MARKET INFRASTRUCTURE

Indian regulator gives exchanges the option to move to T+1 settlement, sparking concerns among participants

SEBI offers exchanges the chance to shift to T+1 with one month's notice, putting market participants on alert as it heralds the first settlement cycle shortening in 18 years.

By Jonathan Watkins September 16, 2021 3:57 PM GMT

The Indian securities markets regulator has confirmed that it will give exchanges the optionality to offer T+1 settlement if they choose, a day shorter cycle than the incumbent timeframe which has been in place since 2003.

The Securities and Exchange Board of India said it had consulted with market infrastructure providers including exchanges, central securities depositories (CSDs) and clearing houses in making the decision, which falls in line with global shifts to T+1.

The provisions come into place effective of 1 January 2022, with exchanges able to make the change with one month's notice.

Speaking to Global Custodian, Viraj Kulkarni, CEO and Founder, PIVOT Management Consulting said the change has raised concerns among larger institutional investors, especially as the market experiences significant growth, and foresees even more volume and foreign participation in the years to come.

"This move increases the cost of transactions without adding any significant value," said Kulkarni, who is also CEO of The Securities Services Advisory Group (TSSAG). "Indian Regulators have de-risked the market significantly and there have been no major defaults. Also as the currency in not fully convertible, it shortens the window for FX transaction, thereby adding costs."

Kulkarni added that initiatives like these could also push the markets to overseas centres, such as Singapore.

While the markets of the world debate the optimum settlement cycles, each period depends on multiple factors including the maturity of the market, infrastructure and technology.

India's market cap has risen to around $3 trillion, with predictions suggesting this could rise to $5 trillion over the next three years, while there has also been a rise of IPOs.

However, there are considerations at play when it comes to settlement times. Kulkarni highlighted that India's securities space allows only prefunding, does not have a well-developed securities lending market and has limited trading hours, while settlement deadlines are tight and reporting requirements have gone up. Meanwhile, there are also very high margin requirement for all types of cash trades.

The regulator has given optionality on the decision however, offering the ability to revert back to T+2 with one month's notice if required.