Securities settlement in the EU and central securities depositories (CSDs): shorter settlement cycle in the Union

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The Committee on Economic and Monetary Affairs adopted the report by Johan VAN OVERTVELDT (BE, ECR) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 909/2014 as regards a shorter settlement cycle in the Union.

As a reminder, the Commission's proposal aims to amend the Central Securities Depositories (CSD) Regulation to reduce the settlement cycle time for EU securities transactions from two days to one, or T+1. Moving to a T+1 settlement cycle in the EU will enhance the efficiency of EU capital markets, reduce counterparty risk, and improve liquidity.

The committee responsible recommended that the European Parliament's position adopted at first reading under the ordinary legislative procedure amend the proposal as follows:

Settlement date

Members considered that the requirement that the agreed settlement date be no later than the first business day after the trade should not apply to any of the following transactions when documented as single transaction consisting of two linked operations: **securities lending or borrowing, buy-sell back transactions and repurchase transactions**, as defined in Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse.

Potential shortening of the settlement cycle

The amended text recalled that Regulation (EU) No 909/2014 requires ESMA to periodically report on the potential shortening of the settlement cycle in the Union. This report will explore the feasibility of **shortening the settlement cycle in the future to T+0**, to ensure that regulation and market infrastructures in the Union align with the increasing scope and pace of global financial markets and best practices of other international regulatory regimes. A settlement cycle of T+0 is already technically feasible and might be further facilitated by innovations such as distributed ledger technology while ensuring safety of data and transparency. A further shortening of the settlement cycle would reduce risks of illegal and collusive trading schemes such as dividend stripping ('cum ex trading').

ESMA should monitor settlement efficiency during the move to a T+1 settlement cycle and should report with increased frequency thereon during the months immediately preceding and immediately following the move to T+1.