



TRANSITION TO T+1 SETTLEMENT IN EUROPEAN AND UK CAPITAL MARKETS

Abstract

The transition to a T+1 settlement cycle in European and UK capital markets by October 2027 marks a fundamental shift in post-trade operations, driven by global efforts to reduce systemic risk, enhance capital efficiency, and modernize infrastructure.

This change compresses trade lifecycle timelines, reduces counterparty risk, enhances capital efficiency, and elevates the need for automation and process discipline. But there are challenges. Fragmented infrastructure, cross-border complexity, and legacy systems pose significant hurdles. Institutions can overcome these challenges by adopting early affirmation, centralized governance, and rigorous testing.

Global capital markets are accelerating settlement cycles to reduce systemic risk, improve capital efficiency, and modernize post-trade infrastructure. Following the successful transition of the United States, Canada, Mexico, and India to T+1, European Union (EU) and UK markets have committed to moving from T+2 to T+1 by October 2027.

For Europe and the UK, this shift represents a structural transformation of the post-trade ecosystem, requiring compressed processing timelines, behavioral change, and materially higher levels of automation. Institutions that prepare early will unlock liquidity, balance-sheet efficiency, and operational resilience, while laggards face higher settlement risk, rising costs, and losing competitive advantage.



WHAT T+1 SETTLEMENT MEANS

Under a T+1 settlement cycle, securities transactions settle one business day after trade execution rather than two.

Impact on a forex trade lifecycle

Lifecycle Stage	T+2 (Today)	T+1 (Target)
Trade allocation	T+0 / T+1	T+0 mandatory
Trade affirmation	T+1	Same day (T+0)
Trade matching and confirmation	T+1	Same day (T+0)
FX funding	T+1	Earlier / pre-funded
Clearing and settlement	T+2	T+1

Similarly, for equities and fixed income trades under T+1, trade allocation and affirmation must be completed on the trade date (T+0), leaving minimal tolerance for post-trade adjustments. Compressed timelines also make same-day matching and confirmation critical, as delays in these processes can significantly increase settlement risk and operational pressure.

The key implication is that T+1 shifts operational risk upstream, making same-day allocation, affirmation, and funding non-negotiable.



