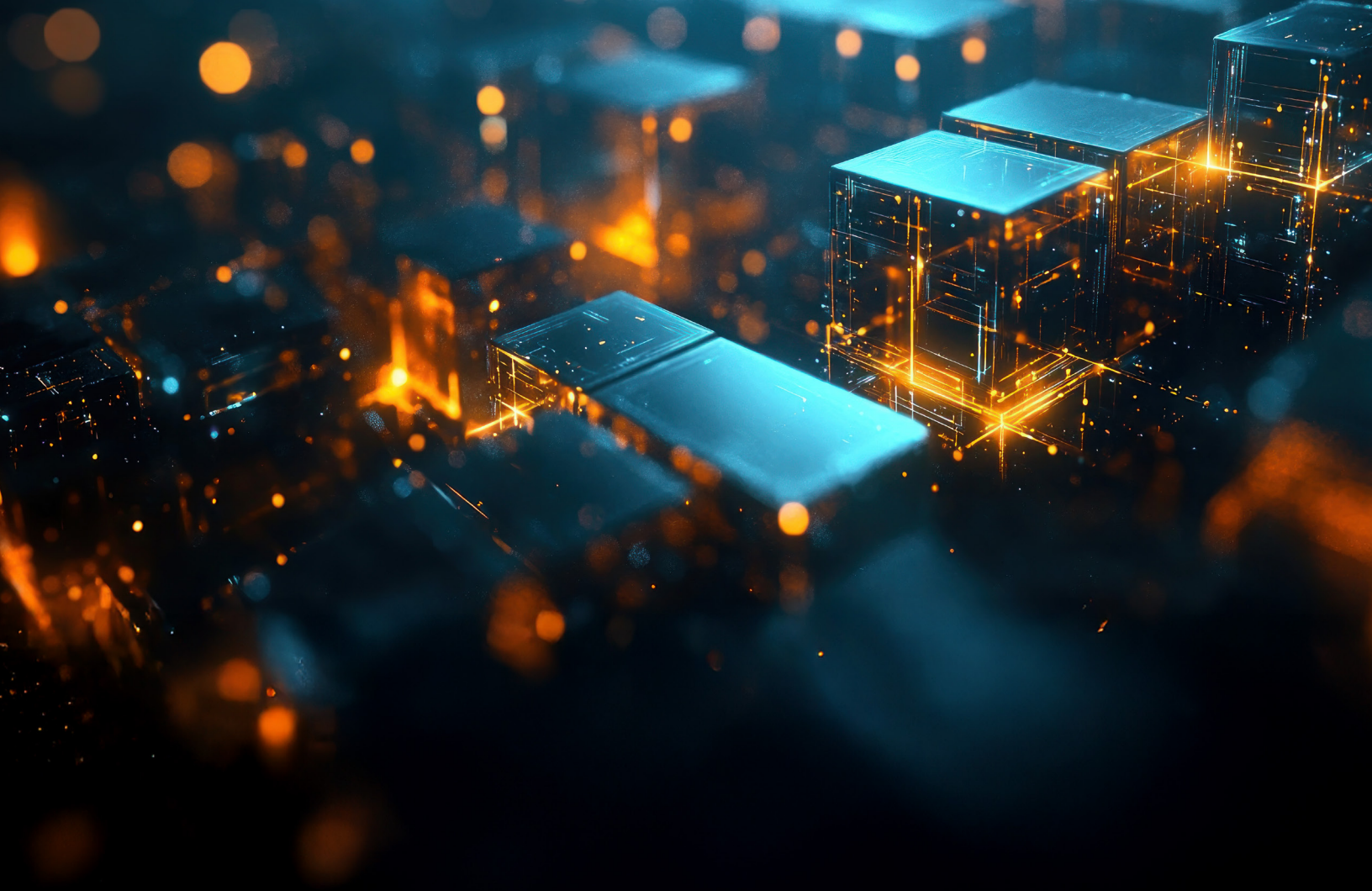

Where T+1 gets real

Unpacking the friction across critical workstreams

A granular look at the friction points: from impacted workstreams like FX alignment, exception management, SSIs, and collateral management to the unique pressures facing EU-based brokers and custodians.

