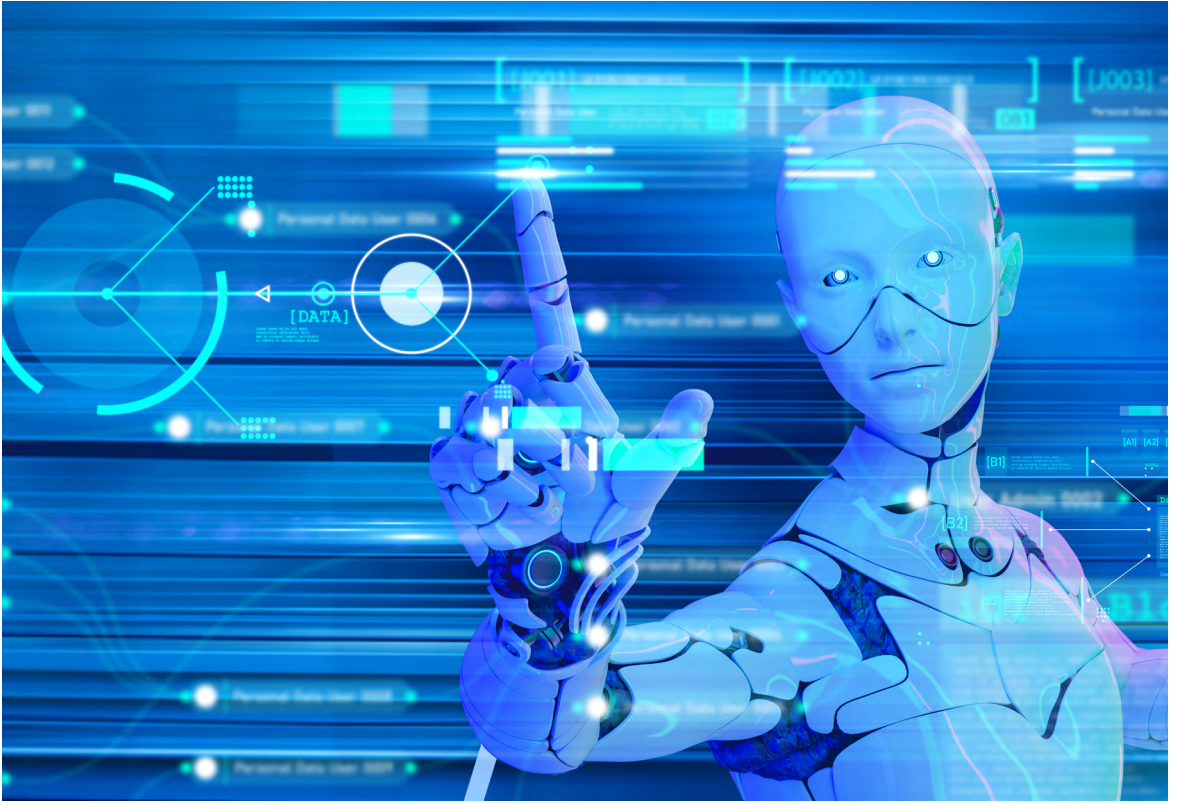


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The gross settlement problem repo cannot afford to ignore

The repo market moves trillions of dollars of collateral every day, says Jon Ford, head of Fixed Income Business Solutions, Pirum. A large portion of these trades are rolled. A significant portion are delivered out to clients every day only to be delivered right back from the same client. Incredibly, the industry is still, largely, settling it gross — one trade at a time

Pair-off 101

A dealer buys a bond. They repo it out overnight. The next morning, they roll that trade. Depending on their book, they may well be delivering the same securities back to the same counterparty they received them from. That is a pair-off: two

offsetting transactions that cancel each other out. The net cash and securities movement is zero, or close to it. The gross settlement instructions? Two full-sized tickets through the central securities depository (CSD), generating intraday liquidity consumption, fail exposure, and operational overhead on both sides.