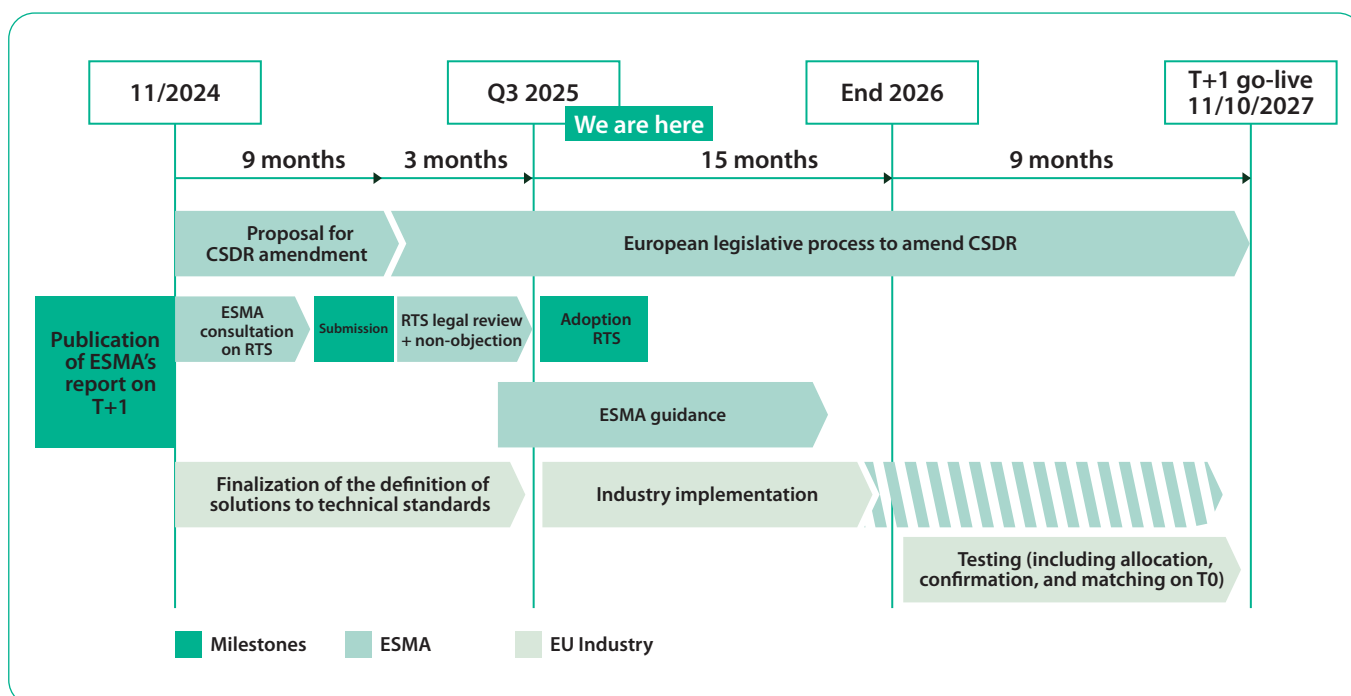
CURRENT STATE OF UK AND EU MARKETS

The UK and EU markets are in early-stage preparation for the transition to T+1. In the UK, infrastructure providers such as the London Stock Exchange, Euroclear UK, custodian, and clearing members are in design and planning mode, focusing on same-day (T+0) trade affirmation, earlier funding, FX cut-offs, and increased Straight-through Processing (STP). However, no T+1 production settlement currently exists in the UK.

In the EU, the complexity increases due to multiple Central Securities Depositories (CSDs), differing national cut-off times, and varying levels of automation across member states. Major exchanges such as Euronext and CSDs such as Euroclear continue to run on T+2 settlement engines and collateral processes. EU governance bodies and industry working groups are making efforts to align standards.

In November 2024, European Securities and Markets Authority (ESMA) recommended migrating EU markets to T+1 by October 2027. The proposed timeline calls for impact assessments and budget allocation in 2025, implementation in 2026, and market-wide testing starting in early 2027.

ESMA's proposed T+1 implementation timeline



Source: [Northern Trust](#)

BENEFITS OF T+1 SETTLEMENT FOR EU AND UK MARKETS

Transitioning from T+2 to T+1 settlement significantly reduces counterparty and systemic risk by halving exposure time, lowering the impact of defaults or market shocks, especially given the high cross-border activity in EU and UK markets. It also cuts margin and collateral requirements, freeing balance sheet capacity, which is critical under Europe's stringent capital and collateral demands. Faster settlement improves liquidity and capital efficiency, enabling quicker reuse of cash and securities and reducing funding costs.

T+1 will align EU and UK markets with global peers such as the U.S. reducing operational complexity and strengthening competitiveness for international investors. The shift drives operational modernization, encouraging automation, straight-through processing, and better data quality, while harmonizing fragmented EU post-trade practices. Prepared markets benefit from disciplined same-day affirmation and fewer settlement fails, particularly in liquid instruments.

Finally, shorter cycles enhance resilience during stress events by limiting unsettled positions and supporting regulatory objectives for safer, more robust capital markets.

OPERATIONAL AND STRUCTURAL CHALLENGES TO TRANSITION TO T+1

Many EU and UK participants still rely on manual or semi-automated processes, increasing the risk of late or failed allocations and settlement fails. Structural complexity in the EU adds to the challenge, with over 20 central securities depositories, differing cut-off times, and inconsistent practices for corporate actions, fails management, and tax processing, making harmonization far harder than in single-market systems like the U.S.

Cross-border and multi-currency settlement further complicate operations, as FX trades may need earlier execution or pre-funding, and time zone differences compress funding and confirmation windows. Custodian and CSD cut-off times, designed for T+2, will require re-engineering to avoid settlement risk and liquidity disruption. Technology limitations also pose a constraint as many institutions operate on legacy platforms lacking real-time processing, automated exception handling, and intraday visibility, with high upgrade costs disproportionately impacting smaller institutions.



The transition period itself heightens risk due to uneven readiness across counterparties, creating bottlenecks and mismatches. Securities lending and short-selling face tighter timelines for sourcing and recalls, increasing buy-in and penalty risks. Corporate actions and tax processing become more time-sensitive, requiring redesign of entitlement and relief-at-source processes amid complex country-specific regimes. Finally, successful implementation demands strong regulatory coordination, clear accountability, and significant investment in systems, automation, training, and testing—posing material short-term costs, especially for mid-tier institutions.

