



The sliding scale for global settlement cycles

There is currently a global trend towards reducing settlement cycles with the general aim of lowering market risk, providing more stability, improving liquidity, and streamlining operations.

In Asia, the reduction in settlement cycles has been described as mitigating counterparty risks and improving settlement efficiencies, whilst Europe is establishing a common settlement standard for central securities depositories in the European Union.

In the U.S., the [finalised rule](#), which reduced the settlement cycle from T+2 to T+1, is designed to benefit investors and reduce the credit, market, and liquidity risks in securities transactions faced by market participants.

Some market participants have also considered the future landscape of [‘atomic settlements’](#), otherwise described as T+0. But more on that later when we start to consider the future.

In this article we start with the lead up to, and the point at which the U.S. changes to T+1 settlement went live.

Following that, we look at the outcome of that change, followed by a look at what other countries may consider proposing further down the line.

Setting the scene – the United States

On 28 May 2024, the U.S. settlement cycle reduced from T+2 to T+1. Argentina, Mexico and Canada introduced similar changes a day earlier.

In the run-up to U.S. implementation, in March 2024, the U.S. Securities and Exchange Commission’s (SEC) Division of Examinations issued a [Risk Alert – ‘Shortening the Securities Transaction Settlement Cycle’](#).

The Risk Alert said that it was critical that registrants and other market participants prepared for the shortened settlement cycle and understood the impacts of T+1 and the final rules to identify necessary changes and critical dependencies to successfully manage this transition.

The U.S. SEC also issued [frequently asked questions](#), and an [Investor Bulletin](#).

This was followed by a SEC [Press Release](#) on 21 May 2024, entitled ‘SEC Chair Gensler Statement on Upcoming Implementation of T+1 Settlement Cycle’.

In it, Chair Gensler states that “...Since the SEC voted to establish a T+1 settlement cycle in the U.S., SEC staff has been monitoring on a continuous basis the efforts of market participants to prepare for the shorter settlement cycle and coordinating with regulatory authorities in North America, Europe, Asia, and other jurisdictions around the world... As the compliance date of May 28, 2024, approaches, the SEC will continue its efforts to help facilitate a successful transition.”

Regulatory commentary on the U.S. move to T+1

In Asia, on 27 March 2024, the Hong Kong Securities and Futures Commission (SFC) issued a [circular](#) to remind Licensed Corporations (LCs) to prepare for the transition of the standard settlement cycle for transactions in U.S. securities.

Noting that the shortened settlement cycle will compress the timeframe for completing post-settlement processes, the SFC states its expectation that LCs should have assessed their readiness and ensured that they were able to cope with the shortened settlement cycle. Amongst other things, LCs were expected to:

- Review their liquidity risk management practices and ensure the necessary funding is available for settling U.S. securities transactions on time.
- Ensure the availability of staff to complete the post-trade settlement processes within the shortened timeframe.
- Proactively engage and communicate with their clients who could be affected by the transition.

In addition, the SFC reminded the management companies of SFC-authorized funds, particularly those with considerable exposures to U.S. securities, to:

- Carefully assess the impact of the transition on their funds, including any potential mismatches in settlement cycles relating to the deployment of subscription money or sale proceeds from non-U.S. markets to purchase U.S. securities.
- Make appropriate arrangements where necessary, such as expanding pre-funding facilities and allocating additional staff, to manage the compressed settlement timeline, to ensure that the funds' operations remain fair and orderly, and in the best interest of investors.
- Give early alerts to the SFC and investors about any intended changes, issues or untoward circumstances arising from the transition that may materially affect the funds and investors and take remedial actions accordingly.

The Hong Kong Monetary Authority (HKMA) also issued a [circular](#) on the same day on the securities transaction settlement cycle in the U.S., reminding Authorised Institutions that they need to pay attention to their funding arrangements and ensure availability of sufficient funds for settling the affected securities transactions on time.

In Europe, for the asset management industry, the potential operational challenges have also been well debated. For example, behind the scenes, as part of our depository industry engagement via the Association of the Luxembourg Fund Industry (ALFI), Irish Funds, and the UK Investment Association, they have collectively engaged with their respective regulators to discuss the appropriate treatment of fund breaches relating to the potential for settlement mismatch leading to borrowing or excessive cash holdings.

Since then, the Commission de Surveillance du Secteur Financier (CSSF) has gone on record by updating Circulars in this regard.¹

Industry commentary on U.S. move to T+1

In 2023, the Depository Trust and Clearing Corporation (DTCC) published an [article](#) on the T+1 environment. It said that the industry was proposing that trade affirmations be completed

by 9:00 p.m. U.S. eastern time on trade date to enable same day affirmation and trade settlement on the due date.

