T+1 and SFTs

Optimising SFT settlement

As noted in the Secondary Market section of this Quarterly Report, on 30 June 2025 the EU Industry Committee published its *High-Level Roadmap to T+1 Securities Settlement in the EU,* which is scheduled to go ahead in October 2027. The report is the culmination of several months of intense work within the Industry Committee itself as well as its ten Technical Workstreams (TW) which have been established to work on the different focus areas.

The final Roadmap sets out a long list of key recommendations, put forward by the TWs, which span across nine areas, ranging from trading considerations to matching and confirmations, and settlement. Those areas broadly reflect the ten TWs. SFTs have of course been a key area of focus. While SFTs as a product class are expected to be exempted from the T+1 requirement itself (see next section), it has always been clear that they will be disproportionately impacted by the move to T+1, given their inherent role to support firms' cash market trading and liquidity management. This means that most SFTs will have to settle within the cash market settlement cycle, so on a T+1 or even T+0 (or same-day) basis. This will be challenging to achieve, especially in a still very fragmented EU market, and will require a much higher level of automation and a serious rethink of the current post-trade process for SFTs more broadly. In order to facilitate T+1 without undermining current levels of settlement efficiency and market depth, the SFT workstream, which has been coordinated jointly by ICMA and ISLA, put forward almost 30 recommendations across seven thematic areas. On the securities lending side, key considerations include securities lending recalls and the related timelines and automation of the process, as well as pre-matching. On the repo side, a lot of focus has been on the usage of settlement optimisation tools which are considered to be critical to support settlement efficiency in a T+1 environment. These include many of the tools that the ERCC has been focused on for a long time and which are already considered as best practice in the repo space, including the shaping of settlement instructions, automatic partial settlement, as well as the use of auto-collateralisation and auto-borrowing facilities offered by (I)CSDs. All of these will help in the journey to T+1 and are critical from a repo perspective, although they obviously apply to other instrument types as well and have therefore been included in other sections of the report.

However, there is a concern that those optimisation tools alone might not be sufficient in the absence of more structural changes at the market infrastructure level. In particular, the repo community is concerned about the systemic implications of a significant shift of the repo market to T+0 settlement. In the current settlement set-up, repos that are traded for same-day settlement are not subject to any settlement netting, as they settle in the real-time gross settlement (RTGS) cycle during the day and are not subject to CCP netting either. This is less efficient and potentially costly as it requires firms to mobilise more intraday liquidity. If a significant share of the repo market moves to T+0 settlement, this could therefore mean a substantial increase in intraday liquidity costs for the industry, which could also have a knock-on impact on settlement efficiency more broadly, if it leads firms to hold back deliveries as they optimise their intraday liquidity management. Given the significant size of the repo market and the volumes affected, this is potentially a systemic risk.[1] In order to mitigate these concerns, the SFT workstream has recommended the introduction of an additional "batch", ie net settlement cycle in T2S (and the ICSDs) during the day to provide additional netting opportunities primarily for repos but also for other transaction types and act as a "gating event" to incentivise firms to settle early in the day. This proposal has triggered extensive discussions within the Industry Committee that are still ongoing. In particular, it is clear that implementing such a proposal would be a substantial change of the current set-up that would require a significant effort from the infrastructure providers but would also come with additional risks that need to be carefully considered. The discussion will continue over the summer and we will keep members informed. If you would like to get involved in the discussion, please do reach out.

SFT exemption

In terms of legislative changes, the move to T+1 requires amending the EU CSD Regulation (CSDR). The Commission put forward the related amendment proposal back in February, which has subsequently been discussed by co-legislators as part of the regular legislative adoption process, which is currently in its final stage. An important element in this discussion has been the question of whether SFTs require an explicit exemption from the T+1 rule. The ERCC has

1. While market behaviour is extremely difficult to predict, the SFT workstream has attempted to quantify the issue, based on current data, as well as a broader member survey undertaken by ICMA. The results remain somewhat ambiguous. What is clear is that the affected repo volumes are very significant. Based on an ICMA survey, respondents expected on average that around 20% of repo transactions (in value terms) will settle on a same-day basis once T+1 goes live. Based on SFTR reporting data, this would translate to transactions worth around EUR600 billion per day. This could be significantly higher if we consider the UK market as a relevant precedent (given that gilts are already on T+1) where already over 40% of the repo market settle on a same-day basis.

strongly advocated for such an exemption, given that by their very nature SFTs do not have a standard settlement cycle and require full flexibility for firms to agree settlement dates. This had been overlooked in the initial CSDR discussions in the context of the move to T+2 in 2014, so the move to T+1 was seen as an opportunity to clarify the treatment of SFTs. The initial Commission proposal, issued in February, did not include any specific provision for SFTs. However, after extensive discussions, the issue has been clearly acknowledged by co-legislators in the subsequent adoption process and both Council and Commission agreed to include an explicit exemption for SFTs in their final compromise text.

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