

ASSOCIATION OF GLOBAL CUSTODIANS

Communication of the Association of Global Custodian's Asia Focus Committee¹

24 September 2021

The Honourable Shri Ajay Tyagi
Chairman, Securities Exchange Board of India,
Mumbai,
India.

(Sent by e-mail to: chairman@sebi.gov.in)

Dear Mr. Tyagi,

Introduction of T+1 rolling settlement on an optional basis

We refer to the Securities Exchange Board of India's (SEBI) circular SEBI/HO/MRD2/DCAP/P/CIR/2021/628 dated 7 September 2021. The circular crossed with our letter to yourself also dated 7 September, entitled "Consultation on the shortening of the settlement cycle from T+2 to T+1", which was composed without us having any knowledge of the impending issuance of the circular and what the circular's content would be.

The Association of Global Custodians²(AGC) member banks have now reviewed the content of the circular and communicated its details and analysis of its implications to existing and potential Foreign Portfolio Investor (FPI) clients.

The views put forward in our 7th September letter have not changed from the perspective of our member banks and global investors: that a shift towards the introduction of T+1, even on a rolling settlement and optional basis, involves serious challenges and concerns that need to be addressed to enable a smooth transition to T+1.

A key challenge will undoubtedly be enablement of the market processes that will be required to implement T+1 rolling settlement on an optional basis and

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² The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide and administer collectively over USD150 trillion of assets . As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company.

how custodians and FPIs are able to adapt their operational, foreign exchange and risk management systems to work with those processes.

In this regard we strongly advocate that the T+1 model should only be implemented once all market participants and their intermediaries (global custodian banks, international brokers etc.) fully understand the new model and the corresponding processes, and are ready with systems being properly designed, developed and successfully tested. At the time of writing, we can already envisage that a 1 January 2022 go-live date can be a challenging timeline to meet. The change could be disruptive if major concerns and operational issues are not addressed. It will benefit neither the market nor participants, including local investors, if there is a significant increase in the number of failed trades, because any key process and its application have not been well thought-through, accurately documented and tested. For example, there needs to be a practical solution for the pre-matching of trades settling on T+1. Efficient pre-matching is a vital tool for avoiding failed trades.

Trade confirmation on T+0 may result in the Indian market becoming a pre-funded market. To overcome this major obstacle we urge SEBI to permit confirmation of trades, as per existing process, on T+1 followed by pay-in/pay-out settlement.

We earnestly think this is likely to be the least disruptive solution for all stakeholders, requiring minimum change in systems, processes, FX and cash management, while achieving the stated objective of T+1 settlement in the market.

Furthermore, with two exchanges, two clearing corporations and two depositories in India, different processes and cut-off times arising from different settlement cycles of the same security listed on both exchanges can lead to confusion to brokers, custodians and their clients. In addition, because of interoperability considerations, custodians and FPI's think it will be vital for the BSE and the NSE to come to some sort of harmonization agreement regarding the selection of those stocks which will settle on T+1 on "Day 1" and if there is to be a subsequent change from T+1 to T+2 and vice versa, that change will be implemented at the same time by both exchanges. Aligning the processes across the exchanges and FMIs will be important to remove any unnecessary operational complexity.

In summary the very major market change that is being embarked upon will require a great deal of oversight as the reputation of the market is at stake.

The AGC is always supportive of proposed changes by regulators regarding market infrastructures and settlement regimes that have at their core the reduction of risk for investors, provided adequate consultation and discussions take place to ensure such changes are not implemented before all market participants are ready.

Please feel free to contact either the undersigned or our Chairman, Mr. Stephen Pemberton, should the Securities Exchange Board of India have any questions regarding our submission.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized loop that ends in a horizontal stroke.

Robert Edwards, (as attorney in fact)
For and on behalf of Stephen Pemberton,
Chairman, Asia Focus Committee,
The Association of Global Custodians

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