



T+1 Settlement

the India story

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India's journey to T+1

- ❑ 1996 : Establishment of NSDL as a Depository
- ❑ Prior to 1997 : Account Period Settlement
 - ❑ Trades done across multiple days in a week settled on a particular day with a time lag. Prior to weekly settlement, it was fortnightly, even earlier monthly.
- ❑ Year 1997 : Introduction of Rolling Settlement on T+5 basis
 - ❑ Monday's trade settled on next Monday. Every day a settlement day
- ❑ Year 2002 : T+3 Settlement
 - ❑ Do the same things as done earlier. Only do it faster. No waiting time.)
- ❑ Year 2003 : T+2 Settlement
 - ❑ Doing faster not enough. Institutional trade confirmation was a challenge. NSDL introduced STeADY, a STP platform, to resolve this.
- ❑ Next two decades : T+2 steady state
 - ❑ T+1 migration not considered. Securities transfer efficient and seamless, funds transfers between accounts with different banks remained a challenge.

Plunge into T+1 – the challenge

- ❑ Sept 2021 : Introduction of T+1 on optional basis
- ❑ Market buzz.....
 - ❑ Operational and Technical challenges.
 - ❑ The window will be too short for securities lending and borrowing to practically work, and there could be spill over.
 - ❑ MIIs Infrastructure inadequate to meet timely issuance of pay-in and pay-out and to send files on time.
 - ❑ This will increase working capital requirements for brokers and extended working hours for banks and depository participants.
 - ❑ Securities settlement of FPIs operationally very complex, involving coordination among multiple entities such as fund managers, global and local custodians, brokers, clearing members, and exchanges.
 - ❑ The MSCI country classification methodology may be impacted (seen as prefunded market).

