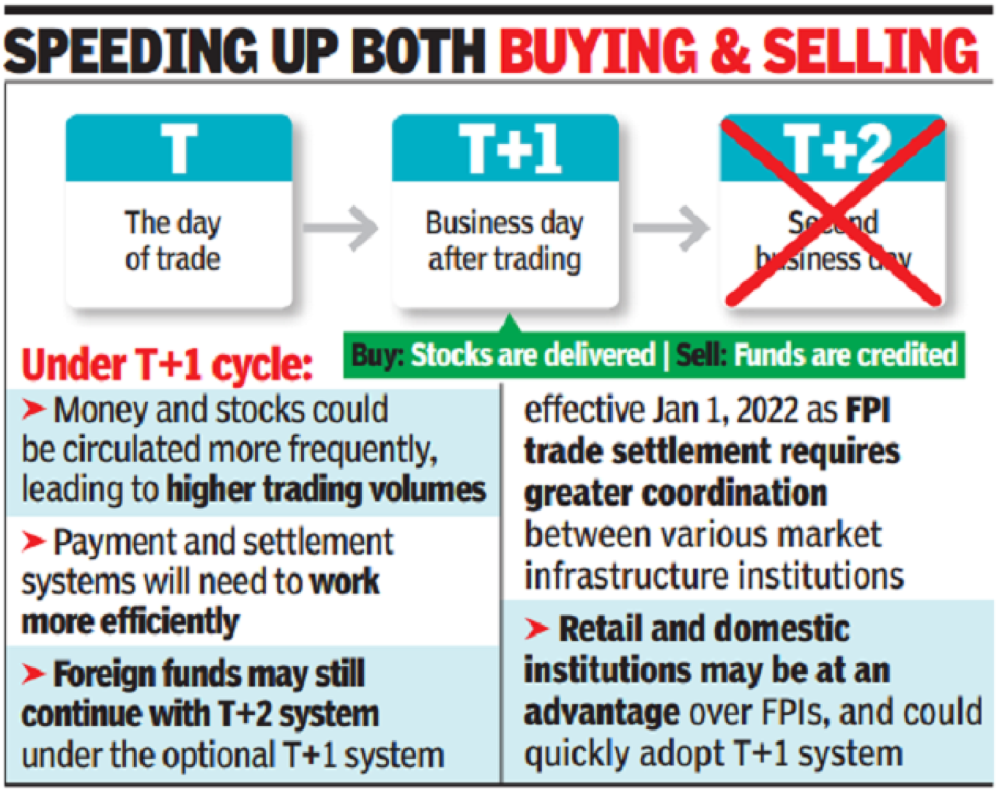
T+1 settlement system

Why in news?

SEBI has allowed stock exchanges to start the T+1 system as an option in place of T+2

How the system works?

- In T+1, settlement of trade takes place in one working day and the investor will get the money on the following day.
- In T+2, settlement of trade takes place in two working days. The broker who handles the trade will get the money on 2nd day, but will credit the amount in the investor's account only on 3rd day
- If a stock exchange opts for T+1 settlement cycle, it has to mandatorily continue with it for a minimum 6 months.
- Thereafter, if it intends to switch back to T+2, it can do so by giving one month's advance notice to the market



What is the need for T+1 settlement system?

- A shortened cycle reduces the settlement time
- Frees up the capital required to collateralise that risk
- Reduces the number of outstanding unsettled trades at any instant
- Narrow the time window for a counterparty insolvency/bankruptcy
- Reduces the systemic risk

Why are foreign investors opposing it?

- Operational issues due to different geographies - time zones, information flow process, and foreign exchange problems
- Difficulty to hedge the net India exposure in dollar terms at the end of the day under the T+1 system

What's the global scenario?

- **The US Depository Trust & Clearing Corporation (DTCC) highlighted the immediate benefits of T+1, including cost savings, reduced market risk, etc.**

- **DTCC estimates that a move to T+1 could bring a 41 per cent reduction in the volatility component of National Securities Clearing Corporation's margin**

- **In order to move to T+1, industry participants must implement the necessary operational and business changes and regulators must be engaged**

Source: The Indian Express