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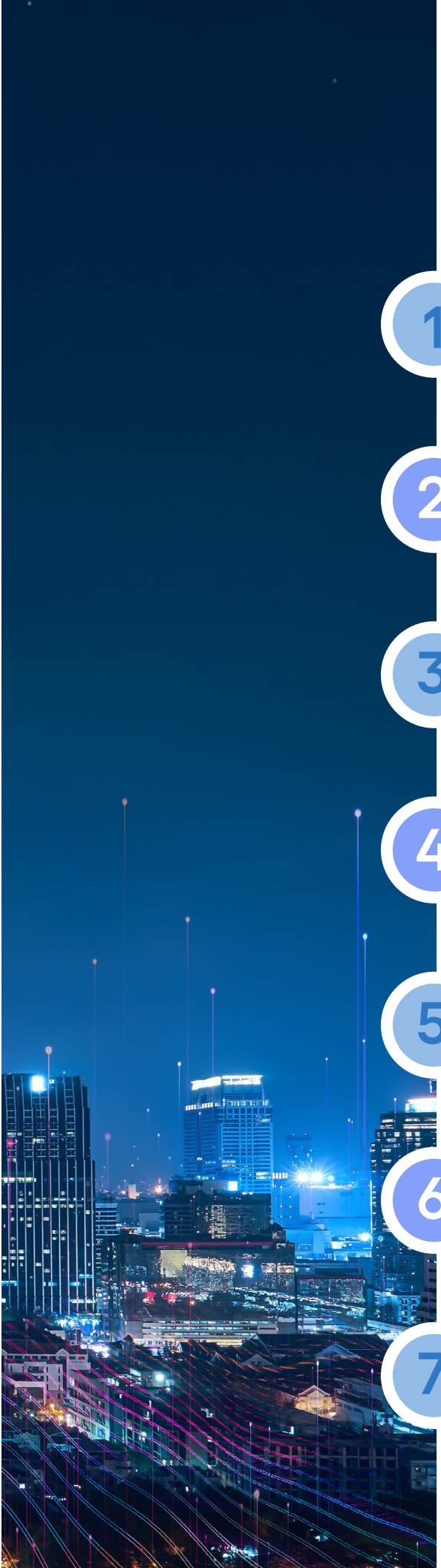

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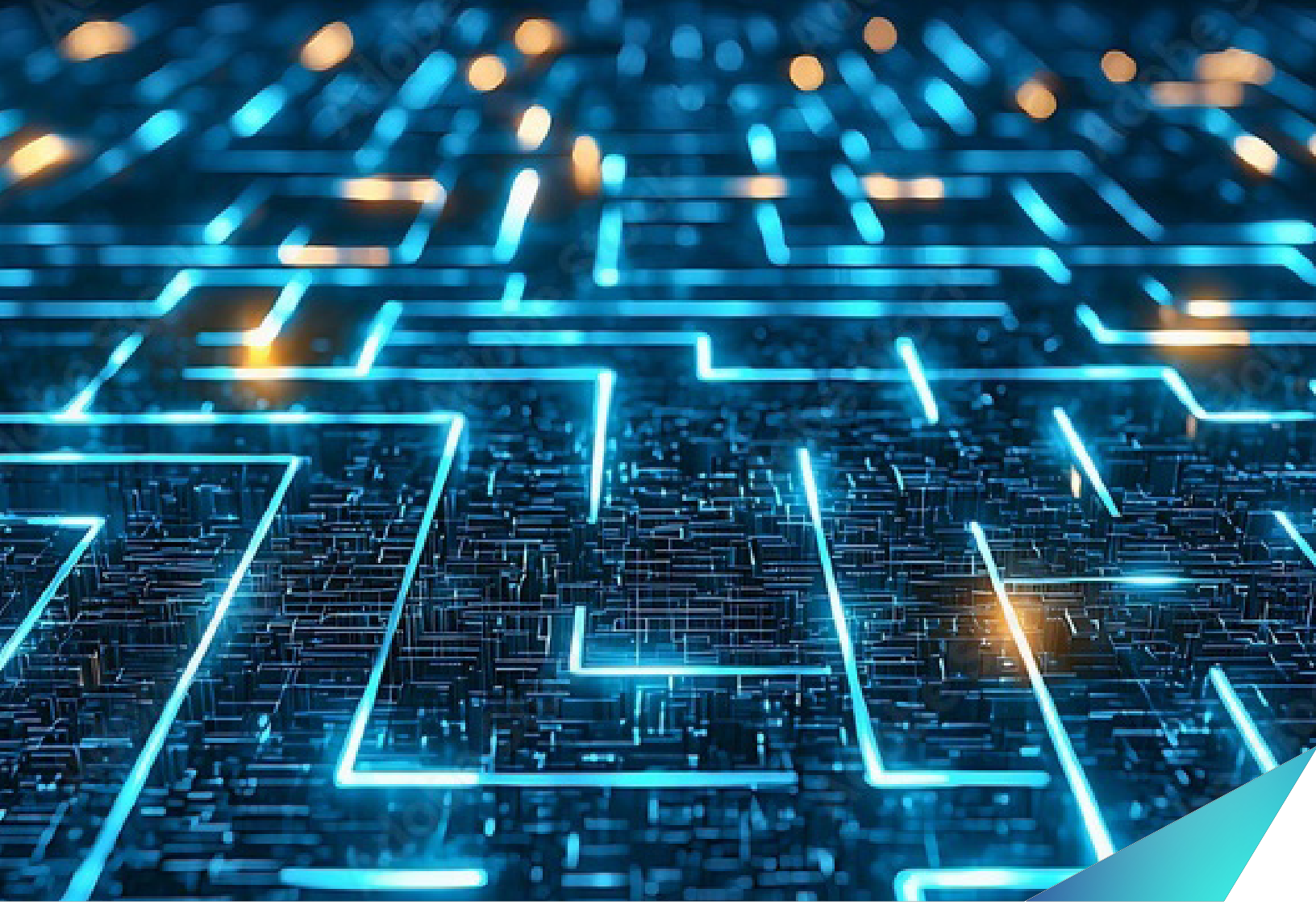