In the U.S. clearing and settlement framework, the processing of institutional trades essentially requires investment managers to allocate block trades accompanied by trade settlement information, or standing settlement instructions (SSIs), to their brokers.

Brokers confirm the trades by providing a detailed record of the transaction, including what was traded, the date of the trade, the cost, and the net value.

The affirmation process then takes place, requiring investment managers or their appointed custodians or prime brokers to affirm the trades.

These operational steps will now need to be completed on trade date so that matched and agreed trades can be seamlessly sent for settlement.

With less time in the settlement cycle, automation of post-trade processes will be critical to success.

The same article also discusses specific impacts for Asian firms who will need to remove any friction in their operational processes and ensure efficiency across time zones to expeditiously match and settle trades on time when trading in U.S. markets.

Aside from increasing automation, leveraging a centralised, automated database of SSIs with up-to-date information on settlement and account details will accelerate straight through processing and should reduce trade mismatches and potential trade failures.

At the same time, firms in Asia must consider the financing aspects of cross-border trades, which typically takes place when trades have reached matched-agreed status.

The DTCC article points towards what happened when India changed its settlement cycle to T+1 (as a phased implementation between February 2022 up to January 2023) as regards managing foreign exchange (FX) demands.

In India's case, the entire industry came together to address the challenges associated with the FX post-trade workflow, including FX liquidity.

Given the nuances of each local market however, a one-size fits all approach to manage FX financing will not work in Asia. It would therefore be useful to review FX requirements at the fund-level or consider a combination of in-house and outsourced solutions, in collaboration with appointed custodians and intermediaries.

Alternatively, investment managers could provide standing funding instructions to their custodians to immediately release funds upon trade completion.

This approach is applicable when there is cash held by custodians.

Singapore

To date, the Investment Management Association of Singapore (IMAS) has published the above DTCC article on its website for members.

Post 28 May, did the predicted outcomes prove to be accurate?

Areas identified as potential challenges for the industry, prior to 28 May 2024

Global FX markets

The European Fund and Asset Management Association (EFAMA) research estimated that 40% of daily FX flows were at increased risk.

EFAMA urged the introduction of mitigating measures such as an extension of the CLS cut-off time, and improved cut-offs and alignment among the custodial community.

EFAMA went on to say that this urgency was likely to be further compounded by the fact that within days of the U.S. go-live, major indices like MSCI World were set to rebalance (31 May 2024).

Time zone differences

Increase in late or failed settlement rates arising from trade allocations, confirmations, and affirmations

Increase in fund breaches relating to overdrafts, and cash holdings. Including lack of funding to cover mismatches between failed trade settlement

Items identified by various asset management industry associations in Ireland, Luxembourg, UK, and Asia and flagged with local regulators during face-to-face discussions or non-public communications

Time zone differences/Increase in 'follow the sun' models, ensuring there is adequate operational coverage across different regions

Prime brokerage

Securities lending

Derivatives

Corporate actions

Investment in real time solutions

Miscellaneous considerations

[T+1 Industry Briefing \(sifma.org\)](#)

[T+1 Industry Implementation Playbook – SIFMA](#)

Prediction was accurate? – General industry commentary

29 May 2024: Global Custodian Article – 'Minor system issue hits DTCC's night cycle processing on first day of T+1; affirmation rates top 90%'

Source: [Minor system issue hits DTCC's night cycle processing on first day of T+1; affirmation rates top 90% \(globalcustodian.com\)](#)

31 May 2024: ICI, SIFMA and DTCC comment on U.S. Move to T+1

The Investment Company Institute (ICI), the Securities Industry and Financial Markets Association (SIFMA), and DTCC issued the following statement on the move to T+1:

"With the U.S. T+1 settlement cycle for corporate bonds, municipal bonds, and equities transactions now in place, ICI, SIFMA, and DTCC thank all the stakeholders for their collaboration and support in successfully implementing this historic change to U.S. markets. There was a tremendous amount of partnership and hard work to make T+1 a reality."

"Early indications following T+1 implementation are positive, and we look forward to working closely with firms and key stakeholders in the coming weeks to monitor and address any issues that may arise."

"Shortening the settlement cycle to T+1 promises to deliver greater operational efficiencies and substantially lower margin requirements while reducing risk in the financial system. With T+1 now live, we've collectively begun to achieve those benefits together."

