POST-TRADE INTEGRATION AND MARKET STRUCTURE EVOLUTION

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Completing the journey towards European capital markets integration

Europe often underestimates one of its greatest integration successes. TARGET2-Securities (T2S) has quietly achieved something remarkable: fully integrating central bank money settlement with securities settlement on a common platform in a harmonised way. Few European integration projects have delivered such tangible results.

Even though T2S covers only settlement (but not asset servicing, i.e. processing of corporate events and tax), the expectation by most stakeholders around the go-live of the platform (2015) was that the common settlement platform would induce strong harmonisation across all post-trade services.

T2S created a single settlement platform with common rules and processes for participating CSDs. It harmonised business hours, calendars, messaging, settlement instructions, liquidity management and settlement finality. It also allows CSD participants to connect directly to the platform while keeping their relationship with their CSD. As a result, firms active in several T2S markets can use one set of settlement procedures instead of adapting to different national practices.

Despite the remarkable achievements of T2S, we should be clear-eyed about the fact that while settlement fragmentation has been addressed to a significant extent, post-trade market fragmentation has not. The use of the common platform has not induced sufficient alignment of practices and rules on asset servicing across European markets. While settlement has become increasingly integrated, many of the barriers that prevent capital from flowing seamlessly across Europe remain firmly in place. Market participants continue to navigate different custody models, divergent asset servicing practices, fragmented tax procedures and varying legal frameworks. The result is a European post-trade landscape that remains far more national than European.

This fragmentation comes at a cost. Investors face unnecessary complexity and higher operating expenses. Issuers struggle to access a truly European investor base. Liquidity remains dispersed across markets rather than pooling at scale. Ultimately, Europe pays the price through less efficient capital allocation and shallower capital markets.

The European Commission's Market Integration and Supervision Package (MISP) published in December 2025, is a welcome and necessary step towards removing the remaining barriers to a Single European Securities Area. By mandating CSD links in a hub-and-spokes model leveraging T2S, MISP aims to achieve full connectivity between EU CSDs. This should support cross-border settlement and holding of securities, ensuring that all EU securities can be settled and held across all CSDs. In turn, this would strengthen competition between CSDs and reduce costs for market participants.

Measures to improve CSD connectivity in settlement should, however, be accompanied by action to remove the legal and tax-related fragmentation in asset servicing that continues to limit the use of CSD links and hold back post-trade integration. Although legal harmonisation is ultimately in the remit of EU lawmakers, market participants also have an important role to play by aligning legacy national market practices, notably in the processing of corporate events, based on the AMI-SeCo's SCoRE Rulebook. Member States can also contribute by adopting common tax processing practices, including through a consistent implementation of the FASTER Directive without opt-outs.

Moreover, T2S itself must continue to evolve. The T2S pricing structure needs a thorough review to identify opportunities for simplification. The T2S governance for change management should be made leaner and more efficient. The platform should also support more efficient and automated interaction with non-T2S markets and contribute to harmonised reference data management.

We must avoid replacing yesterday's national silos with tomorrow's technological silos.

Finally, evolution must also mean embracing opportunities offered by technology, such as tokenisation. The baseline expectation is that there will be an extended period of time during which securities will exist both in tokenised form and on traditional infrastructures. We must avoid replacing yesterday's national silos with tomorrow's technological silos. We need to enable a seamless interaction between the different forms in which securities are held, whether it is a position on a securities account or a token in a distributed ledger.

EU legislative efforts and T2S have brought European capital markets much closer to integration but this task remains unfinished. Completing this journey now requires renewed commitment from public and private stakeholders alike — to deepen harmonisation, remove remaining barriers and bring a truly single and deep Savings and Investments Union within reach.

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The MISP and the integration of post-trading in the EU: strengths and challenges

The post-trading measures proposed in the MISP could significantly advance the integration of European securities settlement markets. Their main strength lies less in any single reform than in the combination of measures aimed at reducing operational fragmentation, facilitating cross-border access and promoting convergence across market infrastructures.

Four elements are particularly important: requiring all EU CSDs to connect to T2S, introducing a mandatory inter-CSD hub-and-spoke connectivity model, strengthening open-access provisions and reinforcing the EU supervisory framework. The package also creates a more supportive environment for DLT-based solutions, enabling innovation when justified by market demand. Taken together, these measures seek to combine greater legal and operational convergence with broader access, while preserving competition and allowing market-driven consolidation, subject to appropriate supervisory and risk-management safeguards.

At the same time, the MISP alone is unlikely to remove all barriers to an integrated European settlement market.

