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Name of organizations (If applicable)	Asia Securities Industry & Financial Markets Association ("**ASIFMA**")
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Category: whether market intermediary/ participant (mention type/ category) or public (investor, academician, etc.)	Public – Capital Markets Industry Association

Comments on the Proposals at Annexure-A

S. No.	Relevant paragraphs/ sub-paragraphs of proposals mentioned at Annexure A	Concern/issues	Rationale
1	**Basic Propositions**	As set out in more detail below, our main concern with the introduction of an optional T+0 and an optional instant settlement cycle in the Indian cash equities market is bifurcation of the market and liquidity fragmentation. We are also particularly concerned about the timeline for the introduction of these two optional phases, especially Phase 1 Instant Settlement, as they may give rise to unintended systemic risk without the proper systems and operations in place for all market participants.	We are not aware of any major cash equities market in the world that has a dual settlement cycle nor many that have as short of a settlement cycle as T+0 and instant settlement. While India should be commended for being one of the first movers in accelerated settlement, which we note is a global trend, we urge caution if India moves too fast ahead of the rest of the major markets which are also competing for foreign investments.

			The US will be moving to T+1 this May after the intention to do so was first announced in February 2022. With less than four months left, global asset/fund managers in the EU, UK and Asia are still trying to grapple with the issues and problems that may arise for them from such a move[1]. Noting that there is increasing interest among global asset and fund managers in investing in the Indian market, we would like to suggest that SEBI wait to see the impact of the US move to T+1 settlement on foreign investment in that country before proceeding to an even shorter settlement cycle in India. Even if SEBI decides to proceed with Phase 1 Optional T+0 settlement before then, we strongly urge SEBI to wait to see its impact on liquidity and consult again the public before proceeding to Phase 2 Optional Instant Settlement.
2	**Phase 1: Optional T+0 settlement**	We understand SEBI's proposal to exclude from Phase 1 Optional T+0 Settlement clients settling through custodians is due partly to consideration for foreign portfolio investors (**FPIs**) who already found it challenging to move from T+2 to T+1 settlement. We also understand that domestic "institutions" (e.g., mutual funds, insurance companies, pension	We will address the market fragmentation, market quality and other issues in more detail in the second part of our response. If the ultimate goal for SEBI is to move the whole market to T+0, it would be better to focus on how this can be achieved with the least amount of disruption and costs to the market and its participants instead of

[1] See European Buy-side Reflections on US T+1: Preparedness and Impact (9 August 2023), UK's The Investment Association briefing paper (October 2023) and GFMA's FX Considerations for T+1 US Securities Settlement (May 2023))

		funds) and even some non-institutions (e.g., portfolio management services, alternative investment funds) are required by SEBI and/or the stock exchanges to appoint a custodian to settle their transactions. Hence, for Phase 1, they will also not be able to participate in optional T+0 settlement. However, introducing optionality in settlement cycles in either case means that India will have two settlement cycles, one on T+0 and another on T+1. A market that has two settlement cycles will give rise to a number of issues, such as bifurcation of the market, liquidity fragmentation, deterioration of market quality, that no investor would want to see. We are not aware of any major equity market that fragments liquidity on account of different settlement dates. When there are multiple settlement date options in other markets, trading and execution are still centralized on a single order book where all investors access the same pool of inventory with settlement time selection occurring post-trade.	bifurcating the market, which we believe is very likely to happen with the introduction of an optional T+0 settlement. Though the transition from T+2 to T+1 settlement was not without challenges for FPIs, many could still use the same trading and settlement processes, albeit with extended deadlines from their brokers and custodians and crunched processes. However, the move from T+1 to T+0 (and instant settlement) will require a complete overhaul of the trading and settlement processes of FPIs that trade globally in numerous markets (many of which are just starting or thinking to move to a T+1 settlement) and the banks, brokers and custodians that service them. Not to mention the inevitability of pre-funding which is something that most if not all global asset and fund managers need to avoid for the reasons mentioned later in this response.
3	2.3.1 Exchange shall create a separate series/group/scrip code for T+0	Clarification/demonstration requested on 2.3.1 to help the industry understand the full process of trading to post-trade under T+0. This is because the use of multiple series/group/scrip codes may require material system enhancements as well as workflow and exception process redesign from trading to	A full end-to-end walk from trading to post-trade is required to ensure all involved would understand the different market scenarios as a result of counters with multiple codes for T+0 and T+1, how trades should be matched and the new settlement arrangements. This is to identify the new workflows and system enhancement needs by the industry, and to estimate