The scale of what is settling gross matters here. The US repo market ran at US\$11.9 trillion in gross daily exposures in 2024, according to Fed Board analysis — of which US\$5 trillion was non-centrally cleared bilateral repo. The European repo market stood at approximately €13.7 trillion outstanding as of December 2025, per the International Capital Market Association’s (ICMA’s) 50th semi-annual survey. Research from the Federal Reserve Bank of New York — still the foundational study on netting efficiency, cited by the European Central Bank and Financial Stability Board as recently as 2025–2026 — estimates that universal pair-off netting could reduce dealers’ daily gross settlement obligations by 60–70 per cent, eliminating an estimated US\$330 billion in settlement volume in normal weeks and close to US\$800 billion at peak stress. That is not a theoretical saving. It is operational overhead being carried every day. The market has only grown since.

“60–70 per cent of dealer settlement obligations could be eliminated through pair-off netting (FRBNY, Fleming & Keane)”

The T+1 problem is really a T+0 problem

The UK, EU, and Switzerland move to T+1 settlement on 11 October 2027. Most of the industry is treating this as an equity problem with a repo footnote. For repo desks, it should be the headline.

European repo in euro currently settles approximately 80 per cent at T+2, based on Pirum’s settlement data.

When the cash bond market moves to T+1, dealers will need to fund their positions at T+0 — same day. ICMA European Repo and Collateral Council (ERCC) work cited by market participants suggests at least 25 per cent of European repo will move to T+0 post-2027, with some estimates running higher, against approximately 5 per cent today.

That is a profound operational shift. A market that currently enjoys the luxury of T+2 to resolve settlement problems will be funding intraday, across multiple CSDs, with a fraction of the operational window it has today. The answer is automated netting. Nothing else scales.

The gate that makes pair-offs essential

One dimension of this conversation that has not received enough airtime, but is gaining more attention, is the proposed EU Gating Event — now confirmed as a core component of the T+1 infrastructure. The EU T+1 Industry Committee’s Securities Financing Transactions (SFT) workstream and a dedicated taskforce have been working through the mechanics in detail, and the final taskforce report was published in December 2025.

The Gating Event is a new optional settlement window at 11:00 CET on the intended settlement date (ISD), to be rolled out across all relevant EU international (I)CSDs and TARGET2-Securities (T2S). It is not a new batch cycle in the traditional sense; it is an automated hold-and-release mechanism. Instructions tagged with a dedicated Gating Event indicator are held in the system, irrespective of when they were submitted, and automatically released at 11am CET for settlement.

The logic: 11:00 CET gives firms enough time on the trade date for execution, matching, allocations, and funding preparation before the gate, and enough time after it to

manage exceptions, without compressing settlement into an unworkable window. For repo desks funding cash bond purchases, rolling positions, or covering short sales, this matters enormously.

“We’re calling it a move to T+1, but it’s really T+0 for the securities financing and repo space”

Andy Hill

Head of Fixed Income, ICMA

The three core use cases the workstream has defined are:

- A repo roll-over where the new start leg is executed on ISD: both the maturing end leg and the new start leg settle through the gate together.
- A cash bond purchase executed on ISD-1, funded by a repo traded on ISD: the bond settlement and the repo start leg are both gated.
- A short sale of a bond on ISD-1, covered by a reverse repo executed on ISD: the bond settlement and the reverse repo start leg are both gated.

In all three cases, the gate synchronises settlement and eliminates the intraday liquidity spike from two instructions settling independently.

The indicator itself will be available from November 2026 via a SWIFT fast-track change (CR1554). T2S implementation (CR-0865) rolls out from June 2027, allowing testing ahead of go-live. The ICSDs are targeting September 2027 for full availability.