Source: <https://www.dtcc.com/news/2024/may/31/ici-sifma-and-dtcc-comment-on-us-move-to-t1>

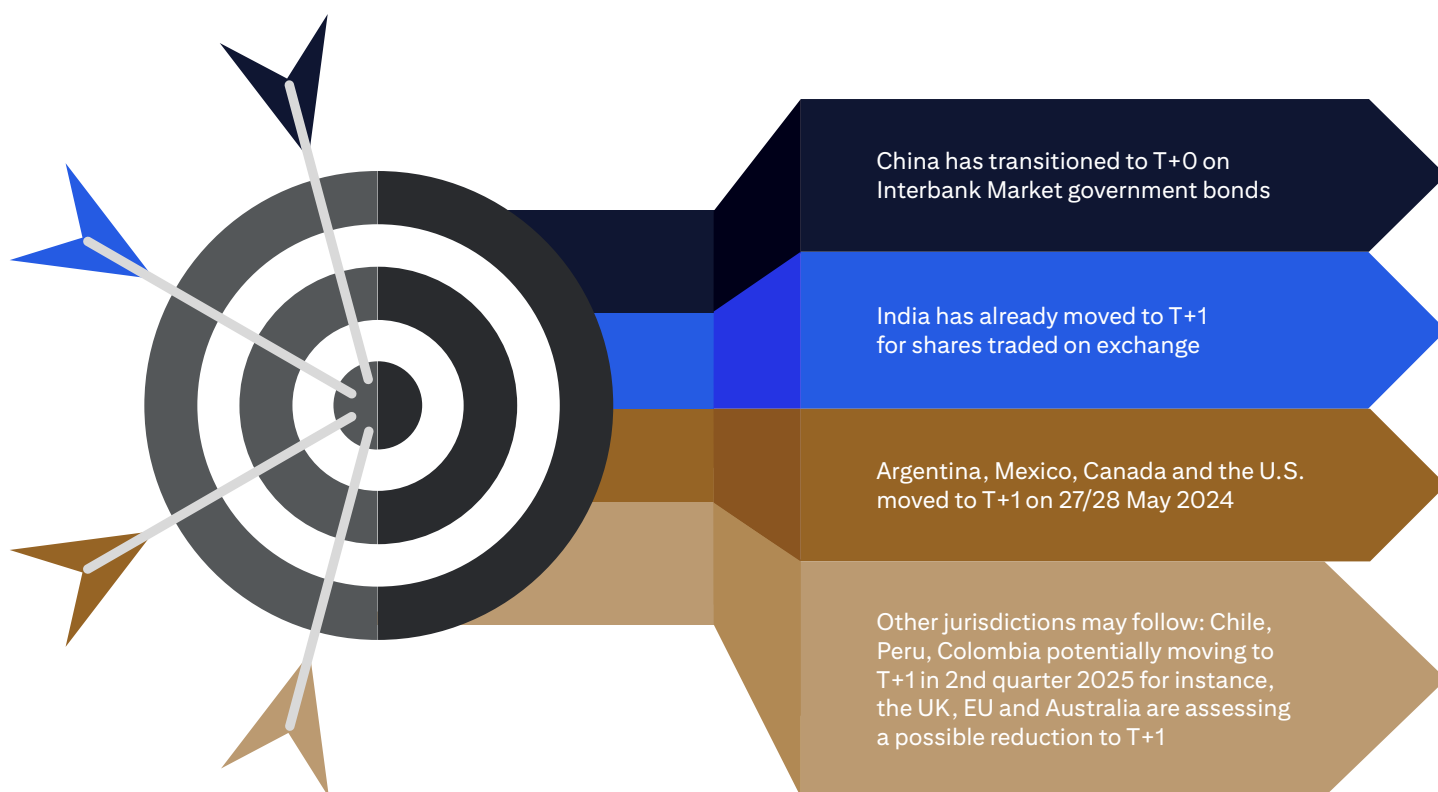


Looking beyond North America

For jurisdictions' outside of North America, the impact of the May 2024 deadline will have been felt by foreign investors in U.S. assets as the changes affected all investors that transact in U.S. assets, regardless of their domicile.

But beyond that May 2024 deadline, there has already been momentum building in other countries. For example, in Europe and the UK, they are currently considering changing to T+1 within their native exchanges and asset types.

An increasing number of jurisdictions have transitioned or are transitioning to shorter settlement cycles



Malaysia, Philippines, and Qatar

As the U.S. SEC prepared to implement T+1 settlement in May, the Colombo Stock Exchange of Sri Lanka (CSE) also looked to shorten its settlement cycle.

The CSE announced its [decision](#) to shorten its current settlement cycle from T+3 to T+2 for all equity transactions, a move aimed at aligning with international standards.