		settlement and asset servicing including treatment of ex-date of corporate actions by different counters.	a reasonable time required for such changes to be implemented.
4	**Phase 2: Optional Instant Settlement**	Optional instant settlement means that all investors in the market (both domestic and foreign), their brokers, custodians, banks and other service providers, as well as their operations and systems are able to interact with each other on an instantaneous basis. We expect that this will take time and be very costly for those market participants (e.g., banks, brokers and custodians) that have clients trading in the different settlement cycles or segments. They will have to build a new or adapt their existing systems and operations to accommodate these clients for two different settlement cycles. For example, a full end-to-end change from trading to post-trade is required to ensure all involved understand the different market scenarios as a result of multiple codes for T+0 and T+1. Instant settlement, undoubtedly, will be a particularly big challenge for global fund managers, not only because they are located in different time zones and are subject to the timing of transactions in other jurisdictions that precede their transactions in India but also because they usually manage and invest for numerous funds. This means that instant settlement may not be an option for FPIs for a long time and that market liquidity can be expected to be fragmented in India.	If India expects and wants to attract foreign investment in their equities market, it is unrealistic to expect FPIs and the broker and custodians that service them to have systems and operations (suitable for use for most markets in the world) to be aligned with India's without a great deal of expenditure of time and human and financial resources by them. Assuming some FPIs are prepared to settle on T+0 or instantly, how will it work for them? Below are some questions that it would be helpful to have answered. For example, • Who will do account-by-account checking for cash (for buys) and stocks (for sells) prior to trading? Will broker and custodian accounts have to be linked to the exchanges or other platform for this? • If stocks have to be pre-delivered, how will the counterparty risk be addressed? Will they be pre-delivered to one broker and how can investors nimbly select brokers on a best execution basis? • If cash have to be pre-delivered, how will the counterparty risk be addressed? Will India put in place a centralized system where available

		We would like to highlight that index providers like MSCI and FTSE might take into account institutional investors’ concerns in their assessment of the accessibility of a market when constructing their indices. If it turns out that a substantial portion of the India cash equities market moves to T+0 settlement or instant settlement, which FPIs may not be able to do, this may have ramifications for India’s country weight in these global indices.	cash and stocks can be checked by the relevant parties (e.g., brokers, custodians)? • With all investors (FPIs and retail investors) having an option to settle on T+1 or instant settlement, would they have to indicate which settlement cycle at the time of onboarding or at the time of each trade? The latter will lead to change in the funding model and result in investment opportunity cost to the investors. • Under instantaneous settlement, how could global fund managers achieve average pricing across all their funds which is key to best execution and compliance with their fair allocation policies. Global fund managers buying and/or selling for numerous funds are under a fiduciary duty to treat their funds and clients fairly.
Comments on other queries mentioned at paragraph VIII(ii)			
S. No.	**Question**	**Answer/concern/issues**	**Rationale**
VIII.ii.a	Should SEBI move towards a shorter settlement cycle in the form of instant settlement?	As an association which represents many FPIs who are interested in investing in India’s equities market, a shorter settlement cycle, either in the form of T+0 or instant settlement, would be very challenging for FPIs due to time zone differences since India is already ahead of the US and Europe by half a day or more.	While a move to instant settlement may be desirable from the perspective of domestic retail investors as well as SEBI, we hope that SEBI would consider the increasing interest of global asset/fund managers in investing in the India market and the challenges for FPIs that are based in different time zones as well as their funding challenges when investing in a market

