



# HOW EUROPE'S MOVE TO T+1 SETTLEMENT COULD RESHAPE ETF SERVICING MODELS



The European Union, the U.K. and Switzerland's planned shift from T+2 to T+1 settlement in October 2027 aims to reduce counterparty exposure and improve market efficiency. While often framed simply as an alignment with the U.S., which made the switch in 2024, Europe's fragmented market structure and cross-border complexity make this more than a copy-and-paste exercise.

The compression of risk management, funding, and operational execution into a tighter timeframe has important implications for ETF servicing models. The transition is less about changing processes than about removing the time buffers that traditionally absorb operational friction. Activities that were previously sequential – allocation, confirmation, foreign exchange execution, and funding – must increasingly occur in parallel, often intraday.

Steve O'Brien, EMEA ETF product lead, says that many ETF primary market transactions already operate on a T+1 basis. "That should ease the transition, as the underlying mechanics are understood. Key tasks and processes such as matching and settlement will also remain fundamentally unchanged. However, the shorter window narrows the margin for error, and makes any reliance on manual intervention or end-of-day flexibility much harder to sustain."



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# PRIMARY MARKET PRESSURE: FUNDING, FX, AND CROSS-BORDER COMPLEXITY

For ETFs, workflow compression is most acute where primary and secondary markets intersect. Authorized participants must now source securities, execute FX, and fund positions within tighter cut-offs. The linkage between trading and operational readiness is more immediate, leaving less room to manage mismatches.

## Cross-border ETFs face additional challenges under T+1:

- Time-zone differences – exposure to Asia or other non-European markets brings forward funding and execution decisions into earlier, often less liquid, windows
- FX dependencies – same-day execution becomes more critical, with reduced flexibility to manage currency exposure post-trade
- Market practice variation – differing local settlement conventions and cut-offs increase coordination requirements
- Multiple central securities depositories (CSDs) – Europe’s fragmented post-trade infrastructure requires alignment across CSDs, each with its cut-offs, pre-matching requirements, and settlement processes

Together, these factors compress operational timelines and heighten the need for precise coordination across counterparties and market infrastructures.

At the same time, by aligning Europe and the U.S., T+1 simplifies the operating model for global ETFs, particularly those authorized as Undertakings for Collective Investment in Transferable Securities (UCITS). “These funds operate within strict constraints on cash holdings and borrowing,” explains David Kelly, Ireland Head of Depositary. “Misaligned settlement cycles across regions can cause temporary breaches, creating operational and compliance challenges. A consistent T+1 framework reduces that risk and supports more predictable capital and liquidity management.”

Settlement mechanics may still influence portfolio construction at the margins, notes O’Brien. “Issuers already take a pragmatic approach, with some funds remaining on T+2 where non-U.S. exposure is more significant, while others have moved earlier where U.S. weightings justify it. T+1 is unlikely to drive wholesale changes in investment strategy, but managers may tweak portfolio composition, reinforcing the need to align portfolio implementation with operational capability.”



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As Europe moves to T+1 settlement, asset managers are reassessing how intraday liquidity and funding pressures are managed in a more compressed settlement cycle. Building on its experience supporting the U.S. T+1 migration, BNY brings together integrated FX execution, extended trading windows and robust settlement capabilities to help clients access timely liquidity, reduce settlement risk and manage compressed funding timelines. Close alignment across custody, FX and liquidity capabilities enables BNY to support efficient and resilient operations in a faster European settlement environment.

## SERVICING MODELS UNDER STRAIN: FROM NAV TO SETTLEMENT CONTROLS

T+1 does not materially alter net asset value (NAV) pricing methodologies or valuation points. If anything, faster settlement supports cleaner reconciliation by reducing the duration of outstanding cash positions. “This is fundamentally a custody and settlement change,” says Kelly. “It doesn’t change how you price a fund, but it will impact the design of reconciliation controls as the shorter settlement timeline will need to be factored in to reconciliation activity.”