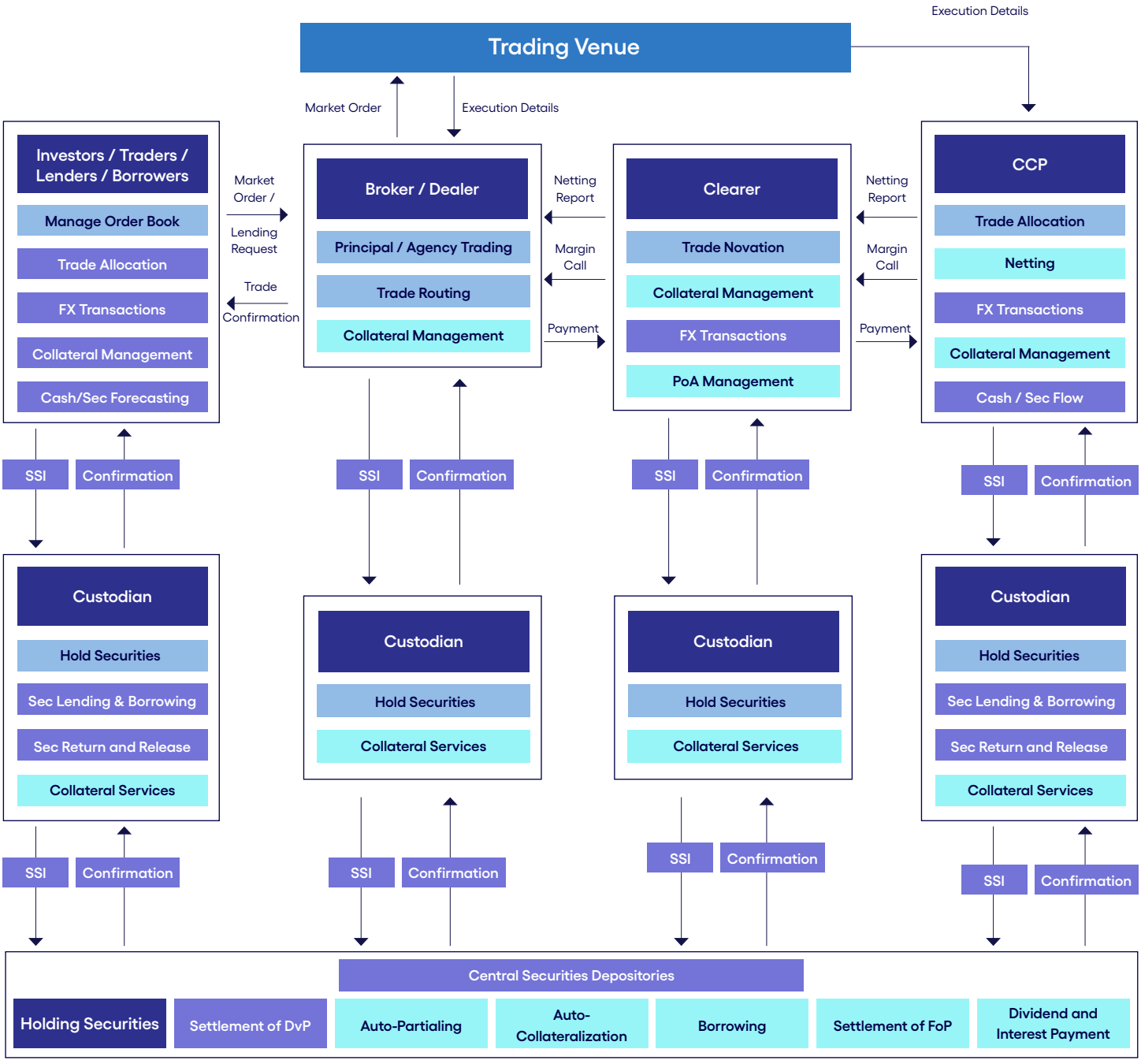
Introduction

In the first insight of this series, we outlined the big picture. As Europe is moving to T+1, significant structural changes are expected in the critical workstream in which the market participants operate.

As firms move from planning to implementation, the real complexity reveals itself in the operational workstreams where securities get allocated, funded, matched, and settled. In Europe's landscape – of multi-state, multi-CSD and multi-currency environments, these workstream-level challenges are structurally more demanding than anything the other regions like US and Asia.

In this insight, we consider the holistic approach, by exploring the depth and interconnectedness of these challenges across the major business lines and workstreams, before we look for any solutions. We understand that this is impacting the market participants and FMIs, and at high-level, this is how it can be represented across the trade life cycle showing impacted processes and workstreams.

Operationalizing T+1: Navigating barriers with measurable outcomes



Key Legends

High impact

Medium impact

Highlighted processes expected to have impact due to T+1 settlement and require further assessment

Collateral management:
The workstream that touches everything

The transition to **T+1 settlement** presents a profound collateral paradox: it simultaneously unburdens the balance sheet while intensifying operational liquidity needs. On the positive side, a compressed settlement cycle reduces "time-at-risk," potentially allowing Central Counterparties (CCPs) to slash initial margin requirements by **38% to 48%** [ESMA]. This theoretically unlocks billions in high-quality liquid assets and accelerates **"collateral velocity,"** making the collateral pool available for multiple other areas in the market.

A compressed settlement cycle reduces "time-at-risk," potentially allowing Central Counterparties (CCPs) to slash initial margin requirements by

38% - 48%

Although SFTs are formally out of scope of the T+1 mandate, the accelerated cash market settlement cycle is expected to drive a material increase in same-day (T+0) **repo** settlement requiring the firms to maintain additional collateral to avoid settlement failure. At the same time, a bank's Treasury team must have "real-time visibility" into their **bond inventory**. Now the firms are expected to reuse the **unlocked collateral** from CCP in the repo market to make the settlement significantly secured.