Regarding open access, the proposed reforms are a clear improvement, particularly through ESMA's enhanced role in assessing access refusals, but some legal uncertainty remains. Further harmonization is needed in key areas, including the definition of access requests and refusals, access conditions, risk-assessment criteria and responsibilities for determining the place for settlement. Legal certainty would also benefit from consolidating the various access provisions that are currently scattered across different legislative acts into a single framework.

The outsourcing regime could also be improved to ensure a more proportionate treatment of intragroup arrangements and to facilitate efficient market-driven consolidation while preserving adequate supervisory oversight. Greater clarity is needed as to which arrangements require prior approval and which should only be subject to notification. Procedural timelines should be clarified, ESMA could play a stronger coordination role while preserving meaningful NCA involvement, and a presumption of compliance could be introduced for certain requirements.

The supervisory framework raises broader institutional issues. Strengthening ESMA's role is an important step towards a genuine Capital Markets Union, but supervisory integration cannot be considered separately from crisis management and fiscal responsibility, especially in relation to government bond markets. Financial market infrastructures are critical for sovereign debt markets and for the financing of strategically important sectors. Their disruption could have significant fiscal and economic consequences at the national level, including higher sovereign funding costs and disruptions to critical public functions, thereby justifying a meaningful supervisory role for NCAs. At the same time, if supervisory responsibilities become more integrated, credible arrangements for the management of financial distress and appropriate burden-sharing mechanisms should accompany that process.

As recommended by the European Commission, the Eurosystem and market participants should further advance the harmonization of securities-settlement and asset-servicing standards. In addition, a mandatory connection to T2S does not necessarily imply its mandatory use. One way to expand the platform's role would be to increase the number of currencies supported, an option strongly encouraged by the Eurosystem.

Concerning DLT and other new technologies, widespread adoption requires maintaining trust, which makes the choice of settlement asset crucial. Preserving the two-tier monetary system, with central bank money as the ultimate settlement asset, remains essential. The Eurosystem's Pontes and Appia initiatives can provide an important impetus in this direction.

The MISP is a major step forward, but deeper integration requires broader reforms.

Finally, some of the main obstacles to market integration lie outside market-infrastructure legislation. The lack of a genuinely risk-free European asset continues to fragment collateral pools and settlement activity, while the differences in insolvency, corporate and securities laws raise the costs of cross-border investment. In this context, the proposed 28th regime could complement the MISP by providing a voluntary EU-wide legal framework alongside national regimes. This could reduce legal fragmentation and facilitate cross-border issuance and investment without requiring full harmonization of national laws. Its effectiveness will, however, depend on its design. Excessive reliance on national laws and courts could limit its benefits, as could a narrow focus on innovative start-ups and scale-ups. Ultimately, neither the MISP nor the 28th regime is sufficient on its own, but together they could form a meaningful step towards a more integrated and competitive European post-trading landscape.

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Post-trade integration for Europe's next market cycle

European post-trade markets are entering a decisive phase. The debate is no longer only about making settlement safer or more efficient; it is about whether the EU can build a market structure able to support scale, innovation and investor access while preserving genuine competition across the value chain.

The Market Integration and Supervision Package (MISP) is therefore timely. It can help reduce fragmentation and improve interconnections between infrastructures, but only if integration is pursued with a clear compass: proportionality, user choice - for both CCP clearing members and CSD participants - and a level playing field.

First, internalised settlement should be assessed for what it is: a custody service provided to clients when two clients' assets are held within the same omnibus account and they have agreed to settle in that way. It is not a substitute for the core settlement function of central securities depositories (CSDs). The current reporting framework already gives national competent authorities full visibility over settlement internalisers. Improvements may be useful, for example to ensure that CSD reporting captures all triparty collateral management activities consistently with settlement internalisers' reporting.

Transparency should follow the same logic. Relevant information is already disclosed to clients. Public disclosure of prices and fees by custodians could create complexity and competition concerns without clear benefits. A like-for-like comparison between CSDs and custodians is inappropriate: CSDs' core services are public infrastructure functions, while internalised settlement is ancillary to custody. Regulation should avoid treating different activities as if they were the same.

Second, stronger interconnections between CSDs can be positive if they increase competition and improve cross-border access. Hub-and-spoke CSD models, links and enhanced access arrangements could help overcome national silos. Yet this must not result in disproportionate costs being passed on to participants and, ultimately, investors. Integration should not simply shift complexity from infrastructures to intermediaries. It should simplify the operating model end-to-end and ultimately deliver cost benefits, over the medium term if not in the short term.

> **Europe must build post-trade markets that can evolve faster – not just settle faster.**

Third, the boundary between CSD core services and ancillary services matters. Where CSDs provide services beyond their core public infrastructure role, they may compete directly with other financial market participants, including global custodians. A competitive EU market requires all providers of comparable ancillary services to operate at arm's length, under conditions that preserve neutrality and a level playing field. Regulation should apply equivalent requirements to equivalent services.

