Name of the person/entity proposing comments:	Mr. Rafizain Rafii, Chairman, Asia Focus Committee, The Association of Global Custodians
Name of organization:	The Association of Global Custodians
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Category: whether market intermediary/ participant (mention type/category) or public (investor, academician, etc.)	Market intermediaries: An association of 12 major Global Custodian Banks

Comments on the Proposals at Annexure-A

S. No.	Relevant paragraphs/ sub-paragraphs of proposals mentioned at Annexure A	Concern/issues	Rationale
1	**Basic Propositions:**	Technology: We think any move to accelerate settlement to T+0 without the necessary technology infrastructure in place, could have very serious consequences.	In a T+0 settlement regime all parties to the settlement process need to know at any given time the status of the trade so that potential fails can be rectified in real time. Otherwise it is very reasonable to predict that the number of failed trades as a percentage of all trades will increase significantly. This could likely have very serious knock-on consequences. There could be broker credit issues. Market confidence could plummet as a result.
		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	The implementation of T+1 in India was a signal achievement and has proven to global investors the undoubted expertise and endeavour present to improve India's capital markets and infrastructure. Since 1 February 2023 things have gone remarkably well. Congratulations are due. However, it has taken some time for FPIs, overseas brokers and custodians to adapt. Work still needs to be done by many

		implications for liquidity.	participants to automate manual processes that are in place to cover India settlement. We strongly think that the introduction of T+0 and instantaneous settlement so relatively soon after the implementation of T+1 might be a mistake and could be too much for FPIs, international brokers and custodians to absorb. Although settlement through custodian banks will not commence until Phase “2”, the fact of the matter is two different settlement regimes will be running side-by-side. SEBI states in the Consultation Paper that “It is observed that high percentage of retail investors bring upfront funds and securities before placing the order. For the period June 2023, for around 94% of delivery based trades with value up to INR 1, 00,000 per transaction, investors made early pay–in of funds and securities.” By introducing two settlement cycles, even with one being optional, market fragmentation will almost certainly occur and there could be attendant liquidity challenges between the two.
		<u>FX Strategy</u>: 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 FPIs 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 contacts utilised by FPIs will increase considerably, which possibly the Reserve Bank of India and the Ministry of Finance may find unwelcome. According to BIS data, the growth in activity in this segment has surpassed both the impressive rise in rupee denominated forex transactions as well as investment inflows: "Evolution of the INR NDF Market" by Payal Ghose and Rati Rahu [July 2023 Rakshitra Final.cdr (ccilindia.com)]

Comments on other queries mentioned at paragraph VIII(ii)

Question		Answer/concern/issues	Rationale
VIII.ii.a	**Should SEBI move towards a shorter settlement cycle in the form of instant settlement?**	This is a very important question from a strategic perspective . It depends upon whether SEBI envisages going forward a healthy balance between domestic and foreign investment in Indian capital markets.	We have outlined above under our "Basic Propositions", "Technology", that if indeed SEBI does envisage a healthy balance between domestic and Foreign investment, then it must have in place a system that allows all parties to the settlement process, at any given time, to access the status of the trade so that potential fails can be rectified in real time, **before implementing T+0 and instant settlement.** Otherwise it is very reasonable to predict that the number of failed trades as a percentage of all trades will increase significantly. This could likely have very serious knock-on consequences. There could be broker credit issues. Market confidence could plummet as a result.

	Is the proposed mechanism a right step towards developing and increasing investor confidence in the securities markets?	If implemented correctly with all participants confirmed as ready for Day "1", it is likely in a few years time that this will be a right step towards developing increased investor confidence. This scenario will require significant IT spend which probably smaller institutional investors will be unwilling to accept.	A significant number of leading markets in terms of volume, will need to move to T+1 settlement first and absorb all that goes with that, before even considering a move in the future to T+0. Regarding implementation of T+0 in markets globally, we tend to agree with SIFMA in this analysis which correctly asks the key question, "will the benefits outweigh the risk?" We also agree with this sentiment, "the law of diminishing returns applies: shortening the settlement cycle beyond one day embeds more risk without creating additional benefits available for widespread adoption across the industry. A T+0 settlement cycle isn't easily achieved by all industry participants due in part to their reliance on current business, infrastructure, and operational processes. A T+0 framework no doubt would impact the competitive landscape in a way that disadvantages market participants who are unable to make the investment or lack the scale to compete in such an environment, creating winners and losers across the industry and impacting competition. Smaller participants with limited resources would be at a competitive disadvantage to make the necessary investments." https://www.sifma.org/resources/news/t0-more-risk-fewer-benefits/
	Do you see any challenges	We have generally covered the challenges in our	

	and risks associated with the proposed mechanism apart from those highlighted in the consultation paper? If yes, please highlight the same along with possible mitigation measures	answers to the above two questions. At this juncture, we do not support a move to T+0. We would just add that there is very significant market and national esteem risk in the proposed move to T+0 and instant settlement. SEBI needs to be very clear about the risks involved if they decide to progress this initiative following this consultation.	