		<u>Funding issues</u> Instant settlement will definitely mean pre-funding for FPIs as they will need to exchange in advance their home currency for Indian rupees (**INR**) when the settlement amount for an India equities transaction has not even been determined. Pre-funding is less of an issue for domestic retail investors who can easily do it on the same day while FPIs will have to pre-fund at least one or two days before due to time zone differences and the need to go through multiple parties such as their broker, global custodian to local custodian and foreign exchange bank. This is of particular concern to FPI funds which typically fund their investments in India with proceeds from the sale of investments in other markets that settle on T+1 or more commonly on T+2 or even T+3.	with a shorter settlement cycle than the other markets in which they invest. **<u>Why Pre-funding by FPIs should be avoided</u>** The consultation suggests that pre-funding is not an issue for retail investors as 94% of them make early pay-in of funds and securities. However, pre-funding is a big issue for FPIs, especially FPI funds that track indices because it reduces operational flexibility, ability to react to liquidity opportunities as they arise and can create issues for fund mandates if excess capital is held in local currency (e.g., INR). FPIs will have to consult with their global custodians to determine whether they will be able to extend intra-day credit lines to reduce the impact of mandatory pre-funding. In addition, we would need SEBI's help with RBI to see if brokers can be allowed to facilitate such pre-funding for FPIs as part of the "ease of doing business" initiative.
VIII.ii.b	Is the proposed mechanism a right step towards developing and increasing investor confidence in the securities markets?	No, a bifurcated market with different segments presents a lot of issues and risks not just for particular investors but the market as a whole. Highlighted below are some of the most important risks that we see. **A. <u>Market fragmentation</u>** While many markets have multiple stock exchanges which can lead to fragmentation, India's market has	**A. <u>Market fragmentation</u>** Market fragmentation clearly gives rise to liquidity risk which is not good for any market. Most investors as well as regulators want to see a liquid market, which, among other things, comes with a diversity of investors and market participants. Currently India's equity market has a broad base of participants, including retail or individual investors,

low venue fragmentation because nearly all stock trading activity occurs on one "lit" exchange. According to SEBI's own data as of 31 October 2023, 93% of all market turnover in cash equities occurs on the National Stock Exchange (**NSE**) even though trading also occurs on the Bombay Stock Exchange (**BSE**). *(See Table below*)

Table: Distribution of Turnover in Indian Cash Markets by Exchange (INR million)

Distribution of Turnover In Indian Cash Market By Exchange (INR million)		
Stock Exchanges	Oct-23	% Share
BSE	1,000,345	7%
MSEI	2	0%
NSE	**13,435,190**	**93%**

Source: SEBI Data, Distribution of Turnover in Cash Segments

By introducing two settlement cycles, even with one being optional, market fragmentation will almost certainly occur since SEBI states in the consultation paper that a high percentage of retail investors are able to settle on T+0 and even instantaneously given that around 94% of delivery based trades with value up to INR 1,00,000 per transaction are made by investors with early pay-in of funds and securities.

We suspect that when T+0 settlement is introduced, many retail brokerages will not have developed smart order routing systems or services or sophisticated best execution analysis to enable their clients (i.e., retail investors) to make an automated decision to trade on the T+0 or T+1 segments. Even if they have, it is envisaged that retail investors,

local proprietary traders, foreign investors, domestic institutional investors, corporates and others. (*See Chart below*)

Chart: Percentage of Market Turnover by Participant Category

Source: Data for National Stock Exchange of India

Each of these types of participants makes up a material part of the market with no single investor type dominating the market. Such diversity of investors, particularly the interaction between institutional and retail investors, has been cited by many researchers as one of the key contributors to liquidity.

