

Public Statement

On the treatment of settlement fails with respect to the CSDR penalty mechanism, following the major incident that affected T2S and T2 on 27 February 2025

On 27 February 2025, a major incident adversely affected T2S and T2. Due to a defective hardware component, both services suffered from a slowdown and subsequent unavailability from 08:07 CET and 10:15 CET, respectively. As a consequence of this outage, no settlement instructions, payment, ancillary system instructions or liquidity transfers between TARGET Services could be processed for several hours.

Reporting by CSDs to CSD participants for 27 February 2025 was severely delayed (driven by the T2S and T2 delays until the early hours of 28 February 2025). As such, CSD participants were also delayed in their reconciliation processes, creating settlement fails over the next settlement days.

The major incident that affected T2S and T2 had significant repercussions beyond T2S CSDs and T2S related transactions. Notably, participants' position and liquidity management in the ICSDs was impacted throughout 27 February 2025 and 28 February 2025 by missing liquidity and securities from T2S, which had a knock-on effect on transactions in commercial bank money. As such, the scope of settlement fails with a cash leg component caused by the incident went beyond EUR and DKK, the settlement currencies in T2S.

This major incident caused an important increase in the total number and value of settlement fails.

According to Article 7(2) of CSDR¹, “*The penalty mechanism referred to in the first subparagraph shall include cash penalties for participants that cause settlement fails (‘failing participants’)*”.

As further explained in the ESMA Q&A_1158 on the implementation of CSDR (Settlement Discipline – Cash penalties: scope, point (a)²), “*cash penalties should not be applied in [...]*”

¹ Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

² [ESMA_QA_1158](#)

situations where settlement cannot be performed for reasons that are independent from the involved participants: [...] technical impossibilities at the CSD level that prevent settlement, such as: a failure of the infrastructure components, a cyber-attack, network problems.”

The T2S and T2 major incidents on 27 February 2025 constitute a failure of the infrastructure component. It follows that the application of cash penalties for the failed settlement of T2S transactions/settlement instructions, and any directly or indirectly related transactions/settlement instructions at EEA CSDs is not justified.

Therefore, having regard to the significant and far-reaching impact on the settlement activity, ESMA understands that national competent authorities converge on the supervisory stance that all settlement fails for the days of 27 and 28 of February 2025, and in all EEA CSDs, were impacted, directly or indirectly, by the T2S-T2 downtime and that, in accordance with the above-mentioned CSDR Q&A, cash penalties should not be applied.