

EU T+1 and Foreign Exchange

July 2025

Introduction

On January 22, 2025, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, the European Commission (EC) and the European Central Bank (ECB) launched a new governance structure to support the transition to the T+1 settlement cycle in the European Union.

Under this governance structure, an Industry Committee was established as well as several technical workstreams to focus on the technological operational adaptations needed in the areas concerned by the transition to T+1.

The Foreign Exchange (FX) markets were assessed and four recommendations were included in the final report titled 'High-Level Roadmap to T+1 Securities Settlement in the EU':

FX-01 – FX Lifecycle

Market participants should consider in their planning how they will engage with custodian/third party providers to successfully execute foreign exchange (FX) transactions in time to ensure successful processing across the full FX lifecycle from trading to settlement. Key considerations include:

- liquidity patterns for Czech Koruna (CZK), Polish Zloty (PLN), Romanian Leu (RON) and Icelandic Krona (ISK);
- partial settlements of securities (and the potential increase in the frequency of this);
- impact on FX requirements of late trading in other asset classes; and
- the need or desire to allocate a securities trade as soon as possible.

Priority – High, Who – FX Market Participants, When – As soon as practicable

FX-02 – Partial Settlement

Market participants should consider and review with custodian/third party providers the potential increase in the partial settlements of securities and how this could impact decisions regarding how and when to fund FX requirements, keeping in mind the goal of reducing FX settlement risk.

Priority – High, Who – FX Market Participants, When – As soon as practicable

FX-03 – Settlement Risk

For any FX trades settling outside of PVP mechanisms, FX Market Participants will need to review their practices to reduce FX settlement risk in line with the FX Global Code.

Priority – High, Who – FX Market Participants, When – Ongoing

FX-04 – PVP Mechanism

Market participants will need to continue engagement with custodians and complete assessment of instruction methods (e.g., cutoff alignment after EU market closes, functions available to accommodate currency holidays, etc.). CLS is expected to continue assessment of any impact on settlement risk reduction via CLS from shortened security settlement cycles. FX transactions must be dealt, processed, and submitted to CLS no later than 00:00 on settlement day (SD) to ensure their inclusion in the CLS settlement cycle.

Rationale – To ensure that any PvP eligible FX transactions continue to settle via a PvP mechanism (e.g., CLS). FX transactions will need to be dealt, processed, and submitted to CLS no later than 00:00 on settlement day (SD) to ensure their inclusion in the CLS settlement cycle.

Priority – High, Who – FX Market Participants, When – Ongoing

In getting to these final recommendations the FX group¹ produced a detailed technical report with the goal:

‘To produce a document for wholesale FX (FX cash and derivatives, ranging from the provision of liquidity to post trade i.e. across the full lifecycle) which makes a series of recommendations to address, including:

- More detail/depth/technical analysis where required (e.g. to encourage more tangible and practicable recommendations).
- Consider areas of potential stress or uncertainty that the market can resolve.

Analysis and output is to consider previous FX analysis in the US and UK and any market experiences following go-live in the US and other jurisdictions (e.g. Canada, Mexico). The intention is to avoid any duplication and to promote harmonisation.’

To support the Industry Committee leadership in their global outreach in promoting awareness and therefore encouraging preparation for the 11 October 2027 transition date, the FX group believes it would be beneficial to include a short summary highlighting some FX specific conclusions.

Supplementary FX Findings

Strategically, there are a number of options available to market participants to consider in their preparations, but, following deeper analysis, two main options were identified to enable T1 FX trading and settlement, with the goal of ensuring a reduction of FX Settlement Risk^{2,3}. To address the time zone differences to the EU, these consider i) the desire to enable trading and subsequent settlement in a PvP mechanism or ii) via a Custodian/3rd party provider.

The two main options are:

1. Move operations closer to the EU/establish a night desk to trade/settle in the correct time-zone:
 - Could add cost/complexity to operating models and may not be an available option to all.
 - Preparation for the US/UK T1 move may enable firms to cover EU requirements.
 - Includes benefits of updated staff coverage models.
 - Includes leveraging any benefits from improvements to time sensitive processes e.g. timely allocations, onboarding.
2. Options to execute FX to i) enable PvP settlement and ii) manage or reduce FX Settlement Risk:
 - Use of a Custodian or 3rd party provider to execute FX locally or in the EU.
 - Need to consider fiduciary obligations and potential increase in cost.

