



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

17 January 2024

Shri Suman Kumar, Assistant General Manager
Shri Dhanush Kumar Reddy, Manager
Securities Exchange Board of India

Email: sumank@sebi.gov.in
dhanushs@sebi.gov.in
mrd_pod3@sebi.gov.in

Dear Mr. Kumar and Mr. Reddy,

Re: Consultation Paper on Introduction of optional T+0 and optional Instant Settlement of Trades in addition to T+1 settlement cycle in Indian Securities Markets

The Association of Global Custodians¹(AGC) is grateful for the opportunity to respond to the Securities Exchange Board of India's (SEBI) Consultation Paper on the captioned subject issued on 22 December 2023.

The AGC sincerely apologizes for our late submission, due to the Festive Season and subsequent holiday lag and hope that you will still accept it.

As AGC member banks act only in a post-trade capacity, we have limited our response to that area of activity.

However, ASIFMA, who advocate for the Buy Side of the market, have shared with us their submission. We fully agree with that detailed submission.

We would like to highlight a couple of key concerns contained in our submission:

¹Mr. Rafizain Rafii, Chairman, The Association of Global Custodians, Asia Focus Committee, c/o Northern Trust, One George Street, #12-06, Singapore 049145

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 member banks of the Association 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.

For more information visit www.theagc.com

The bifurcation of the market during Phase "1", when settlement through custodian banks does not feature and possible issues that may arise in Phase "2" with overall FX strategy as a consequence of FPIs having to prefund their trades.

Bifurcation of the market:

Although in phase "1" optional T+0 settlement will only involve domestic retail investors and, therefore, at first glance local institutional and foreign investors (FPIs and FIIs) should not be concerned, there will be two settlement systems, T+0 and T+1, running side by side. Such bifurcation could result in unforeseen ramifications and implications for liquidity.

FX Strategy:

T+0 and instantaneous settlement will require trades to be pre-funded. The immediacy of funding requirements will no doubt involve nearly all FPIs in revising their funding strategy. Some perhaps will decide, because of optimism about the stock market direction and/or the future value of the INR, to undertake very significant FX transactions and hold considerable long balances on their accounts. For non fully convertible currencies like the INR, if there are a large number of FPIs increasingly following this strategy, this could result in unforeseen economic consequences from a too strong local currency.

Then there could be the reverse situation, when optimism changes to pessimism and suddenly those long balances are swiftly run down causing an unwelcome and unprepared for sudden weakening of the currency.

We contend that this is a credible consequence of the imperative to prefund if the market moves to T+0 and instantaneous settlement.

We also predict in a prefunding environment for a non-convertible currency that the volume of Non-deliverable forward contracts utilised by FPIs will increase considerably which possibly the Reserve Bank of India and the Ministry of Finance may find unwelcome.

Thank you.

Yours sincerely,



Robert Edwards, (as attorney in fact)
For and on behalf of, Mr. Rafizain Rafii,
Chairman, Asia Focus Committee,
The Association of Global Custodians.

(rob@asiafacilitators.com)

(rr178@ntrs.com)