One nuance worth noting: the indicator is unilateral. Either

party can apply it without requiring bilateral agreement from the counterparty. The workstream deliberately designed it this way for operational practicality, given instruction volumes and the compressed T+1 window; a requirement for bilateral agreement per trade was deemed unworkable. But this creates a transparency challenge, and some market participants are questioning this.

Initially, counterparty notification runs through the allegation process, which is widely acknowledged as a late-stage, imperfect channel. The plan is to integrate Gating Event status into the settlement-matching process itself, but that ISO change request is targeting November 2027, a month after go-live.

The direction of travel is set. The question is whether your operations are positioned to participate in the gate — or to miss it.

“Automate, automate, automate. Without a shadow of a doubt that gets you match fit for the future of capital markets globally”

Andrew Douglas

Chair, UK Accelerated Settlement Taskforce

What the numbers actually show

In European fixed income, the cost of not netting is visible in the fails data. EU capital markets recorded an average of 6,000 settlement fails per day in 2024. Since Central Securities Depositories Regulation (CSDR) penalties went

live in February 2022, settlement efficiency in EU bond markets has improved, but the cost of failing remains substantial. European Securities and Markets Authority analysis of the T+1 transition quantifies what getting this right is worth: a 42 per cent reduction in margin requirements, equivalent to approximately €2.4 billion in daily savings.

A global problem requiring a global solution

The 11 October 2027 deadline applies to the UK, EU, and Switzerland simultaneously. The US, Canada, and Mexico moved in May 2024. APAC — including Hong Kong, actively consulting — is expected to follow.

The forward-thinking firms are already asking how to connect their entire repo book — bilateral, triparty, cleared, across every CSD and counterparty — into a single view that identifies pair-off opportunities in real time, agrees them before the gating window closes, and instructs the net position to the CSD without manual intervention. That requires a platform that works regardless of whether the counterparty is on it, including non-subscriber notification and agreement workflows.

A patchwork of regional fixes solves nothing at the global level.

The virtuous cycle starts here

Pair-off automation is not an isolated efficiency play. It is the entry point to a compounding operational advantage. Netting reduces gross settlement volume, fails, penalties, and overdraft costs. Those savings fund investment in connected lifecycle infrastructure: matching, SSI automation, pre-trade data. That connected infrastructure is what makes AI viable: fail prediction, rate anomaly detection, real-time risk-weighted asset (RWA) optimisation.

Boston Consulting Group's March 2026 research finds 70 per cent of AI's operational impact comes from changing how work gets done, not from the technology itself. The infrastructure change has to come first. And in repo, it starts with the netting.

The gross settlement problem has always been expensive. Under T+1, heading into a world where significant portions of European repo fund at T+0, it becomes structurally untenable.

Pirum's RepoConnect affirmation and pair-off functionality is live, with clients realising the benefits every day. The regulatory architecture is being designed around a complete and connected fixed income lifecycle — exactly what Pirum delivers. October 2027 is not a distant deadline. Readiness is the only variable left.

The desks moving now are the ones we are already talking to. We would like to talk to yours. ■

Jon Ford
Head of Fixed Income Business Solutions
Pirum



VENDOR PROFILES



www.pirum.com

Pirum was founded in 2000 with the objective of automating the securities finance and collateral management industries.

The Software as a Service (SaaS) platform has since become the industry gold-standard, globally, for automation and connectivity solutions.

Today, the Pirum product suite, which uniquely covers pre- and post-trade as well as collateral management, is used and trusted by over 150 leading financial institutions around the world, covering both buy- and sell-side activities.

Pirum delivers automation, operational efficiency, regulatory compliance, resilience, and reduced cost for its network of clients, who use Pirum's solutions to connect, communicate, optimize and process their trades in global financial markets.

By connecting market participants around the world, the Pirum dynamo sits at the heart of a complex multi-party financial markets eco-system, all the while increasing transparency and resilience, streamlining operations and fostering collaboration.

Contact us: www.pirum.com/contact-us