T+1 Settlement
the India story
Agenda

- India’s journey to T+1
- Plunge into T+1
  - the challenge
  - The engagement
  - The approach
  - Staggered plan
- Benefits
- Market Adoption – key changes
- Market Adoption – the nuts and bolts
- Lessons learnt
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).
Robust Payment Infrastructure - RTGS, NEFT and UPI

- 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

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.
In 1\textsuperscript{st} phase, 100 stocks based on the lowest market capitalisation were put under the new settlement cycle.

Subsequently, 500 stocks had been added under the T+1 settlement system on last Friday of every month.

the entire transition of nearly 5,300 stocks completed on January 27, 2023
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.
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 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.
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