Encouraging a diverse investor base was one of the key recommendations of the Oliver Wyman & World Federation of Exchanges (**WFE**) 2016 report on Emerging Markets. The WFE noted in a follow up paper in 2020 that such diversity in investor base is

		representing 34.8% of the India equities market turnover, will choose the T+0 segment to trade on resulting in most of the liquidity being concentrated in that segment. **B. <u>Market quality</u>** SEBI acknowledges in the consultation paper that liquidity fragmentation is a concern but that there will be participants who can access both T+0 (or instant settlement) and T+1 markets and would bridge price and liquidities gap between the two segments. We understand that on days where there is a mismatch of liquidity between the different segments, it is envisaged that these arbitrage operators will step in to transfer liquidity from one segment to the other. We can expect a cost to be associated with such transfer. 1. <u>Higher costs</u> Any time a movement of liquidity occurs, there is a cost that is associated with that, and this mechanism results in an additional liquidity transfer layer that will come with associated costs. These liquidity costs will be embedded implicitly within the trading costs and will be borne by the end investors, resulting in them effectively paying more for the same outcome.	essential to "ensure the health and vibrancy of financial markets". See also WFE's <u>Retail trading: an analysis of global trends and drivers</u> (September 2022). **Diversity of market participants** not only leads to a deeper liquidity pool but also reduces price volatility and market risk. This is because a diversified base of investors with different time horizons and approaches lowers the risk of highly correlated trading activity by one set of participants. **1. <u>6 Lac Series Precedent</u>** A proxy for an increase in market fragmentation and a decrease in diversity of participation can be found in the previous 6 Lac Series which was discontinued in July 2018. This was a separate window where both domestic and foreign investors were able to buy but only foreign investors were able to sell. This became known as the "foreign board" even though domestic investors could buy in it. Experience showed that often trading was limited only to a sub-set of FPIs and there was no convergence of all participants. The relevance of the 6 Lac precedent is underscored by the fact that foreign investors have, in the past few years, been net sellers in the secondary equity market whereas domestic investors have been significant net buyers. For example, in the secondary equity markets, FPIs were net sellers in aggregate in 2022.

		Additionally, as the market will become more complex, the likelihood is that an additional risk premium for trading in the Indian market will be embedded over and above the additional liquidity costs, once again will be borne by the end investors. This impacts all participants, FPIs and retail investors alike. For the former, they may only be able to transact on the T+1 segment of the market (for the reasons mentioned in this response) which may not represent the majority of liquidity for many stocks. Moreover, on heavy trading days, such as during index rebalancing, the costs for sourcing liquidity are likely to be particularly high. For the latter, they will likewise only be able to transact with a limited pool of investors, leading to worse pricing outcomes. 2. <u>Arbitrage limitations</u> The proposed bifurcated settlement model also seems to rely on only a subset of the arbitrage community to re-distribute liquidity between the two settlement segments. It is unusual for a major market to rely on open market arbitrage for such an important task especially when there are other potential options to allow T+0 and T+1 settlement to co-exist. The consultation paper seems to assume ready availability of inventory from arbitrageurs to offer stock in T+0 segment and purchase in T+1. Arbitrageurs will have to first locate inventory to be	To use the 6 Lac Series as a gauge of the market with two segments, below is a scenario analysis using Bloomberg data, on both liquidity and spreads (effectively the "cost" of trading on either side of the bid/ask spread) in the 6 Lac window. [Insert as footnote: We are not aware that this data is still maintained with the exchanges publicly.] Using a 6-month window (between January 2018 and June 2018) before discontinuation of the 6 Lac Series, let us look at the most actively traded stock, HDFC Bank, on the 6 Lac Series (Bloomberg Ticker: HDFCB/FIN Equity). *(See Document below)* PDF Comparison of 6 Lac Series and Norm a. <u>Liquidity</u> Looking at the data for HDFCB/F, we found on average during the afore-mentioned 6-month window that liquidity was significantly lower than that of the normal trading window. On average each day HDFCB/F traded on the foreign board only 34% of the volume of the normal trading window. The standard deviation of trading volume was also high, indicating an inability for traders to accurately forecast volume on a separate segment. We fear that the T+1 segment, which is expected to be made up of mostly FPIs, will suffer the same decrease in liquidity

