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"Speed is the key" time is ticking T+1

Whitepaper

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Looking Ahead to T+1: An Urgent Transition That Demands Action Now

The planned transition from a T+2 to a T+1 settlement cycle in October 2027 may still seem far off. In practice, however, this change is approaching rapidly, and it is crucial that organizations prepare in time. A poorly thought-out or delayed approach can lead to significant operational and financial risks.

Although the change may appear minor at first glance just one day faster transaction settlement its impact is far-reaching. This apparent simplicity can cause organizations to underestimate the necessary adjustments. This whitepaper therefore provides in-depth context and direction, intended as a starting point for an initial impact analysis.

The most tangible changes will affect both the trading floor and the operational departments of brokers, banks, and institutional investors. For a smooth transition, accurate, timely, and complete recording in the administration is essential. Both legal and economic positions must be analyzed for vulnerabilities and required adjustments.

Every link in the chain from institutional end-investor to service provider, custodian, and broker will need to assess its own impact. The entire infrastructure surrounding pre-and post-trade processes will be affected. The accelerated settlement not only presents operational challenges but also offers benefits: counterparty risk is reduced by 24 hours, contributing to a more robust market structure.

Target Audience of This Whitepaper

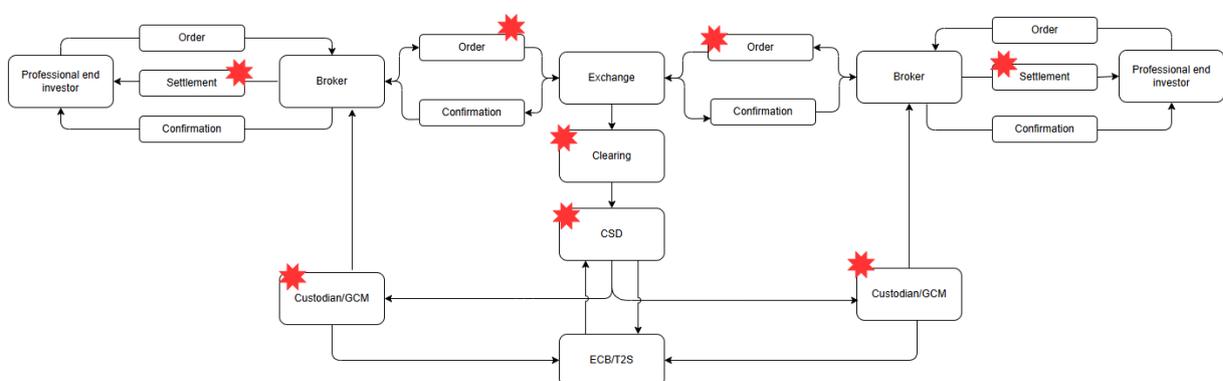
This whitepaper is relevant for all parties involved in the trading and settlement process of securities. This includes asset managers, banks, brokers, custodians, CSDs, infrastructure providers, and regulators.

Trading, Ordering, and Settlement: Simplicity on Paper, Complexity in Practice

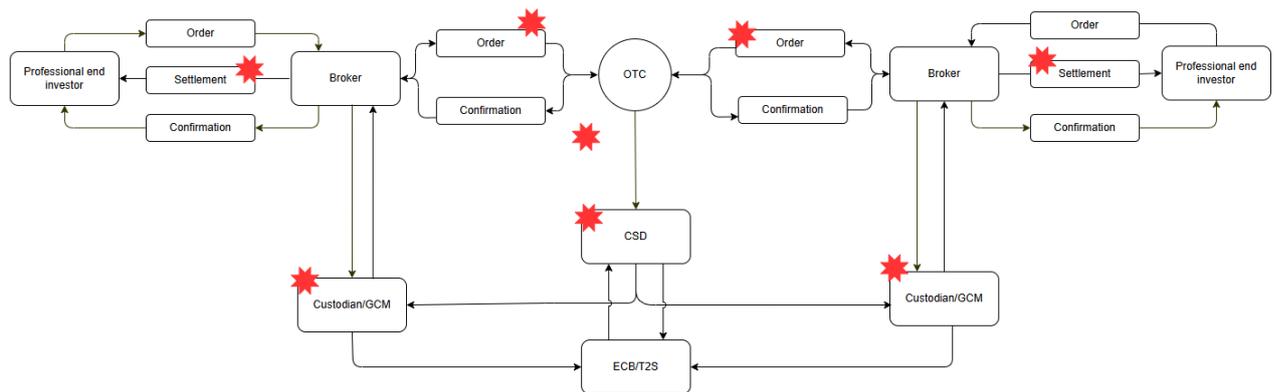
The process around trading, ordering, and settlement can be visualized relatively simply on paper. In practice, however, it involves millions of transactions per day that will soon need to be processed and settled one day earlier. This overview does not include T2S (Target2-Securities), but there too, process acceleration will be necessary.