The next wave of change will come from both the trading and post-trade sides.

Europe is preparing for T+1, but the structural question is already what comes after: end-of-day T+0 for certain instruments, and potentially atomic settlement for some digital or highly standardised market segments. This evolution would further compress post-trade timelines and operations, and would also significantly affect key areas such as funding, inventory, securities lending and FX. In other words, it will require greater automation, earlier allocation and confirmation, richer data and more resilient intraday liquidity tools.

Extended trading hours will add another dimension. If 24/5 or near-24-hour trading expands in major markets, Europe cannot wait to react. Overnight trading may support investor access, but it also raises concerns: thinner liquidity, higher price volatility, fragmented order books and wider bid-ask spreads. Post-trade systems would need to process transactions across time zones, currencies and liquidity windows, while maintaining settlement discipline and operational resilience.

Policy responses should therefore be practical. The MISP should foster interoperability and connectivity but not impose infrastructure-style obligations on custodians where it would add costs without clear added value. It should support CSD links where they are justified and proportionate. It should ensure fair competition when infrastructures provide ancillary services. And it should help the industry prepare for shorter settlement cycles and extended trading hours without undermining risk management.

The objective should be a European post-trade framework that is more connected but not more rigid; more transparent but not less competitive; more innovative but not less safe. Integration will succeed if it gives users more choice, reduces duplications and enables market participants to adapt to the next cycle of market structure change.

Europe's challenge is not only to settle faster and more efficiently, but also to build a post-trade ecosystem that can evolve faster.

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Post-trade evolution, a catalyst for efficient and competitive EU markets

European capital markets are entering a defining period of transformation. As policymakers pursue deeper market integration, market participants prepare for T+1 settlement and digital asset initiatives gain momentum, the post-trade ecosystem is becoming a central enabler of Europe's competitiveness. Integration, evolution and openness will shape the success of these reforms and the future of European capital markets.

Let's start with integration. In order to pave the way for capital markets integration, the European Commission has put forward the Savings and Investment Union strategy (SIU). The jewel in the crown of this strategy is the Market Integration and Supervision Package (MISP), which aims to reduce fragmentation through greater supervisory convergence and deeper market integration. In a way, MISP taken together with a plethora of other proposals could increase scale and reduce complexity. If the EU delivers on these objectives, it will also achieve further standardisation and modernisation of post-trade processes.

In parallel, a tangible example of this evolution is Europe's move to T+1, scheduled for October 2027. The EU, UK and Switzerland have agreed on a common transition plan. Europe must deliver T+1 across a fragmented landscape of multiple jurisdictions, custodian banks, FMIs and legal frameworks. This complexity reinforces the need for harmonisation and standardisation across the post-trade ecosystem.

T+1 represents a once in a generation opportunity to redesign post trade workflows and enhance the efficiency and resilience of European markets through automated processes. Compressed timelines increase the importance of same-day processing, high-quality data and post trade connectivity. A critical indicator of readiness is the ability of market participants to agree the details of a transaction on the day it is executed. Reflecting this, the industry roadmaps call for same-day allocations and confirmations from December 2026. The regulatory framework is also evolving to facilitate the transition to T+1, with ESMA proposing amendments to its rulebook that are aligned with the recommendations of the Industry Committee. Meeting these requirements will necessitate greater automation through central matching platforms and more standardised management of non-economic reference data, particularly SSIs, helping reduce settlement fails, improve efficiency and support greater operational resilience.

The forces reshaping post-trade infrastructure are not limited to Europe.

For us in Europe, this transition is a strategic shift, an opportunity to optimise end-to-end post-trade workflows and strengthen connectivity across the settlement ecosystem. Greater integration between trade matching, settlement instruction and related processes can reduce operational friction and support a more efficient settlement environment. Through that lens, the MISP and T+1 can work synergistically, reinforcing efforts to reduce fragmentation while promoting greater efficiency and standardisation across European markets.

The forces reshaping post-trade infrastructure are not limited to Europe. Globally, market infrastructures are adapting to evolving trading models, changing investor expectations and increasingly interconnected markets. Growing demand for extended trading hours in the U.S. have led us at DTCC to implement 24x5 clearing hours for our equity CCP (NSCC) to support overnight trading activity while maintaining robust risk management and market stability.