		able to form an offer price in the T+0 segment. Given the high costs to carry such inventory overnight, this may be a challenge. Also, since stock lending and borrowing (**SLB**) settlements are not currently at T+0 so inventory from SLB cannot be used. As mentioned later in the response, a mature SLB market could help mitigate this concern to a certain extent. 3. <u>Pricing discrepancies</u> Another risk with creating separate segments in a market is pricing discrepancies. With a different mix of participants and liquidity profiles, one segment may trade at a premium/discount to the other resulting in divergence in the price of securities. 2. <u>Not fair access to all investors</u> When liquidity is fragmented (such as across venues or different exchanges), global best practice provides that all investors be given "fair access" to any displayed quotes, which means that all investors and their brokers should have a reasonable opportunity to send orders and receive executions across the disparate order books. This would not be the case for FPIs under the optional T+0 proposal.	as the 6 Lac Series, when there is a separate T+0 segment. Such a decline in liquidity in the T+1 segment would make trades lengthier and more difficult to execute for FPIs. b. <u>Spreads</u> During the aforementioned 6-month period, we observed that the average bid/ask spread percentage per day for HDFCB/F was 0.34% higher compared to that in the normal trading window. Since spreads are one of the key ways to measure trading impact costs, based on the gross purchases and sales data for foreign investors in calendar year 2022, if spreads increased by this much on a separate T+1 settlement segment, it would lead to trading costs increasing by US$1.8 billion for foreign investors. The above analysis assumes that all of the gross purchases and gross sells occurred on the other side of the bid/ask spread ("far touch"). In practice, some trades might have occurred worse than current bid or ask, or in a better scenario on the "near touch" or at mid-market or via block trades. Nevertheless, bid ask spread analysis is a key way of measuring impact costs that investor face.) Similar spread analyses carried out for other commonly traded 6 Lac Series stocks, such as Kotak Bank (KMB/F) and MSIL (MSIL/F), during different time periods all show material increases in the cost of trading and decreases in liquidity.

2. <u>Dual exchange proxy</u>

Another proxy to understand the risk of separate settlement cycles in a single market is the dual exchange model of NSE and BSE. Both exchanges in India operate under a broadly similar model and regulatory environment. Despite these commonalities, NSE captures the lion’s share of India’s equity market volume. This alone highlights that liquidity should not be assumed to be fungible and can be highly sensitive to changes in variables.

Using data from Bloomberg for the Nifty 50 stocks over the last 30 days, let’s look at both liquidity and spread risks. *(See data as of 13 December 2023 for previous 30 days in Document below)*

Liquidity & spread

a. <u>Liquidity</u>

We found that on average per stock of the Nifty 50, BSE traded only 5% of the volume per day as opposed to 95% for NSE.

b. <u>Spreads</u>

We also found that on average per stock of the Nifty 50, BSE traded with 177% higher bid/ask spreads than NSE each day.

			As one can surmise from the foregoing, the less liquid a segment or window in a market, the higher the spreads and the more impact costs to the investors. This is even before a major variable change like different settlement cycles is introduced. **B. <u>Market Quality</u>** The consultation paper suggests that only a subset of market participants, i.e., high frequency traders and other sophisticated intra-day traders, will be able to straddle both the T+0/instant and T+1 segments. As noted in the Concern/Issues column, this will introduce an additional layer into what would have been a single transaction in a non-bifurcated market and represents a significant degradation in market quality by adding friction to what would otherwise be straightforward trades. It Is also pertinent to note here that local mutual funds with over $16 billion AUM corpus in “arbitrage strategies”, per AMFI data, will be precluded from participating in the envisaged arbitrage as local mutual funds are currently prohibited from doing intra-day trading. Intra-day trading already forms a large part of the market in the current environment. According to data published by SEBI in October 2023, currently such trades, which are executed are on an intraday basis (so called “non-delivery”), account for 78.9% of

			the total shares traded on the NSE and 74.1% on the BSE. (Source: Data provided in SEBI's monthly bulletin) There have been many studies done and papers written on whether an increase in such intra-day activities is likely to have positive or negative effect on market quality. We suggest that SEBI look into these studies. **1. <u>Higher Impact Costs & Volatility</u>** From some quick data analysis of the Nifty 50 done by us, it shows that the stocks with higher intra-day activity (illustrated by lower delivery volumes) have higher impact costs and experience higher volatility. (*See Charts below*) Charts **2. <u>Pricing discrepancies</u>** Another risk with creating separate segments in a market is pricing discrepancies. With a different mix of participants and liquidity profiles, one segment may trade at a premium/discount to the other resulting in divergence in the price of securities. This is not good for a healthy market.