The red markings indicate where impact is expected.

Ordering via the Exchange



Orderproces OTC



To Settle a Trade, the Following Preconditions Are Important:

Sales Transactions:

1. The delivering party has a sufficient position and is not dependent on a purchase;
2. The delivering party has access to a securities finance facility (lending circuit);
3. The delivering party has mitigated the risks related to reliance on depot switches at the custodian and/or CSD (bridge);

Purchase Transactions:

4. The receiving party has sufficient cash and/or credit facilities to finance the purchase;
5. The service provider's infrastructure is transparent enough to resolve settlement issues in a timely manner;
6. The impact of internal position shifts due to trading, treasury, and collateral management which may affect the deliverable position is manageable.

Although both the buy and sell sides will have less time to submit their settlement instructions, a deadline has already been imposed by CSDR regulations. CSDR aims to enforce strict settlement discipline. It is clear that the instruction must not only be timely but also accurate, as late delivery of securities sold under CSDR can result in penalties. The time available to correct an instruction has been shortened by 24 hours. This makes monitoring and therefore pre-matching even more critical than it already is. The risk of potential non-settlements increases, especially in the case of a chain of transactions. This underscores the need for organizations to have access to a well-structured securities finance facility ("lending circuit").

Is the Risk of a Market Buy-In Increasing for You? What Is Your Experience, and Do You Know the Causes?

In other words: are your processes designed to ensure the timely submission of accurate instructions and to prevent a buy-in? Adequate and intensive settlement monitoring is key to avoiding costly corrective actions afterward.

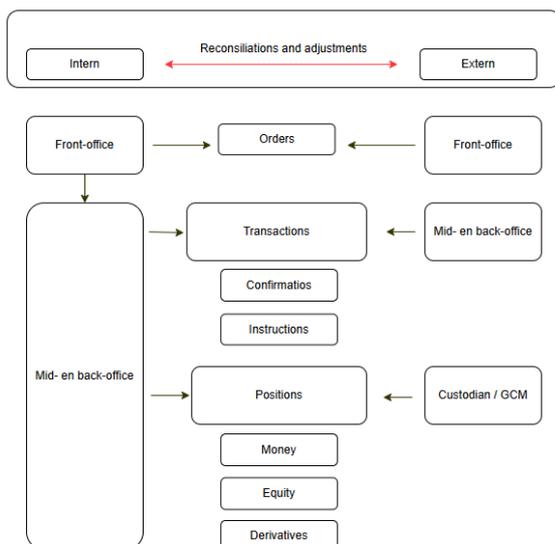
The settlement process is becoming more labor-intensive, as all parties will need to monitor it more closely, which has a negative operational impact. There will be increased pressure on pre-matching instructions. How will you address this within your organization?

The risks lie where settlement occurs on the actual settlement date. The impact for you as a professional end-investor is limited if you have agreed with your provider to settle on the contractual settlement date.

Reconciliation

Reconciliation takes place continuously throughout the entire chain. While the move to T+2 still allowed time for analysis and remediation, under a T+1 timeframe it has become even more important to minimize the number of corrective actions and to complete all settlement-related tasks within hours of the transaction. This was already felt in various organizations with the implementation of the CSDR settlement discipline. Extending or shifting working hours seems inevitable. As previously stated, the legal and economic position and its administration are essential for the proper execution of a trade. After all, if it is confirmed that there are no incorrect positions, the front office can start with a correct position.

Within the infrastructure, transactions are continuously matched based on submitted instructions from both buyer and seller. “Alleged trades” indicates that the organization has not yet communicated a settlement instruction to the market. This means the trader has not yet passed the trade on to the mid- and back office. The back office must proactively stay in contact with the front office to ensure they can work with the correct information.



Identified reconciliations from above mentioned processes

Network Management: A Key Function in Chain Integration

The previously mentioned preconditions include both internal and external components. For the external components, Network Management plays a central role in managing and optimizing relationships with external parties such as brokers, custodians, central securities depositories (CSDs), and central counterparties (CCPs).

The complexity of these interactions requires specialized knowledge. Contractual agreements with external parties are evaluated often in collaboration with Procurement and adjusted where necessary. Close coordination with the legal department is essential to properly mitigate risks and ensure compliance.