In similar manner, securities Lending faces a critical recall crisis, as the window to return borrowed stock shrinks from 48 hours to 24, heightening the risk of **settlement fails and CSDR penalties** [docs.islaemea.org]. A recall in Europe is not a single event; it is a chain. Beneficial owner to agent lender, agent lender to borrower, borrower to sub-custodian, sub-custodian to CSD – potentially across multiple jurisdictions with different cut-offs, different CSDR penalty regimes, and different pre-matching conventions. A recall on a Portuguese security held by a German beneficial owner, lent to a UK borrower through an Irish agent, crosses several time zones and CSD processing windows. Each link adds latency, and under T+1, latency equals failure. So, **securities lending recall** risk becomes a hidden collateral shock: with one day less to recall stock, late returns can spike **settlement fails** and to avoid that firms need to add more collateral buffer into it.

However, the **cross-border collateral mobilisation across a fragmented landscape** is going to become a serious challenge. For example, a German clearing member posting collateral to a French CCP using Italian government bonds held at an Austrian CSD traverses multiple jurisdictions, legal frameworks, and settlement systems. Under T+1, every link in this flow must complete within the compressed window. Where collateral movements cross these CSD boundaries, misaligned operating windows create a real risk that collateral arrives too late to support the settlement it was meant to facilitate. Hence, the CCPs need to maintain additional liquidity buffer to cover timing gap. Hence, this "freed" capital from margin requirement is largely being trapped back within the ecosystem to serve as an **operational liquidity buffer**. The structural mismatch between T+1 equities and the T+2 FX market creates critical funding gaps that necessitate higher **pre-funded** cash balances and intraday credit lines to bridge timing delays.

