THE ASSOCIATION OF GLOBAL CUSTODIANS

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By Electronic Delivery
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RE: Margining of Equity Trades on T+0

Dear Sir:

We write on behalf of the members of the Association of Global Custodians (the "Association") with regard to the issues raised for foreign institutional investors ("FIIs") and their custodians by introducing margining or pre-funding of equity transactions on a T+0 basis.[1] These comments follow a recent meeting on this subject in your offices that included representatives of one of the Association's member banks, State Street Bank and Trust Co. We understand that, at the conclusion of that meeting, global custodians were invited to express again their views to the Securities and Exchange Board of India ("SEBI").

As you are aware, the Association sent comments to SEBI on April 14, 2008 and May 19, 2008 describing operational burdens and extra costs that T+0 margining would present and noting that such pre-funding requirements could detract foreign investors

[1] Members of the Association are listed on the letterhead above. As you know, members act as custodians for cross-border institutional investors world wide, providing custody services and asset-servicing functions through a global network of agents and subcustodians. Members provide these services to institutional investors that make active and substantial investments in securities listed and traded in Indian markets.

from investing in the Indian capital market. Although the earlier T+0 proposal has been deferred, members wish to reaffirm and supplement the prior Association comments.

T+0 Margin/Prefunding Requirements

With effect from April 21, 2008, SEBI implemented margins on institutional equity trades, including FII trades, on a T+1 basis. Although it proposed T+0 margining as of June 16, 2008, that proposal has been deferred. A succinct summary of the Association's comments follow below.

- Pre-funding in local currency by T+0 will require FIIs and their global custodians to effect trades in foreign currency markets before or by T-1. By advancing the financing deadline to that extent, an FII would be required to arrange for margin funds even before a trade order can be filled; and having to pay a settlement amount before executing the underlying trade would strain cash management, introduce new inefficiencies, and likely reduce fund investment performance.

- Requiring payment of margin on Trade Date would effectively deprive FIIs and their custodians of the benefit of post-execution review and affirmation of trade terms, which are standard first steps in establishing customer settlement instructions. Requiring margin payment on Trade Date would thus require FIIs and their custodians to base payment on the executing broker's contract notes or other informal memoranda. Such notes are of course preliminary and may not accurately reflect the customer's trade details. Authorizing inaccurate margin payments -- and doing so in advance of completing the confirm/affirm process -- and then correcting the trade and curing payment errors would present new credit risks and potentially systemic risk and may trigger regulatory complications for FIIs under applicable credit management regulations in other jurisdictions.

- Pre-funding on T+0 would also entail taking currency rate risks and increasing administrative costs. The complications of currency conversion and pre-settlement funding are amplified for the cross-border, global investment community, for which any tightening of the typical trading and settlement timelines would have disproportionate impact.

- In addition, since FIIs and their money managers are resident in various time zones, distant from the local custodian and exchange clearing house, delivery of funding instructions by an FII to its global custodian and in turn to the relevant sub-custodian -- all in advance of trade execution – would present custodians and FIIs with substantial operational challenges, as well as the increased uncertainties and related risks noted above.

- With respect to parity of treatment of FIIs and domestic investors, we note that FIIs face special (and additional) constraints – i.e., inability to borrow locally even on an intra-day basis. Because other international markets do not require pre-funding on T+0, introducing such a requirement in India would make Indian markets both more expensive and less desirable as an investment destination.

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In members' view, the above factors and considerations weigh heavily in favor of retaining the existing trade confirmation and margining practices and timeframes. Members would be pleased to discuss the foregoing comments at your convenience. If you have questions or would like additional information, please contact the undersigned at 1.312.861.2620 as an initial matter.

Sincerely yours,

Dan W. Schneider
Baker & McKenzie LLP
Counsel to the Association