The move comes as markets around the world look to shorten their settlement cycles.

In Asia, India recently made the switch to T+1 and has now added functionality for T+0 settlements, while the Philippines shortened the settlement cycle from T+3 to T+2 in 2023.

Similarly in the Middle East, the Edaq (Qatar CSD) [reduced its settlement period](#) from T+3 to T+2 in March 2024. Initially scheduled for 2 January 2024. This adjustment got postponed in coordination with the Qatar Financial Market Authority, to allow market participants more time to update systems and implement new procedures.

Europe (ESMA)

On 5 October 2023, the European Securities and Markets Authority (ESMA) launched a [Call for Evidence](#) (CfE) on the shortening of the settlement cycle.

Its purpose was to assess the costs and benefits of a move to T+1 settlement, identify whether any regulatory action was needed, and receive input and quantitative evidence from respondents to the CfE.

This was followed by an ESMA [feedback statement](#) published on 21 March 2024.

It summarised responses received from market participants, with a particular focus on:

- Operational impacts beyond adaptations of post-trade processes resulting from a reduction of the securities settlement cycle in the EU.
- Potential costs and benefits of a shortened cycle, with certain responses supporting a thorough impact assessment before deciding.
- Suggestions around how and when a shorter settlement cycle could become possible, including a clear signal from the regulatory front at the start of the work and clear coordination between regulators and the industry.
- The need for proactive approaches for stakeholders to adapt their own processes to the transition to T+1 in other jurisdictions, as some responses warned of potential infringements due to the misalignment of the EU and North America settlement cycles.

ESMA says that it intends to continue assessing the responses received, including the demands for regulatory and supervisory guidance.

ESMA aims to deliver its final assessment to the EU Parliament and to the Council before 17 January 2025.

Europe (ECB) – supportive of a move to T+1

The European Central Bank (ECB) published a [letter](#) in December 2023, from Ulrich Bindseil, Chair of the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo), to Verena Ross, ESMA Chair, regarding the AMI-SeCo's views on the potential impact of shortening the standard settlement cycle.

The AMI-SeCo's view is that migration to T+0 is not currently a plausible scenario across the whole environment. In the letter it states that:

The AMI-SeCo takes the view that T+0 (in particular, in the sense of 'atomic' trade settlement, i.e., settlement basically occurring simultaneously with the execution of a trade) could have a fundamental impact on the structure of the wider ecosystem of trading, clearing and settlement of financial markets (including IT systems and market infrastructures).

However, AMI-SeCo does support analysing the business case in Europe of a potential shortening of the standard settlement cycle to T+1 and if a "decision were taken for the EU to migrate to T+1 at some point in the future, the AMI-SeCo is of the view that implementing such decision would require strong coordination with contributions of all relevant stakeholder groups (CSDs, CCPs, brokers, market-makers, custodians, buy-side, issuers, etc.)."

The AMI-SeCo goes on to point out in its letter that coordination is also necessary across jurisdictions. Given the interconnectedness of the European capital markets industry and the presence of global investors, it is in the EU's interest to take account of the impact on stakeholders in different time zones and jurisdictions with a particular attention to the links between securities and FX markets.

India

The Securities and Exchange Board of India (SEBI) has sought the [approval](#) of its Board to introduce an optional T+0 settlement cycle, and subsequent optional instant settlement cycle, in addition to the existing T+1 settlement cycle, in secondary markets for equity cash segment, in order to facilitate the regulated market having instant settlement option for investors who may, in the absence of such option, be attracted to unregulated/less regulated markets like crypto markets. This is part of plans to introduce instantaneous settlement in 2025.

United Kingdom

On 9 December 2022, the UK HM Treasury set up the [Accelerated Settlement Taskforce](#) (AST).

The case for settling trades more speedily, such as moving to a T+1 standard settlement period was set as a main focus for the AST. A full [report](#), including recommendations was published by the AST on 28 March 2024 and the key recommendations contained in the report are that:

- The UK should commit to moving to a T+1 settlement cycle, with this move taking place no later than 31 December 2027.

- The UK, and other European jurisdictions, should collaborate closely to see if a coordinated move to T+1 is possible, and if other European jurisdictions commit to a transition date, then the UK should consider whether it wishes to align with that timeline.
- A Technical Group of industry experts should be set up to determine the technical and operational changes necessary for the transition to T+1, along with how these should be implemented.
- This group should select a date in 2025 for mandating these changes. Along with a date before the end of 2027 for the UK transition to T+1.

