

## Regulation of Indian Clearing Corporations

### Why in news?

Recently European Securities and Market Authority (ESMA) de-recognized six Indian Clearing Corporations due to “no co-operation arrangements” between Indian regulators and ESMA.

### What are Clearing Corporations?

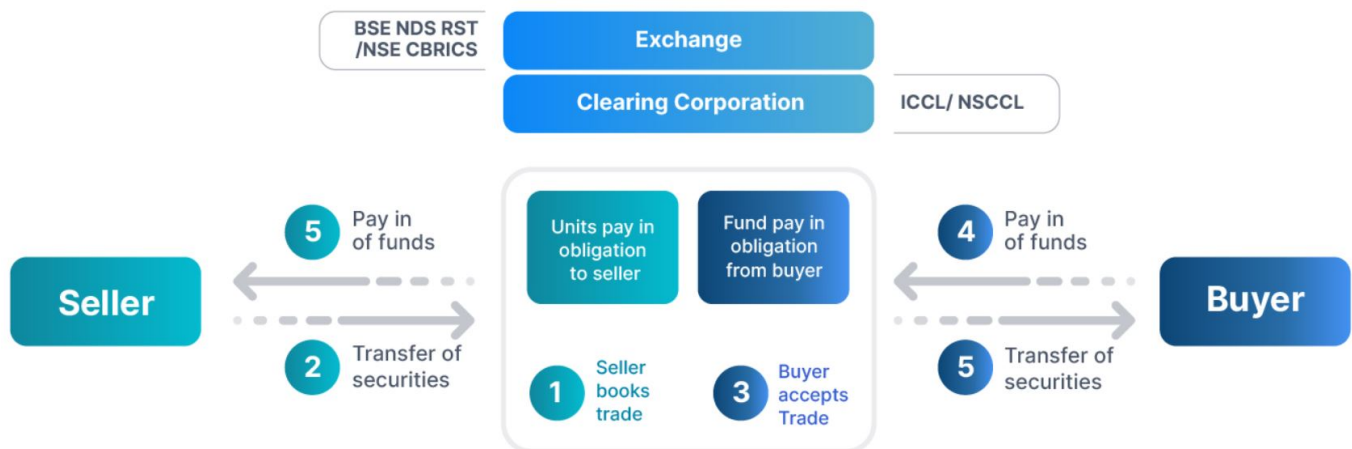
- **Securities contract (regulation) (Stock exchange and clearing corporation) regulations, 2018]** - Section 2(d) of the regulation, 2018 *defines* clearing corporation as
  - Entity that is established to undertake the activity of *clearing and settlement of trades in securities* or other instruments or products that are dealt with or traded on a recognized stock exchange and includes a clearinghouse.
- **Market Infrastructure Institutions (MIIs)** - Stock exchanges, depositories and clearing corporations are collectively referred to as Market Infrastructure Institutions (MIIs).

*According to the Bimal Jalan Committee (2010), these institutions are systemically important for the country's financial development and serve as the infrastructure necessary for the securities market.*

- **Role of Clearing Corporations**
- **Clearing** - Clearing is a process when the organization acts as intermediary and it also assumes the role of the buyer and seller in order to ease the transactions that occur in the trade.
- It also includes all the activities that occur from the moment when the trade starts to till the final stage when the trade is settled.
- **Settlement** - The moment clearing comes to an end, settlement begins.
- The settlement agency receives securities from the seller who wants to sell his securities and receives cash from buyers who want to buy securities and settles among them.
- **Clearing corporations under SEBI**
  - Indian Clearing Corporation
  - Metropolitan Clearing Corporation of Indian Limited
  - Multi Commodity Exchange Clearing Corporation Limited
  - National Commodity Clearing Corporation Limited
  - National Securities Clearing Corporation Limited
- **Clearing corporation under RBI**
  - The Clearing Corporation of India

- **Clearing corporation under International Financial Services Centres Authority (IFSCA)**

- India International Clearing Corporation
- NSE IFSC Clearing Corporation



### What is ESMA?

- European Securities and Market Authority (ESMA) is the *European Union's financial markets regulator and supervisor*.
- ESMA protects the investor and promote stable, orderly financial markets.
- The members include National authorities responsible for securities markets in each EU country.

### What is the issue?

- **Issue** - The whole issue started in 2013 when ESMA de-recognized six Indian clearing corporations (CCs) on the basis that these entities were not registered in the EU.
- There is no co-operation between ESMA and the Indian regulators on the issue.
- ESMA has stated that European banks will continue to conduct business with Indian Clearing Corporations after April 2023 but there will be a penal capital charge on these transactions.
- **Government's stand** - ESMA's threat is unreasonable since all clearing corporations are well-regulated in India.
- *SEBI is a member of IOSCO* (International regulators body) and signatory to several multilateral agreements.
- Indian markets have **T+1** and net basis settlement for nearly two decades.
- Clearing corporations in India are separate legal entities with robust settlement guarantee funds, comparatively better than some in the EU.
- **Impacts** - Registering with ESMA will give the right and power to deeply supervise them.
- Giving ESMA to audit them will *expose the country's financial markets Data*.
- The impact of penal charge could be that European banks reconsider acting as custodians in India.

## References

1. [The Hindu business line | Clearing Corporations](#)
2. [The Hindu business line | \(ESMA\)](#)
3. [Yubi | Bonds Settlement Process](#)