Finally, triparty collateral operations face their own compression challenge.

Under T+2, substitution and allocation cycles ran predominantly overnight.

Under T+1, these cycles must run faster and potentially intraday.

Most of the participants are set up to consume or respond to intraday triparty flows, and the operational complexity of managing real-time collateral movements across multiple triparty agents and CSDs should not be underestimated.

Target2-securities:
The backbone under pressure

Under T+1, the **Night-Time Settlement (NTS)**, which was primarily an optimization window, becomes the primary settlement window. The first NTS cycle (C1S4) must absorb all matched instructions, settlement restrictions, and liquidity transfers. Any instructions that miss this window face a compressed real-time settlement day on T+1 with far less room for recycling and optimisation. For CCPs, clearing members, and custodians, the race is to ensure all instructions are matched, enriched, and submitted before C1S4 kicks off – a timeline that now starts immediately after market close on Trade Date.

Not all EU CSDs are on T2S, creating a two-tier settlement landscape. While T2S has harmonised settlement for participating markets, several EU CSDs remain outside the platform (24 CSDs out of 31 currently use T2S, not all EU Member States [T2S]. These markets will continue to operate local settlement infrastructures with market specific conventions. As the EU moves toward T+1, this structural duality increases operational complexity and settlement risk, and firms need to address settlement timing, instruction and liquidity implications on a market by market basis in two parallel settlement operating models.

Even for 24 CSDs that are connected today, full **harmonisation** has not been achieved (Report) among themselves. While workable under T+2, these variations introduce higher operational risk under T+1. A matching field that one CSD treats as optional and another treats as mandatory can cause an instruction to fail silently in the NTS cycle.

Standard settlement instructions: The pre-condition for everything else

The operational integrity and lifecycle management of SSI is an area where legacy process may break down due to demands of compressed settlement velocity, highlighting the **systemic sensitivity of SSI workflows** in a shortened cycle. A significant portion of the market participants still receive SSIs as unstructured emails or attachments that must be interpreted and manually re-keyed. Up to 40% of the large firms are facing the challenges of manual interpretation and data entry for settlement.

Any failure due to **PSET** mismatches in the cross-border settlement will make a logistical nightmare for the firms as the settlement window is compressed to just a few hours. If the firm uses SSI for an incorrect CSD (e.g., settling a German Eurobond in Clearstream Banking Frankfurt vs. Euroclear Bank), by the time the instruction is corrected, T+1 settlement batch is closed.

Under T+1, FMIs and regulators are mandating **Partial Settlement and Hold & Release** as core settlement efficiency tools at the CSD level. But these tools only work on instructions that have successfully matched, and matching depends on accurate SSI data. Euroclear data shows that only 65% of settlement instructions match on trade date today, with PSET, the place of settlement field, identified as one of the fields that most frequently features in mismatches [Euroclear]. Under T+1, the remediation window to detect the mismatch, correct the SSI, and resubmission goes away.

Market research indicates that **data quality issues**, including **incorrect or stale SSIs**, contributes to around **21%** of settlement failures [Firebrand-Research.pdf]. For smaller asset managers and mid-tier participants, the problem is structural: a significant subsection still does not use **electronic SSI solutions**, relying instead on **email, phone, or fax** - channels that require manual re-keying and are prone to both error and interception. ESMA notes that the required investments into automation may be felt more strongly by smaller players and by firms further from settlement infrastructures in long custody chains [ESMA]. For larger institutions, the challenge is different but equally consequential: even where automated SSI platforms exist, errors persist due to **insufficient discipline** around their usage. Such firms can consider reviewing their internal processing logic to ensure SSI data is consistent across their own custody chains.

Partial settlement: The safety valve that isn't ready everywhere

Partial settlement already exists in Europe under CSDR, but T+1 significantly amplifies its operational, liquidity, and control challenges. The EU T+1 Industry Committee established a dedicated task force on partial settlement, recognising that existing practices were insufficient for a compressed cycle. T2S already runs partial settlement at **five defined intraday windows**, but the proportion of instructions reaching these windows without full inventory is expected to rise materially as the **overnight buffer** disappears. Compressed timelines under T+1 materially reduce the window available to resolve inventory, matching, or funding issues, which directly drives partial settlement events.