To ensure effective service delivery, it is crucial to define clear KPIs for all operational aspects. These performance indicators should also be periodically reviewed and recalibrated to align with changing market conditions and process requirements.

Corporate Actions: Attention to Tradable Rights

Although the core process around corporate actions remains essentially unchanged, tradable corporate actions such as rights issues, optional dividends, or stock dividends can indeed be affected by the shortened settlement cycle.

For trading firms engaged in proprietary trading, exchange-listed rights resulting from corporate actions can have a direct impact on operational settlement. The processing of these rights follows the same settlement path as regular trading transactions and will therefore also need to be executed on T+1.

Additionally, a legal review of existing custody agreements with clients is advisable. The transition to T+1 may be a reason to revise service agreements, escalation procedures, or default processes. Professional investors would do well to monitor the information provided by their custodian more critically and adjust their internal processes accordingly.

Derivatives Trading: Impact on Exercise and Delivery

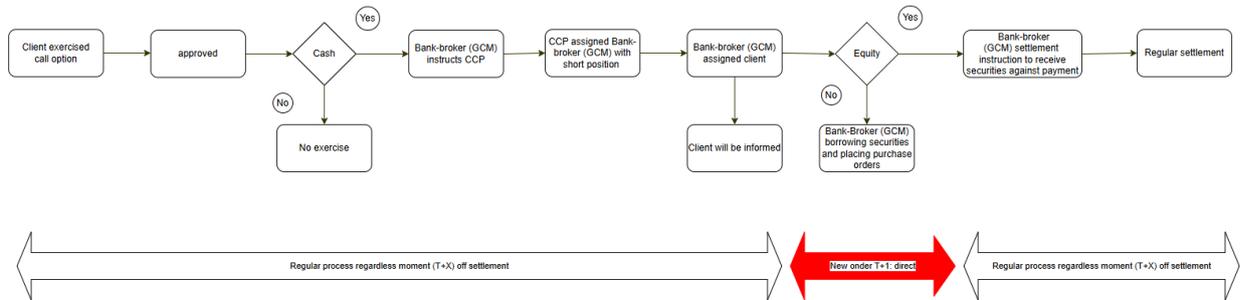
For derivatives trading itself, no direct impact is expected from the transition to T+1. The key issue lies in the exercise or assignment of derivative positions, particularly equity options where physical delivery of the underlying asset takes place.

This delivery obligation falls under the same shortened settlement cycle and must therefore also be completed on T+1. This means that all parties involved in the chain from clearing to custody will have one day less to correctly process the associated transactions.

To mitigate risks, it is important that departments responsible for collateral management, clearing, back office, and legal are well prepared for this change.

In Summary:

T+1 requires not only technical and operational adjustments, but also renewed contractual agreements, enhanced monitoring, and improved coordination between internal and external chain partners. The involvement of specialized departments such as Network Management and Legal is essential to ensure continuity and compliance during this significant transformation of the market infrastructure.



IT as an Enabler of T+1

The transition to a T+1 settlement cycle requires a thorough overhaul of the IT infrastructure within the financial chain. This infrastructure consists of a network of systems and protocols, including SWIFT for secure communication and FIX for real-time connectivity with exchanges and brokers.

Applications involved in trading, settlement, and administration will need to be reviewed. Many of these systems rely on control tables, such as Standard Settlement Instructions (SSIs) and settlement calendars, which must be adjusted to accommodate the shortened cycle. This also places significant responsibility on external software vendors.

Quick fixes or workaround solutions implemented during previous regulatory changes (such as under CSDR) must be reassessed and, where necessary, replaced with structural, scalable solutions. Flawless communication between systems and with external parties in the chain is essential for a smooth and risk-controlled T+1 environment.

Cash Management and Legal Aspects: Forecasting and SLAs Under Pressure

The shortened settlement period has direct implications for cash management and collateral management. Treasury departments will need to revise their processes for forecasting incoming and outgoing cash flows both in terms of liquidity and securities positions. The reduced response window for unexpected shifts makes accurate forecasting critical to avoid unnecessary securities lending or idle cash positions.

From a legal perspective, adjustments are also necessary. Service Level Agreements (SLAs) between internal and external parties must be evaluated for feasibility within the new timelines. The accuracy and speed of information exchange, for example, in the case of margin calls or contractual delivery obligations are more important than ever.

