

## T+1 settlement system

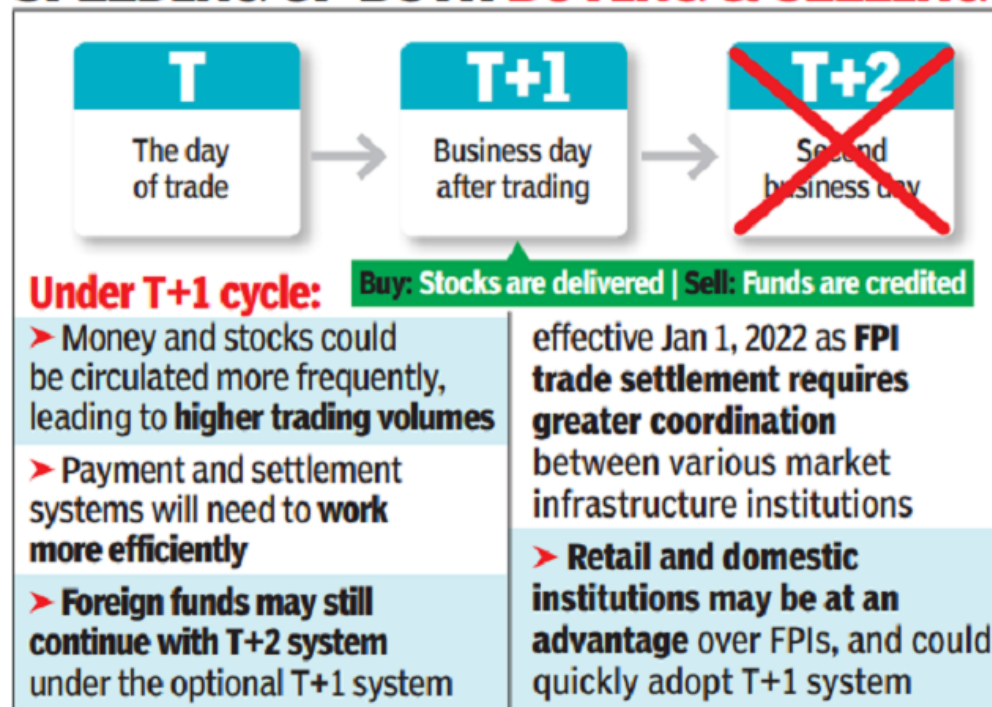
### Why in news?

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 2<sup>nd</sup> day, but will credit the amount in the investor's account only on 3<sup>rd</sup> 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

## SPEEDING UP BOTH BUYING & SELLING



### 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**