporation (DTCC) estimating that

[107] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>

	removing one day's exposure to risk could translate into a 41% reduction in the volatility component of CCP margin requirements.[108] The T+1 settlement cycle will lead to capital and operational efficiencies, and to a significant risk reduction and a lowering of margin requirements, especially during times of high volatility and stressed markets.[109]

Table 1. Main benefits of T+1 settlement cycle

Sources: Ghosh, D 2024, "T+1 settlement cycle: Risks and impacts for European markets", <https://parvaconsulting.com/t1-settlement-cycle-risks-and-impacts-expected-for-european-markets/>; Ryzner, J 2024, "T+1 settlement cycle. Impact, risks, challenges and benefits", ECB OMG Group, p.6, <https://www.ecb.europa.eu/paym/groups/pdf/omg/2023/230620/item_3_T_1_Settlement_cycle.pdf>; Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>

The main risks and challenges of T+1 settlement cycle are summarized in Table 2.

Risks and challenges of T+1 settlement cycle	**Description**
1. Market infrastructure limitations	Europe has diverse financial markets. There is a plethora of rules and operating nuances, with a fragmented trading, clearing and settlement environment boasting multiple CCPs and central securities depositories (CSDs). That is why for Europe to get to T+1 is complicated though. Unlike the US, Europe is not a single market with a harmonized legal framework and unified post-trade infrastructure. Moreover, a big danger is that moving to T+1 settlement cycle risks increasing the number of settlement fails, producing more inefficiency in Europe's markets.[110]
2. Operational challenges for firms	Firms need to make operational enhancements to meet the demands of the accelerated settlement cycle, posing potential challenges and costs. Firms will have no choice but to apply technology or prepare advanced workforce to maximize returns and handle more loads efficiently. Both implementations would increase costs to comply with the new settlement cycle. According to ESMA's feedback assessment, the following conclusions are drawn[111]: 1/ Most of the respondents provided feedback that have indicated that it is difficult to quantify costs, as this would highly depend on the way in which T+1 would be mandated; 2/ Only two respondents (both credit institutions) have provided confidential information on the cost they would incur in a shift to T+1. 3/ One of them has indicated that adapting its business to T+1 would imply dozens of millions of euros, the other one has indicated one-off costs of

[108] DTCC, 2021, "DTCC Proposes Approach to Shortening U.S. Settlement Cycle to T+1 Within 2 Years", Press Release, The Depository Trust & Clearing Corporation (DTCC), February 24, 2021, <https://www.dtcc.com/news/2021/february/24/dtcc-proposes-approach-to-shortening-us-settlement-cycle-to-t1-within-two-years>
[109] DTCC in the US has estimated that a move to T+1 could bring a 41% reduction in the volatility component of NSCC's margin. (DTCC, 2021, "DTCC Proposes Approach to Shortening U.S. Settlement Cycle to T+1 Within 2 Years", Press Release, The Depository Trust & Clearing Corporation (DTCC), February 24, 2021, <https://www.dtcc.com/news/2021/february/24/dtcc-proposes-approach-to-shortening-us-settlement-cycle-to-t1-within-two-years>)
[110] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>
[111] Op. cit.

	approximately EUR 3M and on-going costs of EUR 0,5M annually. 4/ Some respondents have differentiated between one-off/short term costs, related to investments in shortening IT processes and procedures, and on-going/longer term costs related to pre-matching, which will require availability of IT systems and personnel.
3. Post-trade activities compressed into shorter time frame	According to some analysts, the biggest challenge lies not in the settlement itself, but the upstream processes that must be compressed and automated across markets before settlement takes place. Delivering the necessary post-trade efficiencies and harmonization will require concerted industry-wide collaboration encompassing all participants in the transaction chain, from investors and intermediaries to custodians and market infrastructures. Thousands of stakeholders will need to be involved to make it work right. Moving to T+1 settlement cycle would result in the need to complete most of the post-trade processes at trade date, reducing also time available to perform mandatory controls (e.g., provision, cash, inventory, anti-money laundering) and to solve potential issues that would impede timely settlement at T+1.[112] This might lead to settlement fails if market participants are not prepared to complete the process within the two hours which will incur cash penalties under Central Securities Depositories Regulation (CSDR) rules.
4. Greater operational complexities within EU counterparties	Shortening the settlement cycle in Europe could be more challenging than in other jurisdictions since Europe has a more complex post-trade landscape with lots of market infrastructures, several currencies, and a common settlement platform (T2S) which does not support all the currencies and in which not all EU central securities depositories (CSDs) participate. According to the European Fund and Asset management association (EFAMA)'s memo issued in August 2023, there are 29 central securities depositories (CSDs) in Europe meanwhile there are only 2 central counterparties (CCPs) in the United States.[113] In addition, moving to a T+1 settlement cycle will require new operational processes that may create additional costs and errors.
5. Securities lending impact	Moving to a T+1 settlement cycle compresses the timeline to identify and recall securities, which could lead to breaks in the process, resulting in an increase in settlement fails and cash penalties unless there is a modification to existing processes, technology, and overall behavioral changes.

Table 2. Main risks and challenges of T+1 settlement cycle

Sources: Ghosh, D 2024, "T+1 settlement cycle: Risks and impacts for European markets", <https://parvaconsulting.com/t1-settlement-cycle-risks-and-impacts-expected-for-european-markets/>; Ryzner, J 2024, "T+1 settlement cycle. Impact, risks, challenges and benefits", ECB OMG Group, p.6, <https://www.ecb.europa.eu/paym/groups/pdf/omg/2023/230620/item_3_T_1_Settlement_cycle.pdf>; Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>

[112] The Association for Financial Markets in Europe (AFME) estimates that moving from two days to one day would significantly reduce the available post-trade processing time from 12 hours to 2 hours which would reduce post-trade operational timeline by 83%. (Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>)

[113] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>

5. CONCLUSIONS

Payment and securities settlement systems are not static in nature. They are dynamic systems which have evolved over time and which will continue to do so.

The past decade has seen the process of convergence of markets with different settlement cycles in different parts of the world around T+2 settlement cycle. "*Since some securities can be traded on both sides of the Channel and the Atlantic, the inefficiencies and arbitrage opportunities will make it difficult for Europe to stand alone at T+2 settlement cycle.*"[114] The shift from T+2 to T+1 settlement has already gained popularity in various regions of the world. Europe need to align with other developed capital markets at T+1 settlement cycle.

Europe is currently going through a lengthy legislative process to speed up its complex financial market infrastructure. There are clear benefits of the shortened settlement cycle, like reduced counterparty risk, increased liquidity, enhanced operational efficiency, aligned financial markets and harmonized settlement practices, enhanced investor confidence, decreased capital and margin requirements.

However, important risks and challenges may arise from the move to T+1 settlement cycle such as the fragmentation on financial markets, compression of post trade activities due to the shorter time frame, greater operational complexities within EU counterparties, etc. The ESMA is expected to deliver its report on the costs and benefits of introducing T+1 in Europe by January 2025.

Market participants and regulators in Europe need to work collaboratively to ensure a smooth transition to T+1 settlement and to address any potential challenges that may occur. "*Firms will need to engage in collaborative efforts within the industry to share insights and best practices related to T+1 settlement readiness. This collaborative approach aims to ensure a smooth transition and address challenges collectively.*"[115]

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[114] Papillard, C et al. 2023, "T+1 settlement: Are you ready?", BNP Paribas, 08 June 2023, <https://securities.cib.bnpparibas/t1-settlement-ready/>
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