OPERATIONAL DEEP DIVE BY MARKET PARTICIPANT

The shift in market operations introduces several key changes for asset managers, brokers and dealers, custodians, CSDs, and market infrastructure. Asset managers must now ensure that portfolio managers finalize allocations on the trade date itself, with far less tolerance for any post-trade adjustments. These tighter timelines create risks, as delays in allocating trades can directly result in settlement failures. To address these challenges, asset managers are turning to pre-trade allocation models and fully validated, automated Standing Settlement Instructions (SSIs), which help reduce manual intervention and improve accuracy.

For brokers and dealers, the landscape is evolving toward near real-time trade affirmation, requiring faster and more precise post-trade processing. Inventory management also becomes more stringent because shorter recall windows limit flexibility. These changes increase the risk of buy-ins, especially if securities lending recalls do not happen in time. To mitigate this, brokers and dealers are increasingly implementing automation across stock borrowing and recall workflows, allowing desks to gain earlier and clearer visibility of inventory positions.

CSDs and market infrastructure organizations face a compression of settlement windows, meaning the entire settlement process must be executed more quickly. As institutions adapt, they may observe an initial rise in settlement fails, particularly during transition periods. With fail management becoming more proactive, these institutions must adopt extended evening settlement cycles and harmonized market cut-off times across different trading venues to alleviate timing pressures and ensure smoother settlement operations.

Custodians are also required to adjust their processes, as instruction cut-off times now shift several hours earlier. Additionally, cross border instructions must be validated within the same day, significantly increasing time sensitivity. These changes heighten operational pressures across global time zones. To meet these demands, custodians are adopting follow the sun operating models, which allow continuous workflow coverage, and are working to push Straight-through Processing (STP) rates to 95–98% to minimize manual intervention and improve processing efficiency.

Key Changes

- Portfolio managers must finalize allocations on trade date
- Reduced tolerance for post-trade adjustments

Risks

- Allocation delays directly translate into settlement fails

Mitigations

- Pre-trade allocation models
- Standing Settlement Instructions (SSIs) fully validated and automated

Key Changes

- Settlement windows compressed
- Fail management becomes more proactive

Risks

- Initial spike in settlement fails during transition

Mitigations

- Extended evening settlement cycles and harmonized market cut-off times across venues

1



Asset Managers

2



Brokers and Dealers

3



CSDs and Market Infrastructure

4



Custodians

Key Changes

- Near real-time trade affirmation becomes standard
- Inventory management tighter due to shorter recall windows

Risks

- Increased buy-ins if securities lending recalls fail

Mitigations

- Automation of stock borrow and recall processes, and enabling earlier inventory visibility across desks

Key Changes

- Instruction cut-offs move several hours earlier
- Cross-border instructions require same-day validation

Risks

- Higher operational pressure across time zones

Mitigations

- Follow-the-sun operating models
- Straight-through Processing (STP) rates pushed above 95–98%



LESSONS FROM THE TRANSITION TO T+1 IN THE U.S.

#	Theme	U.S. Experience	Key Lesson	Actionable Takeaway
1	Mandate early trade affirmation (T+0)	Same-day trade affirmation (SDA) was made a regulatory and operational priority. Depository Trust & Clearing Corporation (DTCC) data showed materially lower settlement fail rates for trades affirmed on T+0.	T+1 cannot succeed without near-universal T+0 allocation and affirmation. T+0 must be treated as a pre-condition, not an outcome of T+1.	Introduce clear regulatory or market-practice expectations mandating same-day affirmation across asset classes.
2	Central infrastructure leadership	DTCC acted as the central coordinator, publishing playbooks, testing schedules, and readiness metrics. CCPs, custodians, and brokers aligned to a single operational blueprint.	Fragmented leadership materially increases transition risk. Strong, empowered governance is essential.	Establish central EU/UK coordination with clear ownership across Euroclear, Clearstream, CREST, and national CSDs.
3	Industry-wide testing	Multiple mandatory, market-wide test cycles were run over more than a year, exposing cut-off, FX, and exception issues early.	Operational resilience is built in testing, not at go-live. Testing must be comprehensive and mandatory.	Run mandatory, cross-participant testing focused on stress and peak-volume scenarios.
4	Fix market practices, not just technology	The U.S. targeted manual processes such as late allocations and email-based confirmations, not just system upgrades.	T+1 is fundamentally a process and behavioral transformation, not a technology-only change.	Standardize allocation timing, confirmation workflows, and exception handling protocols across markets.
5	Cut-off discipline	Earlier and strictly enforced cut-offs drove stable settlement and behavioral change. Informal extensions were minimized.	Ambiguous or flexible cut-offs undermine T+1 stability. Discipline is critical.	Define and enforce hard cut-offs at CSDs, custodians, and payment systems, even at the cost of short-term flexibility.
6	Address FX and funding early	FX settlement risk was identified early. Institutions adopted pre-funding, earlier FX execution, and automated FX workflows.	Cross-currency settlement risk must be addressed before T+1 goes live.	Redesign FX and funding processes for same-day execution and automation.