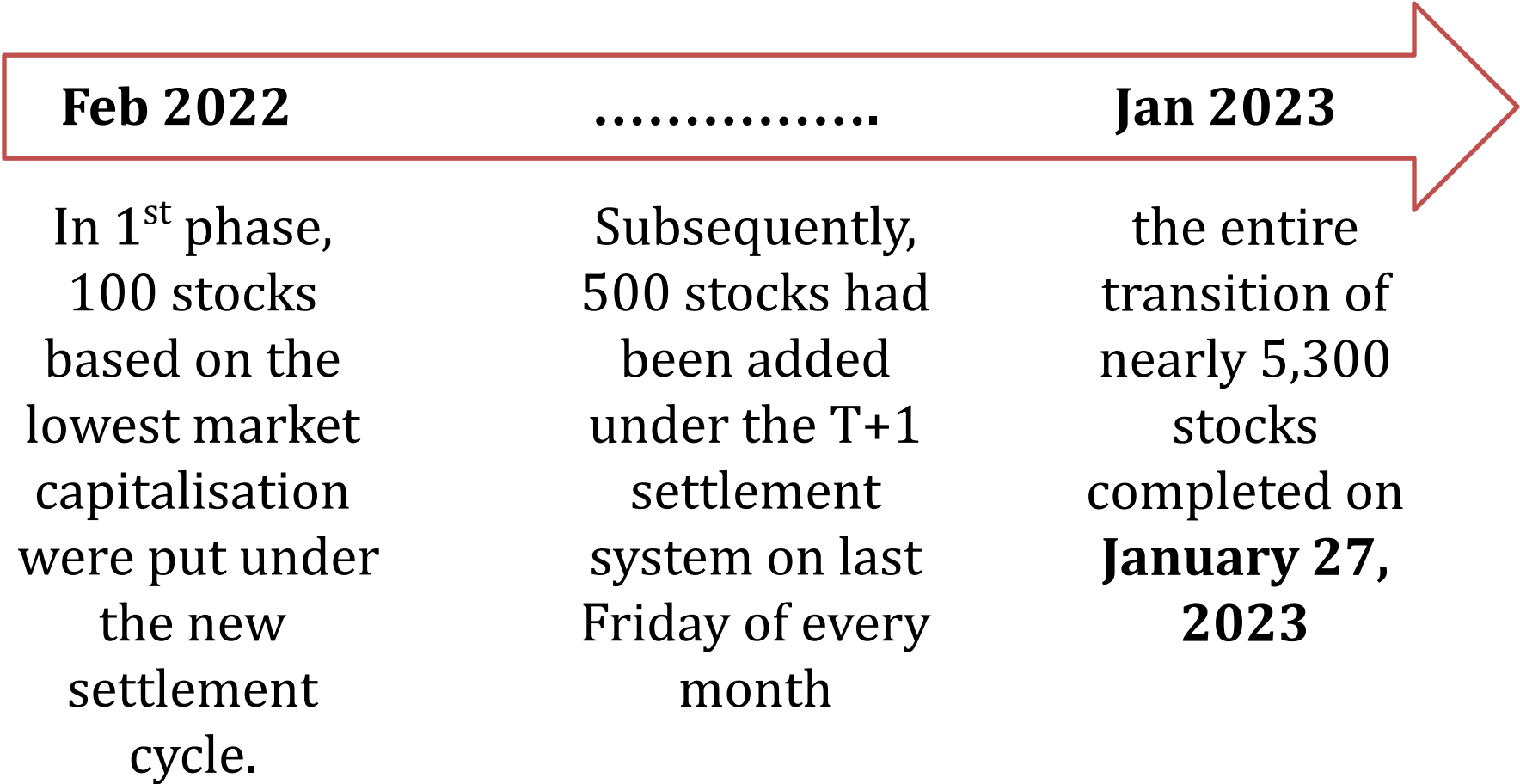
Plunge into T+1 – the engagement

- ❑ Robust Payment Infrastructure - RTGS, NEFT and UPI
- ❑ Engagement. Engagement. Engagement.
 - ❑ Multiple rounds of discussions with all stakeholders, the industry associations, stock brokers, custodians, institutional investors, retail brokers, back-office vendors and so on.
 - ❑ Some unfounded fears, some genuine problems, some in-between.
- ❑ Domestic investors – saw more benefit, as they get faster money, faster securities, reduced exposure.
- ❑ Foreign investors – Saw benefits. Challenges remained. Especially on foreign currency remittance speed

Plunge into T+1 – the approach

- ❑ November 2021 : Glide path to implementation, rather than big-bang approach, from Feb 2022 till Jan 2023.
- ❑ Targeted retail and domestic investors first and then, foreign investors. Begin T+1 with low market cap stocks, and cover all stocks in a defined time-frame.
- ❑ Foreign investments in low market cap stocks is non-existent or minimal. Foreign investors start experiencing T+1 slowly, get more time, can get ready better.
- ❑ For institutional investors, more time given to confirm trade till 7.30 a.m. on T +1 . This gave them a breather.

Plunge into T+1 – staggered plan



Benefits – T+1 Settlement

- ❑ Faster settlement. Sell today, get money tomorrow. No need to wait.
- ❑ Making market more efficient by reducing the time between cutting a deal and its conclusion.
- ❑ Reduced margin requirement for clients - margin blocked for just one day.
- ❑ Reduced exposure risk - shortened settlement cycle by a day reducing settlement risk
- ❑ Increased activity due to the improved efficiency in capital deployment.
- ❑ Increased participation and investments coming to equity markets.

Market Adoption – key changes

- ❑ Entire market adoption completed in 1 year/ 1 quarter from formal announcement till last phase.
- ❑ Transition time : Managed both settlements simultaneously in the interim. Enhanced infrastructure capability for managing parallel settlement operation for both T+1 trades and T+2 trades.
- ❑ Banks extended enhanced credit lines for foreign investors and morning shift to facilitate trade confirmation.

Market Adoption - the nuts and bolts

- ❑ Optimised processing for trade confirmation, transaction processing and settlement instructions
- ❑ Enhanced Foreign investment limit monitoring system. Designed for T+2. Made changes for transition to T+1.
- ❑ Enhanced settlement monitoring systems for T+1 settlement.
- ❑ Re-designed the account transfer instruction (*customized implementation for custodians to facilitate Dividend Distribution Tax*) for custodians to facilitate transfer of securities to clearing corporation on pay-in day on STP basis without executing another delivery out instructions.

Lessons learnt

- ❑ Parkinsons Law.
- ❑ Engage with all stakeholders, including with back-office vendors of partners.
- ❑ Testing of systems multiple times, internally as well as with all stakeholders.
- ❑ Continuous feedback mechanism with all stakeholders.
- ❑ Adopt a flexible, but firm approach. Everyone is learning.

Call out

- ❑ FX settlement systems.
 - ❑ Cash (T0 settlement)
 - ❑ Tom (T1 settlement)
 - ❑ Spot (T2 settlement)

- ❑ Traders prefer Spot or Tom trades due to better pricing. Cash settlement still not preferred.

- ❑ Need more efficiency to facilitate instantaneous FX trade settlement at economical pricing.



Thank You