Investment Administration and Reporting: Real-Time Information

Investment administration is the backbone of accurate processing and reconciliation. When external asset managers are involved, it is essential to assess how quickly and accurately trade information is delivered. Where previously two days were available to process trades, only one business day will remain.

Timeliness is a prerequisite for both daily reconciliation with custodians and the preparation of performance reports for internal stakeholders or regulators. Organizations must assess which process adjustments are needed to continue ensuring both accuracy and timeliness of reporting under T+1.

Risk Management: Proactively Managing New Risks

The transition to T+1 is not merely an operational change, it affects the entire risk architecture. An integrated risk assessment across the full chain from front office to back office and finance is essential to identify the implications of this shortened cycle at an early stage.

Implementation of T+1 May Trigger a Reassessment of Key Risks in the Settlement Process.

The introduction of T+1 may lead to a reassessment of key risks within the settlement process, including operational risk, liquidity risk, and counterparty risk. Organizations still have sufficient time to analyze these risks and implement mitigating measures. By establishing appropriate controls, monitoring, and reporting mechanisms, the transition to T+1 can be managed in a controlled manner.

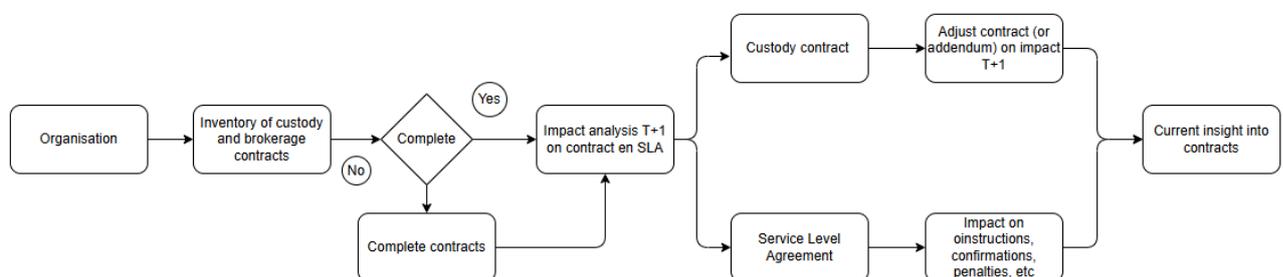
Legal Component: Reassessing Contractual Frameworks

Although T+1 is primarily an operational change, a legal impact assessment is also essential. Various international standard contracts developed by organizations such as **ESMA**, **ISLA**, and **ISDA** must be reviewed for relevance and accuracy. This is especially true for bilateral agreements that already include CSDR-related addenda.

For organizations that act as contract originators, the initiative to revise agreements lies primarily with them. Do not wait for counterparties to raise the issue and take proactive steps. The information registered as prescribed under **DORA regulations** can support the identification of legal dependencies and contractual obligations.

Note

IT, treasury, legal, and risk management must collaborate more intensively than before to ensure that all parts of the chain align with the requirements of T+1. Only through an integrated approach can this shortened settlement cycle be transformed into a controlled and future-proof operation.



Impact Analysis on Custody and Brokerage Agreements

Market Communication: What Are You Communicating to Your Clients?

The transition to a T+1 settlement cycle requires more than just operational adjustments; external communication also plays a crucial role. The way you inform your clients, both professional and retail, will significantly influence how the transition is received and understood.

For institutional and professional clients, it can be assumed they possess sufficient knowledge to assess the impact of this change independently. Nevertheless, transparency about your approach and any potential implications is essential for effective collaboration across the chain. For retail and non-professional investors, who may be less familiar with the underlying infrastructure and consequences of T+1, clear, timely, and understandable communication is necessary to maintain trust.

In addition, internal policy changes and operational adjustments must be explicitly communicated to relevant market participants such as custodians, brokers, and external asset managers. Alignment is necessary to manage expectations and prevent disruptions in the chain.

