FPIs petition SEBI again asking it to defer T+1 settlement cycle

Updated at September 30, 2021 07:51 IST

Foreign portfolio investors (FPIs) have shot off yet another letter to Securities and Exchange Board of India (Sebi) Chairman Ajay Tyagi in what appears to be a last-ditch attempt to get the regulator to defer its diktat on the T+1 (trade plus one day) settlement cycle.

FPIs have urged Sebi to put off the move so that all stakeholders get sufficient time to identify and test the operational processes required to safely implement the T+1 model, which comes into force from January 1.

Three out of five FPIs investing into the country come from outside Asia and the move to a shorter settlement cycle could hurt them the most.

The US, which expressed its intent to move to a T+1 settlement cycle earlier this year, has set a 2023 deadline for the migration, effectively allowing about two years for market players to prepare.

“FPIs are ready to work with Sebi, other regulatory authorities, and market participants to identify and find solutions to the numerous operational and business challenges that come with a shorter settlement cycle to ensure that India’s migration to T+1 settlement can be achieved with little disruption or risk to the market,” said a note written jointly by the Asia Securities Industry & Financial Markets Association (Asifma), Asia TraderForum (ATF), and The Investment Association (IA).

Asifma is an association comprising over 150 FPIs. ATF is a membership group for buy side equity traders in the Asia Pacific region. IA represents the UK’s investment management industry, with 250 member firms that manage £9.4 trillion globally.

Citing research conducted by the Boston Consulting Group in 2012 and by the World Bank on India in 2013, the industry bodies have stated that migration to the new cycle would require end-to-end process redesign, substantial technology investments and enhancements to support near real-time processing capabilities.

This would necessitate an extended migration timeline, especially for investors based in the US and Europe, which operate in markedly different time zones and have to work with multiple parties such as global and local custodians, foreign exchange banks and brokers in different jurisdictions to execute trades.

“We appreciate the desire of markets such as the US and India to shorten their settlement cycle to improve liquidity and reduce settlement risk.

However, it is important to bear in mind risks not only to investors but also to brokers, custodians and other market participants arising from failed trades or settlement that may impact the market as a whole due to the shortened settlement timeframe,” said the note written to the regulator.

Disclaimer: The content above is taken from the source mentioned
Resource: Business Standard, 30 September 2021
Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.

The switch to the T+1 cycle could make the domestic capital market less attractive to global investors, who may view India as a pre-funding market, market experts said.

Tyagi recently defended the move, which puts the onus on the stock exchanges to decide whether they wish to opt for the shorter settlement cycle.

“It is critical that exchanges, clearing houses, custodians and brokers all get together to develop a workable solution for T+1 as soon as possible. The situation in India may be different from that in the US. But we want more time for a proper consultation with all the affected market participants,” said Eugenie Shen, managing director and head of Asifma’s asset management group.

NOT READY YET

•FPIs urge regulator to defer move to T+1, which kicks in from January 1

•Over 60% of FPIs investing into India come from non-Asia jurisdictions

•Extended timeline required for US and European investors, which operate in different time zones than India

•The US has set a 2023 deadline for shift to T+1 settlement

•FPIs ready to work with Sebi, other regulatory authorities and market participants to iron out niggling issues

Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.