LESSONS FROM THE TRANSITION TO T+1 IN THE U.S.

#	Theme	U.S. Experience	Key Lesson	Actionable Takeaway
7	Support smaller institutions	Smaller broker-dealers and asset managers faced the steepest readiness challenges. Targeted guidance closed gaps.	Readiness will be uneven across the market. Smaller institutions can become systemic weak points.	Provide targeted readiness programs, guidance, and testing support for mid-tier and smaller participants.
8	Plan for temporary disruption	Short-term increases in settlement exceptions and operational workload occurred but stabilized quickly due to preparation.	Some disruption is inevitable; preparedness determines impact.	Establish clear incident management, escalation paths, and go-live command centers.
9	Relentless and transparent communication	Frequent dashboards, public updates, and industry calls maintained accountability and momentum.	Clear, data-driven communication reduces uncertainty and last-minute panic.	Maintain frequent, transparent, action-oriented communication throughout the transition.



THE DTCC CASE STUDY: HOW THE U.S. TRANSITIONED TO T+1 SETTLEMENT

Overview

The U.S. transition to T+1 settlement in May 2024 was successfully enabled by the **Depository Trust & Clearing Corporation (DTCC)**, which served as the central coordinator, infrastructure provider, and governance authority for post-trade transformation.

Why DTCC is critical

DTCC sits at the center of U.S. post-trade flows, integrating trade matching through CTM, clearing via NSCC, and settlement through DTC. This unique position allowed DTCC to implement end-to-end changes across the trade lifecycle, avoiding the inefficiencies of fragmented market coordination and ensuring a unified approach to T+1 adoption.

Key enablers

DTCC's success in the T+1 transition was driven by strategic initiatives. Same-day trade affirmation (T+0) minimized settlement failures, while centralized governance ensured clear timelines and accountability. Infrastructure was upgraded early, with redesigned risk models, margin processes, and cut-offs. Extensive industry testing resolved operational gaps, and firm deadlines reinforced behavioral changes. Continuous communication and readiness metrics maintained transparency and confidence throughout the process.



Execution highlights

DTCC set up a simulated T+1 testing environment before launch so institutions could get used to the new deadlines and formats, and identify problems early. From August 2023 to May 2024, DTCC ran bi-weekly tests to check the full trade to settlement process. The clearing house also carried out resiliency drills to prepare for outages and unexpected situations.

Automation played a major role. The Match to Instruct (M2i) process allowed trades to flow automatically, helping institutions reach nearly 100% affirmation by 9 PM ET. Features like ALERT SSI Enrichment and Global Custodian Direct further reduced manual mistakes. DTCC also published a detailed T+1 conversion guide and an industry playbook to help standardize how everyone prepared.

Infrastructure upgrades included NSCC's enhancements to Universal Trade Capture and ETF systems for accurate T+1 dates, while ITP Matching became a Central Matching Service Provider under rule 17AD-27. During transition week, DTCC co-led the SIFMA Command Center for real-time monitoring and provided daily dashboards through ITP Analytics to track affirmations, allocations, and exceptions.

Post-transition outcomes

The transition delivered strong results: affirmation rates reached 95% by the 9 PM ET cut-off versus 73% pre-conversion, clearing fund requirements fell by 20–23%, and fail rates remained stable. U.S. markets now operate efficiently on T+1, reducing systemic risk and improving capital utilization.

TURN REGULATORY TIMELINES INTO COMPETITIVE ADVANTAGE

The transition to T+1 in EU and UK markets is a transformative post-trade operation. While the challenges are material—particularly due to fragmentation and cross-border complexity—the benefits in risk reduction, capital efficiency, and market resilience are compelling.

The U.S. experience demonstrates that success depends less on settlement engines and more on governance, discipline, and upstream process reform. Institutions that act early will not only meet regulatory deadlines, but emerge structurally stronger in a faster, more competitive global market.

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