			a. Price band We understand that India's T+0 price will be merely a "derivative" of the T+1 price which is supposed to be the base price from which all other instruments such as stock futures will be priced off. But we are not sure what this means in practice. For example, if an FPI executes a large block of shares on T+1 at a 2% discount, will the T+0 price be automatically adjusted? Conversely, if an FPI is able to trade on instant settlement in Phase 2, it presumably will not be able to cross any block liquidity that is more than 1% away from the T+1 base price. Since the retail market represents at least 34.8% of market volumes today, the price band means that FPIs will be impacted even more by inferior prices. We also think the proposed price band between the T+0 and T+1 segments of 100 basis points or 1% is wide, especially when compared to an average cost of two basis points if brokers and custodians were allowed to provide temporary funding to FPI for a day. If SEBI's objective is to move to a shorter settlement cycle of T+0, it may be better and safer to move the whole market and study the possibility of allowing brokers and custodians to fund trades for a day to address FPI challenges.

			b. <u>Large orders</u> Institutional orders rarely are completed in a day and often take multiples of that to get finished. For example, If an FPI has a large order that could take a day or more to execute, how would that work in an instant settlement scenario? Will each fill be instantly settled (i.e., thousands of fills = thousands of tickets booked, incurring thousands of booking charges per ticket) or will all fills be aggregated at the end of the day in the case of T+0 settlement? We cannot imagine how large orders will be filled with instant settlement. **3. <u>Fair Access to all investors</u>** Many global markets have introduced explicit regulation that orders must not trade at an inferior bid or offer with limited exceptions. These include REG-NMS (Best bid or offer) Rule in the US and Australia's ASIC Market Integrity Rules. Markets that have more implicit recommendations on the same include Japan FSA's Best Execution Rules. We are concerned that India's bifurcated settlement may give rise to issues for foreign asset or fund managers that follow global best execution standards.
VIII.ii.c	Do you see any challenges and risks associated with the proposed mechanism apart from those highlighted in the consultation paper? If yes, please highlight the	In addition to market/liquidity fragmentation and market quality issues highlighted in the consultation paper, we would like to raise the issue of signaling risks.	**1. <u>Signaling Risks</u>** The higher % concentration of activity on one segment (T+1) by FPIs is likely to lead to their (inherently large in size) orders being more easily

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	same along with possible mitigation measures.	**1. <u>Signaling Risks</u>** Institutional investors generally prefer an environment where information leakage is minimized to prevent opportunistic traders capitalizing on impending trades. Currently, FPIs trade in one continuous window where many different retailers, proprietary firms, domestic institutions, corporates come together. Under a bifurcated model, the T+1 segment will now have a much higher percentage of FPIs, given that retail investors are less likely to use this segment. This creates the risk of information leakage with the foreign investors' trades being more easily identified and traded upon by short-term participants, which will lead to an increased price impact for FPIs. **2. <u>Increased complexity to recover from settlement delays</u>** There have been instances when on account of unforeseen circumstances settlement of trades have been delayed at a market level (e.g., cyber-attack on one of the depositories in Q4 2022). Should such a scenario occur again in the future, with two distinct settlement cycles/mechanisms running concurrently, the recovery measures to be taken may get more complex.	"picked off" by some market participants. In other words, the proposed bifurcated model provides an informational advantage to these participants, which does not exist under the current market structure. **<u>2. Increased complexity to recover from settlement delays</u>** Market Infrastructure Institution (MIIs) will have to enhance their play book to handle such situations given the two segments.

