Banks and financial markets: settlement finality in payment and securities settlement systems

2025/0381(COD) - 04/12/2025 - Legislative proposal

PURPOSE: to convert Directive 98/26/EC (the Settlement Finality Directive - SFD) into a Regulation to ensure more uniform rules across the EU.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: Directive 98/26/EC of the European Parliament and of the Council on settlement finality in payment and securities settlement systems. The SFD, adopted in 1998, aims to reduce systemic risk in payment systems and securities settlement systems within the EU by ensuring the finality and irrevocability of transfer orders once entered into a designated system, even in the event of a participant’s insolvency. Since its adoption in 1998, the SFD has been amended six times to reflect the evolving structure of EU financial markets.

A public consultation conducted in 2021 and the 2023 Commission report showed that the obligations laid down in Directive 98/26/EC were transposed differently by Member States. These divergent national approaches have resulted in the fragmentation of the single market and cause legal uncertainty, prevent market integration and inhibit cross-border transactions.

Strengthening the EU's economy and bolstering its international position are central to the European Commission's mandate. The Competitiveness Compass outlines how to achieve these goals, with the Savings and Investments Union (SIU) Strategy acting as a key enabler of this plan.

The European Parliament argued that capital market integration is a necessary pillar of the EU's investment strategy and supported the Commission's intention to propose measures to strengthen supervisory convergence tools and achieve more unified direct supervision of capital markets.

CONTENT: this Commission proposal seeks to **covert the Settlement Finality Directive (SFD) into a Regulation** and updates definitions of key concepts which would enhance legal certainty, consistency, and market integration across the EU. The proposed regulation also aims to ensure sufficient technological neutrality to help support the implementation of new technologies, such as **distributed ledger technology** (DLT), to bring efficient solutions to the market while ensuring that risks are appropriately mitigated. Moreover, further harmonisation would align with broader EU initiatives such as the Capital Markets Union and the Savings and Investment Union, fostering investor confidence and improving the resilience and competitiveness of the post-trade ecosystem.

Its main objectives are to:

1. **harmonise the provisions on settlement finality**;

2. **modernise the provisions on settlement finality** to recognise new technologies and financial developments.

To achieve these objectives, the proposal sets out in a more precise way matters related to protections granted by the SFD to achieve a harmonised approach across the EU. This relates, in particular to:

- legal certainty for digital innovation;

- conflict-of-law rules;

- participation of EU entities in third-country systems;

- the scope of participants;

- the scope of eligible securities;

- designation practices for EU systems;

- transparency; and

- settlement finality moments.

Budgetary implications

The proposal is compatible with the Commission proposal for a multiannual financial framework for years 2028-2034, specifically as regards the budget of individual agencies. Therefore, figures are indicative pending the final adoption of the MFF.