

# ASSOCIATION OF GLOBAL CUSTODIANS

## Communication of the Association of Global Custodian's Asia Focus Committee<sup>1</sup>

8 November 2022

The Honourable Smt Madhabi Puri Buch,  
Chairperson, Securities Exchange Board of India,  
Mumbai,  
India.

**(Sent by e-mail to: [chairman@sebi.gov.in](mailto:chairman@sebi.gov.in))**

Dear Ms. Buch,

### **T+1 Settlement for Foreign Portfolio Investors**

The Association of Global Custodians<sup>2</sup> (AGC) member banks are most grateful to you for the extensive time you have taken-out of your busy schedule since you took office as Chairperson of the Securities Exchange Board of India (SEBI), to listen and address our concerns, and those of our Foreign Portfolio Investor (FPI) clients, on the implementation of T+1 settlement in India.

In May you requested representatives of the six member banks providing custodial services in India, the sub-custodian group, to let SEBI have certain data that could assist you to evaluate those concerns. This data was submitted along with that provided by local stakeholders, including brokers and the clearing corporations.

We are further grateful, as a result of follow-on consultations with the sub-custodian group and the Clearing Corporations, that from 19 September 2022, for T+1 Settlement, the revised confirmation timeline has been 7:30am IST on T+1. This will be a very significant improvement for foreign investors, especially for FPI's located in the Asia-Pacific.

However, the AGC and its FPI clients still have some concerns on potential issues when the list of further eligible stocks for T+1 settlement of stocks is announced from 25 November 2022 onwards.

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

<sup>2</sup> 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 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.

It is from that juncture that market participants involved in FPI trade settlement will collectively start facing for the first time a very condensed processing time with resultant challenges.

An unintended consequence may arise of increased FX costs: potentially FPI's may see the need to undertake FX earlier on trade date during regular FX hours, which would create additional currency exposure and cost of doing business in India. They may well do this because they anticipate FX price discovery between 6:00m and 7:30am on T+1 will result in wider spreads.

This was one of the key reasons why, via our six member banks providing custodial services in India, acting as a group in their meetings with the Clearing Corporations and SEBI, we have advocated that the trade confirmation time be aligned nearer the normal FX market opening time. This arrangement will also remove the need (and consequently cost) for the entire industry to arrange manpower to support the early morning activities to meet the 7:30 am T+1 cut off time.

However, the AGC understands why SEBI wants to observe initially what transpires in the first three months or so following FPI increased involvement in T+1 settlement, before undertaking a further review of the confirmation cut-off time. In this regard, the AGC, through its member bank group in India, wishes to work with SEBI and the RBI, to monitor closely any liquidity challenges surrounding sizable FX deals having to be executed at or around 6:00am IST and any knock-on credit issues that perhaps may be alleviated by temporary credit policy changes. This will be especially important for exception trades that, for whatever reason, fail to match by the 7:30am IST cut-off time.

In regard to margin provisions on T+0 for Non-Institutional Investors', FPI Cat 2, in the light of the significant reduction of settlement exposure following the implementation of T+1 settlement and that this category of investors are typically managed by foreign fund managers (which on their own would generally qualify as Institutional Investors), requiring cross-border, different time-zone processing, we request SEBI to give due consideration to cancelling the margin requirement. Ostensibly this category of investor nearly always have to undertake early pay-ins on trade date to avoid failed trades.

The AGC fully understands why and supports SEBI's quest to reduce settlement risk exposure in the market. We wish to work with you in this regard to avoid, in respect of FPI trades, settlement risk increasing as a result of condensing settlement and FX processes from T+2 to T+1.

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

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