Open Letter to Securities and Exchange Board of India from Foreign Portfolio Investors (FPIs) on T+1 settlement

The Honourable Shri Ajay Tyagi
Chairman, Securities and Exchange Board of India

September 30, 2021

Dear Chairman Tyagi,

Representing foreign portfolio investors ("**FPIs**") from around the world whose investments account for US$655 billion or roughly 20% of India's market capitalization, we are writing this open letter to express our position on India's move to a T+1 settlement cycle as set out in the Circular dated September 7, 2021 (the "**Circular**") issued by the Securities and Exchange Board of India ("**SEBI**").

The undersigned and the FPIs that we represent fully recognize and appreciate the desire of certain equity markets, such as the U.S. and India most recently, to shorten their settlement cycle to improve market liquidity and reduce settlement risk in their market. However, it is important also to bear in mind risks not only to investors but also to brokers, custodians and other market participants arising from failed trades or failed settlement that may impact the market as a whole due to the shortened settlement timeframe. It would have been helpful if FPIs represented by the undersigned associations were consulted or at least have had an opportunity to engage in dialog with SEBI, the two stock exchanges, the two clearing corporations and the two depositories in India before the Circular was issued.

Migration to a T+1 settlement would require changes that are significantly more complex and costly (as supported by research conducted by the Boston Consulting Group in 2012 and by the World Bank specifically on India in 2013), requiring among other things end-to-end process redesign and substantial technology investments and enhancements to support near real-time processing capabilities and necessitating an extended migration timeline. This is particularly true for overseas investors (such as those based in the U.S. and Europe) investing into a local market (such as India) due to time zone differences and the involvement of multiple parties (such as global and local custodians, FX banks and brokers) in different jurisdictions. We know that at least 64% of the FPIs investing into the India market are from non-Asia jurisdictions, which means that they are even more affected by a shortened settlement cycle in India.

In the U.S., for example, after the Securities and Exchange Commission ("**SEC**") supported the move from T+3 to T+2 settlement, it took the industry two years to develop the necessary processes and procedures and conduct the necessary testing before the move was achieved. When it was proposed in early 2021 that the U.S. move to a T+1 settlement, a similar 2-year timeline for the change was planned and industry participants are working hard to meet the 2023 timeline.

FPIs are ready to work with SEBI, other regulatory authorities and market participants to identify and find solutions to the numerous operational (such as cut-off times for trade confirmations, funding, and securities borrowing and lending facilities to avoid failed trades or failed settlements) and business challenges (such as pre-funding, allocation and tracking error) that come with a shorter settlement cycle to ensure that India's migration to a T+1 settlement can be achieved with little disruption or risk to the market and to preserve the market's attractiveness to FPIs.

Therefore, we strongly urge SEBI to delay the coming into effect of the Circular that is scheduled for January 1, 2022 so that all stakeholders have sufficient time to identify, come up with, test and implement the operational processes and procedures required to safely implement a T+1 settlement model in India.

Sincerely,

asifma Growing Asia's Markets [1]   TRADER FORUM ASIA [2]   THE INVESTMENT ASSOCIATION [3]

1 Asia Securities Industry & Financial Markets Association (ASIFMA) is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. ASIFMA's Asset Management Group's 37 members are among the world's largest asset managers, many of which are headquartered in the USA and Europe.

2 Asia TraderForum (ATF), founded in 2011, is a membership group for buyside equity traders in the Asia Pacific region.

3 The Investment Association (IA) is the trade association that represents the United Kingdom's investment management industry. The IA's 250 member firms manage £9.4 trillion on behalf of savers and investors across the world.