1 Consisting of over 180 market participants from the buy side, sell side, custodians, intermediaries, trading venues, trade associations and professional service firms

2 Defined in the BCBS FX Supervisory Guidance as: The risk of outright loss of the full value of a transaction resulting from the counterparty’s failure to settle. This can arise from paying away the currency being sold, but failing to receive the currency being bought. (Also referred to as “Herstatt Risk”).

3 https://www.globalfx.org/uploads/fx_global.pdf

- Could help reduce Settlement Risk via ‘on-us’⁴ settlement.
- Could help the management of the FX transactions during currency holidays.
- Trade on estimated FX requirements.
 - Investors who are able to, may decide to instruct the FX trade for an underlying security trade where that trade is unconfirmed rather than waiting until it is confirmed.
 - Could add complexity to trading processes due to subsequent ‘true-up’ process.
 - Price, quantity (including long and short balances) may require ‘trueing up’ on T0; the accuracy of this process and therefore the efficiency is expected to improve over time.
 - May not be suitable for all, depending on active v passive mandates.
 - Includes ‘pre-funding’.
 - May be more challenging for more volatile currencies.

Additionally, if a firm chooses to execute and settle the FX on the same-day (i.e. T0) then:

- Some currencies may be more liquid when the local market is open, such as CZK, PLN and RON.
- Settlement Risk can be reduced if settling via Custodian ‘on-account/on-us’.
- Consider the potential for increased settlement fails due to the reduced times to confirm/settle/move funds & resolve issues on a T0 basis, noting potential regulatory implications. To include the impacts of any partial settlements.
- Consider intraday credit implications if trades fail, or increased overdraft/funding charges or opportunities for alternative funding models.
- Will require more efficient & higher rates of broker confirmation/ affirmation/ confirmation of securities on trade date to enable a better and more timely FX execution process.
- This approach is likely to be a ‘last resort’.

Shorter FX trading-settlement timeframes mean there is less time to identify and resolve any issues, including opening accounts/onboarding. In preparation, market participants should consider the following to increase efficiency:

- Onboarding documentation, including for post trade processes should be identified, consolidated and communicated during initial discussions, noting complex, manual and multiple touch points that can span various teams/ regions.
- Automated systems, including for confirmations are utilised where possible.
- Accounts are onboarded and all static data completed before trading.
- Issues are escalated in a timely manner, noting that expertise may not reside in the region of trading.
- Consideration is given to asset class specifics e.g. FX cash v derivative products.
- Trade processing frictions are reduced via supporting straight-through pre/post trade processes.
- Leverage Settlement Risk reduction processes where possible, with a recommended settlement hierarchy of:
 - Automated payment v payment (PvP) bilateral/multilateral netting mechanisms.
 - Leveraging various processes such as settlement netting, ‘on us’ or ‘on account’ settlement.
 - Bi-lateral, gross settlement.

⁴ <https://www.bis.org/publ/bcbs241.htm>

- Agree settlement/confirmation practices at onboarding, noting that consistent settlement practice is preferable to ad hoc arrangements.

In relation to resiliency planning, a series of considerations were also identified:

- Factor a T1 move into firm-level Business Continuity Planning, including identifying contingency providers/alternative sources of liquidity/ ability to settle/ switch to new processes etc.
- Review end of day system cut-off times and whether they are impacted by the EU T1 settlement window.
- Consider the impacts of any public/bank holidays (including i) limited trading activity the day before and ii) those over extended periods such as Golden Week).

Conclusion

It is expected that preparation to enable the successful migration to T1 in jurisdictions that have already gone live, such as the US, will enable many firms to successfully implement T1 in the EU.

For those firms who are yet to commence their own preparation, it is our hope that these supplementary findings provide guidance, considerations and value-add to aid the journey to implementation – and to achieve a successful outcome for all.