Change in Securities Infrastructure: Impact Across the Entire Chain

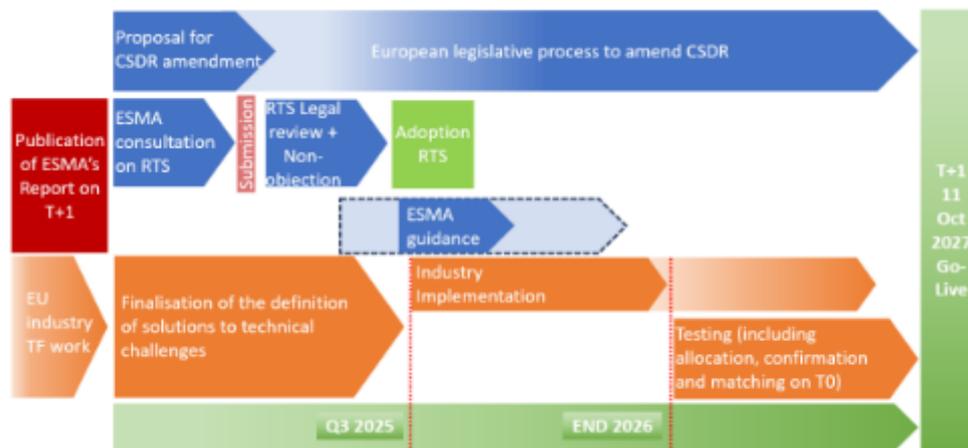
The implementation of T+1 has a structural impact on the entire post-trade infrastructure. The change affects every link in the value chain from trade capture to matching, settlement, reconciliation, and reporting. This means the entire industry must prepare for a shortened processing timeline, with less room for remediation or manual intervention.

Various expert groups in the market organized by central infrastructure providers such as CSDs and CCPs have already placed this topic on the agenda. Collective preparation, coordination, and testing scenarios are essential to minimize disruptions. It is advisable for organizations to actively participate in such market forums. A central coordination body within the industry possibly under the supervision of a regulator or industry association can contribute to a successful and synchronized implementation

Expected Timelines

ESMA recommends a three-phase approach, as visualized in the roadmap below.

Roadmap to T+1 Settlement in the EU



Source: ESMA – Assessment of the Shortening of the Settlement Cycle in the EU (November 2024)

1. (2025–2026) Preparing for the Transition

ESMA will further develop the legal framework, including Regulatory Technical Standards, coordinate across the market, and prepare infrastructure changes.

This means for you:

- a. Define requirements based on new legislation;
- b. Identify requirements based on current bottlenecks;
- c. Launch projects to prepare for and implement T+1.

2. (2026–2027) Testing the Transition

Test runs and system validations with CSDs and trading platforms.

This means for you:

- a. Prepare an external test environment with your service provider (custodian, CSD, broker);
- b. Develop and execute a test plan from your overarching organization;
- c. Proceed with implementation.

3. (October 2027) Implementation

Full EU-wide rollout.

This means for you:

- a. The migration plan is finalized and accepted after several dry runs/dress rehearsals;
- b. Ongoing transactions are correctly transitioned to the new process;
- c. Your team is on standby during the migration.

“Speed is the key”

Conditions for a Successful Transition to T+1

A smooth and successful implementation of the transition to a T+1 settlement cycle requires clear coordination among all involved parties. A fundamental prerequisite is that both ESMA and the market reach a shared understanding of the regulatory interpretation and the phased implementation approach.

In addition, effective collaboration with service providers and chain partners is essential this includes custodians, CSDs, CCPs, brokers, and IT vendors. Overarching coordination by industry associations and market forums plays a crucial role in preventing fragmentation and miscommunication.

Although thorough testing will take place in advance, experience shows that real-world implementation often brings unexpected scenarios not covered in test cases. Therefore, it is important that the transition is designed with sufficient flexibility and robust fallback processes. The ability to respond quickly and effectively to unforeseen circumstances is a critical success factor.

Mylette & T+1: Practical Support with Vision and Expertise

Mylette offers deep expertise and a comprehensive view of all relevant components within the T+1 transition. We support organizations in mapping the impact, developing a concrete action plan, and establishing structural control measures.

Our approach begins with an analysis of current and upcoming legislation, which we translate into practical implications for your organization. Using a risk-based approach, we assess the impact so you can make informed decisions and maintain control over compliance and operational risks.

We support not only the design and execution of the project but also advise on the structural embedding of processes and controls, particularly in the context of non-financial risk management and internal governance.

About Mylette

Mylette delivers high-quality services to the financial sector in the form of **Consulting, Solutions, and Services**. Our roots lie in the world of exchange trading and transaction processing, but our expertise now spans the full spectrum of banking, brokerage, and asset management.

What sets us apart is our combination of deep subject-matter expertise, a pragmatic approach, and a strong drive to build long-term partnerships. Since our founding, we have had the privilege of supporting nearly every leading Dutch financial institution with consulting, interim solutions, and project execution.

With the expansion into **Solutions and Services**, we now offer a comprehensive service portfolio from strategic advice to operational execution enabling us to fully support our clients through complex transformations such as the transition to T+1.

Want to know more?

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