Higher partial settlement volumes increase downstream complexity for asset servicing, reconciliation, and client reporting. **Inventory Management** processes of many market participants currently are often not designed to dynamically re-prioritise positions intraday, especially when multiple partial deliveries occur against the same trade or allocation. Manual or batch-driven inventory processes might struggle to cope with partial settlements happening within hours.

If firms opt for partial settlement, then it's expected that **intraday liquidity and collateral** need to be monitored and managed on real time basis. Liquidity shortfalls and collateral unavailability are already a leading cause of settlement issues, and T+1 tightens the margin for correcting these imbalances. Partial settlement shifts liquidity risk intraday, not overnight, which adds additional pressure on treasury and collateral teams.

Partial settlement is a core feature of T2S, and most European CSDs on the platform **offer auto-partial by default**. However, the current implementation was designed for T+2 with more flexibility. ESMA's amended CSDR RTS (October 2025) goes further, making auto-partial settlement a **mandatory** CSD functionality by October 2027, with auto-partial as the default setting unless a participant explicitly opts out. The implementation path for a **small national CSD** without existing auto-partial infrastructure is materially different from that of a T2S-connected CSD where the function already exists.

Fx: Not one problem, but a web of interconnected ones

The EU T+1 Industry Committee's High-Level Roadmap states that FX transactions should be dealt, processed, and submitted to **CLS** no later than **00:00 CET on Settlement Date** to ensure inclusion in the PvP settlement cycle. Under T+2, this was manageable. Under T+1, the window between late-afternoon trade execution and the CLS submission deadline shrinks to just a few hours, and that is before allocations, confirmations, and the FX trade itself are accounted for. CLS has confirmed **it will not adjust** its operational timelines to accommodate T+1. That decision, while understandable from a systemic risk perspective, creates a hard constraint that the rest of the ecosystem must design around.

CLS settles 18 of the world's most actively traded currencies. But European securities markets include currencies that are either **not CLS-eligible** or have **limited CLS liquidity** (e.g. Romanian leu, Bulgarian lev). For transactions in these currencies, PvP settlement is simply unavailable through CLS. Under T+1, with compressed timelines and less room for error, the proportion of trades settling without PvP protection could increase, particularly for firms with significant Central and Eastern European exposure.

Moreover, the **custodian's** internal deadline for accepting FX instructions is almost always earlier than CLS's own deadline, sometimes by two hours or more. This creates a dependency chain on Custodian's process. Any delay at any link, like a late allocation, an SSI mismatch, a manual exception, will collapse the entire timeline. Firms need to map not just CLS cut-offs, but every intermediary cut-off in their specific settlement chain and stress-test the sequence end to end.

Two Industry Leaders. One Post-Trade Frontier.

This insight has mapped where the pressure points live – in your collateral mobilisation flows, your SSI governance, your T2S instruction timing, your FX cut-off sequences. Under T+1, these are no longer isolated workstream problems. They are interconnected failure risks that compound within a five-hour window.

Cognizant and Microsoft bring together deep capital markets domain expertise and enterprise-grade AI capability to help firms move from workstream diagnosis to full operating model transformation – and from transformation to the frontier of intelligent, agentic post-trade operations. We work across the full settlement value chain so that your T+1 programme delivers lasting operational advantage, not just compliance.

Ready to map your workstream exposure? Speak with our Cognizant and Microsoft capital markets specialists to assess your specific SSI, collateral, FX, and T2S readiness – and define your path to the frontier of T+1 operational excellence.

Contact us ←

Next steps & conclusion

This insight has mapped the depth and interconnectedness of the operational challenges across the core critical workstreams. Under T+1, a failure in one workstream - a stale SSI, a missed CLS cut-off, a delayed collateral substitution cascades across the settlement chain, resulting into fails, penalties, and liquidity strain that no single team or system can absorb in isolation.

But diagnosing the problem is only half the journey. In the next insight in this series, we shift from what needs to change to how to change it - examining how market participants and FMIs can enhance institutional agility through modernised target operating models, straight-through processing, and high-performance market interoperability. The question is no longer whether T+1 demands transformation, rather how firms can design and deliver that transformation before October 2027.

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