

ASSOCIATION OF GLOBAL CUSTODIANS

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

7 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,

Consultation on the shortening of the settlement cycle from T+2 to T+1

We refer to recent media reporting in India regarding the apparent intention of the Securities Exchange Board of India (SEBI) to further revive discussions with market participants via a panel consisting of officials from the stock exchanges, Clearing Houses and depositories on the shortening of the settlement cycle from T+2 to T+1. This topic rested in April 2013.

The Association of Global Custodians²(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. We welcome the opportunity on such occasions to participate in market consultations and to work with regulators to ensure that such proposed changes work efficiently and do not have possible consequences for all investors, domestic and foreign alike.

Six of our 12 member banks are present in Mumbai providing custodial services to foreign investors in the market and have a very key stake in

¹Mr. Stephen Pemberton, Chairman, The Association of Global Custodians, Asia Focus Committee, c/o The Hong Kong and Shanghai Banking Corporation, Level 30, HSBC Main Building, 1 Queens Road Central, Hong Kong

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.

any major changes in the market. We have no doubt it will be the intention of the panel to consult the AGC member bank, sub-custodian group in India, either collectively or by individual bank. However, there has been no formal announcement by SEBI of the setting-up of the panel and its terms of reference, that would be the normal initial part of a successful market consultative process such as those for the H. R. Khan Committee that played such an excellent part in the eventual, very welcome, streamlining of KYC requirements.

Nevertheless, there are an increasing number of separate advocacy discussions currently taking place and SEBI may already have received formal correspondence from one or more advocate associations as a result of such discussions. Indeed the AGC very recently held a discussion with our India sub-custodian group and this letter reflects that discussion.

SEBI will be aware that the sub-custodian group regularly meets to discuss market developments and regulatory changes and often meets with SEBI, successfully on an informal basis to discuss such changes. The group are especially interested, if invited, to participate in any official market-wide consultative process on the introduction of T+1 settlement cycle, similar to that conducted in 2013, so that SEBI is fully aware of the implications of any proposed changes to the operation of Indian securities markets.

There have been significant and beneficial developments in Indian markets since the market moved to T+2, which have greatly increased their attractiveness to foreign investors. The developments have been very successful as a result of a careful risk/reward analysis, following official consultations with all market participants. We, like SEBI, do not want those gains to be possibly reversed by unforeseen consequences of moving the settlement regime to T+1 without key risk areas being fully understood and covered. The six member banks operating in India settle and have custody over 80% of foreign investment in the market.

From the perspective of global investors, a shift towards a T+1 cycle will result in several challenges and concerns. Such a move would result in India becoming a prefunding market for global investors. It also introduces concerns on FX exposures, funding, settlement management and operational complexities due to time zone differences.

The AGC would welcome hosting a consultative conference call with SEBI with representatives of our member bank group in India on the call, to discuss these concerns and any other market developments in India that increase the prominence that the Indian market has with foreign investors.

Thank you.

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 followed by a horizontal line.

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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