HM Government (HMG) has [accepted](#) all the recommendations and has appointed Andrew Douglas to chair the Technical Group to take forward the next phase of the work.

HMG has asked the Technical Group to produce a report with its findings and recommendations by the end of 2024.

Australia

The latest country to look at the potential for moving to a T+1 environment is Australia. On 23 April 2024, the Australian Securities Exchange (ASX) published a [White Paper](#) entitled 'Considerations for accelerating cash equities settlement in Australia to T+1' (White Paper).

The White Paper makes observations specific to the Australian market and ASX as follows:

Key differences between markets, time-zones, size (pointing out that as ASX is a relatively small market compared to most North American, some European, and large Asian markets), the fact that ASX operates a dematerialised central securities depository, investment flows, retail vs. institutional trading activity, and the current settlement timetable.

Like other countries, the ASX Business Committee (Business Committee) formed a T+1 Working Group in December 2023 to provide analysis and insights to the Business Committee on settlement cycle compression.

ASX, in consultation with the ASX Business Committee and the T+1 Working Group, will use the responses to this White Paper to further develop the approach for the Australian market, inform a decision and the plan for further consultation.



ASX intends to work to the following key milestones in 2024:

23 April 2024

Whitepaper published.

Responses requested by 18 June 2024.

Mid-June to late July 2024

Summary of feedback document provided to Business Committee and Advisory Group.

August 2024

Summary of feedback document released, including next steps.

November 2024

Targeting a decision on T+1 transition.

T+0 – atomic settlement

According to the BIS Quarterly Review ‘[On the future of Securities Settlement](#)’, published in 2020, the clearing and settlement landscape could change rapidly in response to tokenisation.

Securities such as equities and bonds are currently maintained in electronic book-entry accounts at centralised securities depositories.

In the future, they could “live” on distributed ledgers held across a network of traders where each has a synchronised copy.

As cited in a later 2022 Forbes [article](#), it proposes that atomic settlement could become more widely adopted in cross-border payments, as it offers several benefits over traditional methods.

The article explains that one of the main advantages being the speed of the transactions, as atomic settlement can be completed in a matter of seconds or minutes, compared to the days that may be required for traditional methods. This could be especially useful for businesses that need to make frequent or large cross-border payments, as it could save them time and money on each transaction.

Advice from the U.S. on lessons learned

During a speech delivered by the U.S. SEC Chair ‘[Shortening the Settlement Cycle: Benefitting Everyday Investors](#)’ on 20 June 2024, he shared some key takeaways from the U.S. move to T+1 settlement cycle at the Accelerated Settlement in the UK Conference. These include:

- Preparation as a team/global sport.
- The importance of T+0 allocations, confirmations, and affirmations.
- Importance of setting a firm implementation date.
- Understanding that some business models may need to shift.
- The benefits of a shorter settlement cycle as we operate in a world where settlement cycles are not aligned.

What the future might look like

Lessons learned by regulators and impacted industry participants, from historical, or any future transitions, for example in Europe, the UK, Bermuda, Brazil, Chile, Colombia, and Australia, can be put to good use when considering the successful evolution of settlement cycles globally.

Whilst automated solutions in areas such as pre-trade and trade allocation and matching, corporate action processing, and reconciliations could be increasingly employed to smooth any future transitions.

In terms of settlement periods reducing globally to T+0 (atomic settlement), the UK Payments Association have [said](#) that there are three main pillars of blockchain technology that could make it a perfect breeding ground for atomic swaps: decentralisation, unalterableness, and transparency.

This would need to be countered by the fact that adoption would still have to contend with regulations including Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements, holding back a rise in usage.

So, while atomic settlements may not become a norm in the short term, with the growth of blockchain technology and faster-payment solutions, the concept of atomic settlements could still promise a new way of ensuring secure, digital payments in the longer term.

In conclusion, and having moved past the 28 May 2024 U.S. move to T+1, the advancement in reducing settlement cycles is a topic that will continue to be debated and discussed for some time to come and should be followed as technologies continue to advance.

This article provides an account of the current position as at the date of writing – 25 June 2024.



¹ 20 June 2024: The CSSF published an update of the CSSF FAQ regarding Circular CSSF 02/77 (which will be replaced by Circular CSSF 24/856 as of 1 January 2025) as well as of the CSSF FAQ on the Law of 17 December 2010: 1) [FAQ regarding Circular CSSF 02/77](#) (new question 4.a and modification of question 4 that has become question 4.b), 2) [FAQ concerning the Luxembourg Law of 17 December 2010 relating to undertakings for collective investment – version 19 – CSSF](#) (modification of question 1.14).



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