Turning to openness: the financial industry is entering the era of tokenisation, with authorities and firms actively exploring the benefits and limits of tokenised assets and processes. The review of the DLT Pilot Regime and proposed reform of settlement finality both point to the emergence of a more permanent framework that preserves legal certainty, finality, collateral protection and insolvency safeguards, while enabling broader participation, deeper liquidity and asset mobility. The EU frameworks are evolving but must remain open if EU capital markets are to remain globally attractive. Many of the capabilities required for successful tokenisation, including automation, interoperability, common standards and high-quality data, are the same foundations firms are building today to support T+1 settlement.

From shorter settlement cycles and evolving trading modalities to tokenised assets, the post-trade landscape continues to evolve, requiring greater automation, connectivity, openness and resilience. Investments made today to support T+1 can therefore help build the foundations for tokenisation and further post-trade modernisation. In doing so, they can contribute to the objectives of the SIU, helping to reduce fragmentation, while strengthening the competitiveness of European capital markets. Ensuring these evolving frameworks remain open will help global markets continue providing European corporates with efficient access to financing, supporting long-term competitiveness.

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Europe's capital markets moment: integration, innovation and the need to act

Europe has debated capital markets fragmentation for decades. The diagnosis is familiar: too many national rules, operational frictions and insufficient scale across what should be a single market for capital. What has changed is the urgency. Europe needs to finance growth, innovation, defence, the energy transition and digital transformation amid geopolitical competition. In that context, capital markets integration is no longer a technical project but a strategic necessity.

MISP as a practical starting point

The Commission's Market Integration and Supervision Package is an important step. It recognises that Europe will not unlock the full potential of its savings and investment base unless capital can move more efficiently, safely and predictably across borders. The package can help reduce barriers that still make cross-border activity too complex, including through practical measures linked to clearing, settlement, market infrastructure access and, where appropriate, targeted examples such as a depositary passport.

However, the package should be seen as a starting point, not the end state. Europe's challenge is not only to simplify today's market structure, but to build the market architecture of the future. That means asking whether Europe can create the conditions for a truly integrated, competitive and innovative capital market at scale.

Where integration becomes real: post-trade and market infrastructure

Post-trade reform is central to that ambition. Fragmentation in settlement, custody, asset servicing, investor rights, collateral and tax processes may sound technical, but its impact is real. It increases cost, reduces efficiency, limits competition and makes it harder for savers, issuers and investors to benefit from the scale of the European market. A single market for capital cannot be built if the systems connecting issuers and investors remain fragmented along national lines.

The depositary passport is one example of the kind of targeted reform that could reduce complexity and friction. Allowing funds to appoint qualified providers across Member States could support competition, resilience and choice, while reducing barriers to cross-border fund activity. Alongside, the EU needs enhanced links between market infrastructures, more consistent settlement arrangements and reforms that support clearing, collateral mobility and digital market rails.

> The MISP is a valuable step, but Europe now needs to focus on getting things done.

Digital innovation can accelerate integration

Europe should not stop at fixing legacy frictions. Innovation creates an opportunity to rethink how markets operate. New digital instruments, tokenisation and digital market rails could support greater automation, interoperability and transparency across the investment lifecycle. If designed well, they could help Europe address fragmentation rather than reproduce it in digital form. The objective should be clear: innovation must strengthen the single market, not create disconnected national or platform-based systems.

The way forward

The proposed 28th regime could be part of that answer. By creating an optional common framework alongside national regimes, Europe can reduce legal complexity without requiring immediate full harmonisation in every Member State. Used intelligently, such an approach could provide a practical bridge between political reality and market need, enabling cross-border issuance, supporting innovative companies and making it easier to build scalable European market solutions.

There are further important shortcomings: Collateral mobility remains too constrained across the Union, despite its importance for clearing, liquidity and market resilience. Investor rights, securities registration and corporate action processes remain too dependent on national practices. Tax processing continues to create friction. These issues may not always dominate the headlines, but they determine whether Europe's capital markets can function as one market.

The Eurosystem's AMI-SeCo work is useful in identifying remaining post-trade barriers, and the priority should now be on delivery. Europe does not need another abstract debate about fragmentation. It needs a practical agenda that combines market access, legal certainty, digital innovation, collateral mobility, investor rights and tax simplification.

The wider global context makes this a now-or-never moment. Other jurisdictions, including the United States and leading Asian markets, are moving quickly to modernise market infrastructure, support digital assets and attract capital. Europe has the savings, regulatory depth and political ambition to compete. What it needs now is the execution.

The conclusion is straightforward. **The MISP is a valuable step, but Europe now needs to focus on getting things done.** A more integrated capital market would help mobilise European savings, finance strategic priorities and strengthen competitiveness. The task now is to move beyond debate and incremental reform, and deliver the practical changes needed to build the capital markets Europe needs for the decade ahead.