VIII.ii.d	Should the proposed mechanism be made available only for top 500 listed equity shares?	Including only the top 500 listed equity securities or just a group of stocks in the dual settlement model introduces more operational complexities for market participants. Since FPIs are interested mostly in the larger listed equity shares, would it not make more sense to start with the lowest 500 listed equity securities as was done with the phased transition to T+1 to see its impact on liquidity in the two markets or segments before proceeding to include the larger equity shares?	
VIII.ii.e	Any other additional suggestions on the proposed mechanism	We believe alternative models should and could be considered if the ultimate regulatory intention is to shorten the settlement cycle to make the market safer and more efficient. There are other T+0 markets (e.g., China A-shares which settles on T+0 for securities and T+1 for cash) which FPIs are investing in because solutions have been found to address their pre-funding and other operational issues without having to introduce a dual settlement cycle which risks liquidity fragmented. We and our members would be happy to work with SEBI and the stock exchanges and clearing corporations in India to find solutions to ultimately move India's cash equities market to a shorter settlement cycle.	**A. Possible solutions to FPI issues** Set out below are some possible solutions to FPI issues and challenges that could lead to a shorter cash equities settlement cycle for all investors rather than a bifurcated settlement for retail and foreign investors: **1. <u>Option to extend settlement with broker</u>** As in the Mainland-China Stock Connect (**Stock Connect**), give FPIs the option to extend settlement with their broker(s), which effectively is extending overnight or temporary funding to FPIs to bridge the settlement gap, and allow brokers as well as custodians to do so. The industry will need SEBI's help to work with RBI and address the restrictive collateral requirements for bank financing to securities firms.

			2. <u>Custodian funding</u> Allow custodians to provide overnight or temporary funding to FPIs before their funds are received and exchanged for INR in India. **3. <u>Securities borrowing and lending</u>** SLB, as it exists today in India, is also not mature or sufficiently liquid to allow the borrowing of stock to offer in one window while simultaneously buying stock in the other window. Currently only intra-day traders can participate in this type of arbitrage activity. Furthermore, brokers are not allowed touse the SLB market to deliver shares for settlement for their clients in the first instance. Allowing market participants to extend SLB facilities to FPIs would be a solution. **4. <u>Same Day Use of Sale Proceeds</u>** The extent of overnight or temporary funding can be reduced by allowing same day use of sell proceeds and streamlining of the Capital Gains Tax (**CGT**) process. **5. <u>Net Buys with Sell Trades</u>** Due to the mismatch in pay-in and pay-out timing, sale proceeds currently cannot be used to fund buy trades by the same FPI on the same day. Allowing such use would reduce funding pressures for FPIs as

			well as reduce the cost of having to buy INR to settle purchases only having to sell INR again the next day when sale proceeds become available. This could be achieved with some of the changes suggested above. **B. Examples of Other T+0 Markets** Set out below for SEBI's consideration is an example of how China's T+0 settlement is able to work for FPIs: **<u>Stock Connect developed in 2014 offered flexibility to foreign investors accessing the market</u>** • The Stock Connect model relies on Hong Kong's clearing house (CCASS) which is a participant in the China onshore clearing system (CSDCC). Any shares that are purchased via the Stock Connect are held in the CCASS omnibus account in CSDCC with the investors' holdings recorded in CCASS. It is this model that provides the flexibility to fund trades and to accommodate foreign investor needs. • Settlement in Hong Kong follows the Continuous Net Settlement Model (CNS) which means that the exchange participant (broker) settles directly with the exchange and then settles via a separate settlement (SI) with the client.

			• The fact that the Hong Kong model has a separation between investor and clearing house means that a **broker in the middle handles pre-funding requirement and is able to offer extended settlement on buys**. • Sells settle on T0 in line with the China standard settlement T0 cycle. This ensures that there is no need for the complexity of a bifurcated market. • Other advantages Stock Connect provides are supporting omnibus trading which is not supported onshore.