Similarly, fund accounting and transfer agency processes remain structurally similar, but must operate within tighter timelines and with greater emphasis on timely exception resolution. The more substantive changes are likely to occur in post-trade servicing models. Custody, fund administration, and transfer agency functions may require earlier cut-offs, stronger control frameworks, and more tightly integrated data flows.

“Managers and service providers will need to identify issues much earlier,” says Kelly. “That means more automation, real-time visibility, and robust controls to avoid carrying delayed settlements. Straight-through processing (STP) becomes a baseline requirement rather than an optimization.”

Service-level agreements (SLAs) built around T+2 assumptions, such as sequential processing steps, will also need to be redefined to reflect intraday milestones and tighter interdependencies between counterparties. Changes in one part of the value chain can have immediate downstream effects, making coordination across service providers critical.



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## READINESS AND RESILIENCE: ALIGNING THE ETF ECOSYSTEM FOR T+1

A successful transition to T+1 will depend on the readiness of the entire ecosystem. There are grounds for measured confidence: previous transitions have shown that shorter settlement cycles do not necessarily increase disruption. Industry engagement is strong, supported by working groups and trade associations, and the U.S. experience provides a useful reference point.

“The experience from the U.S. showed that T+1 success comes down to a small number of critical disciplines: early preparation, robust testing, and reducing reliance on manual intervention. Those lessons are even more relevant in Europe. With fewer buffers in the system, firms need operating models that support intraday processing, integrated FX and funding, and seamless coordination across markets. The transition rewards those who treat T+1 as an operating model shift, not just a settlement change,” says Emily Schlosser, Global Head of Custody at BNY.

Hence, detailed preparation is required. Operational bottlenecks – manual processes, legacy systems, or fragmented data flows – will become immediate sources of risk as time buffers disappear.

Firms must reassess settlement instructions, bring forward FX and funding decisions, and align processes and cut-offs with counterparties. As O’Brien notes, even well-prepared firms remain exposed if counterparties, vendors, or market infrastructures are not equally prepared.

Targeted investment in technology will be necessary to ensure systems and workflows are fit for a shorter cycle. Likewise, there must be closer coordination across front-office, middle-office, and post-trade functions. Testing and rehearsal are critical. Dry runs, sandbox environments, and coordinated industry testing can identify points of failure ahead of go-live, while clear escalation paths and defined responsibilities are essential, particularly in cross-border scenarios.

Ultimately, Europe’s move to T+1 is a recalibration of time rather than a transformation of ETF mechanics. The processes remain the same, but the speed and precision required increase materially. T+1 can help strengthen market discipline through earlier affirmation, improved data quality, and more proactive liquidity management. However, it also elevates operational resilience from a back-office concern to a core determinant of market efficiency and investor outcomes.



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“With rapid ETF growth, existing infrastructure will inevitably need to evolve to handle greater scale and volume. T+1 simply accelerates that shift. The ETF ecosystem already has the core building blocks in place, but the focus now is on efficiency, timeliness, and automation. It’s a natural next step in securities settlement toward near real-time execution, where transactions move seamlessly from the moment an investor buys an ETF to when it appears in their portfolio,” says Ben Slavin, Industry Head of ETFs at BNY.

## T+1 READINESS CHECKLIST

Asset managers and service providers should prioritize these three strategic objectives:

- 1** Eliminate manual buffers through automation: Move beyond optimization to full STP. With the halving of the settlement window, manual intervention in allocation and affirmation is no longer sustainable.
- 2** Synchronize front-to-back workflows: Integrate trading and FX execution into a single intraday cycle. Funding and currency decisions must be pulled forward — particularly for UCITS with global exposures — to prevent cash-constraint breaches and settlement mismatches.
- 3** Modernize SLAs: Redefine provider contracts to move away from T+2 sequential processing. New SLAs must reflect intraday milestones and real-time data flows to ensure exceptions are identified and resolved long before the T+1 cutoff.



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