**Keeping it short.... The Global Readiness of T+1 started in February 2023...**

India's success with T+1 has been well published and acknowledged globally. ***Institutional Investors from 61 countries continue to actively participate in India's T+1 settlement cycle since February 2023.*** From T+2 (2003) to T+1 (2023) it has been a welcome change in India followed by US, Canada, Jamaica, Mexico, and Argentina who rolled out T+1 in the week of 27$^{th}$ May 2024.

India followed a phased migration to avoid potential operational risk resulting from single day movement, others followed a one-shot migration. Both methodologies are right given the respective market peculiarities. Phased migration meant Clearing Houses carried out simultaneous settlements with two different settlement cycles T+1 and T+2 for different securities. The example of India is of experiments within the same market vs the US market which engages multiple jurisdictions (each guided by country specific factors). **Welcome to the ever-growing diverse club of T+1 settlements.**

NSE India's market Capitalization exceeded $5 Trillion on 24$^{th}$ May 2024, just as the number of investor accounts crossed 140 million. At a broad level, sustained and growing inflows into domestic Mutual Funds and AIFs, FPI investment inflows, political stability, robust microeconomic growth, better performances by corporates, increased IPO, advent and fast growth of digital discount brokers, net savvy investors, fueled market volumes.

Implementation of T+1 in India stands out given complexities arising from multiplicity of exchanges, clearing houses, and Central securities depositories (CSDs) that deal with multilateral netted Delivery Versus Payment (DVP). This in the background of flexibility to choose from any of the Central Clearing Counterparties (CCPs) or CSDs as determined by the market participant! There is no vertical integration between exchange-CCP-CSD (handling only securities)!

India's aspirations to be a T+1 Settlements Country, unconsciously began after the success of T+2 (year 2003). Led by the leadership teams at **SEBI** the Capital Market Regulator, it focused on: Regulations, Policies, KYC, Technology, market infrastructure, BCPs, Investor education, settlement guarantees, ease of doing business, Industry engagement, white papers, the introduction of irreversible delivery instruction, Digitization, electronic banking and more. It spawned interoperability, interconnectivity, enabling Margin pledge and Margin Fund Pledge, use of APIs, early pay in, instant account opening, products, and new Investor segments. Partial success or challenges with China T+1 and migration of partial volume to the Connect platform used via HK provides good insights. **Risk containment and capital formation being the drivers.**

**A diverse India**

India is a segregated market. Its wide Investor base has differentiated needs: Foreign Portfolio Investors; Domestic segment includes Mutual funds, AIFs, PMS, Retail, Insurance, Family funds, Institutional segment, etc. Investors log from over 17000 pin codes in India and from 60 countries across the world. The leading Stock Exchange- NSE has over 25 products (all require clearing) and is the largest in the world in single stock contracts.

The addition of Indian Bonds in the MSCI, JPM as well as Bloomberg index is expected to add volumes. Wealth creation was boosted, as the market Cap of NSE the leading Exchange in said period rose from say 3.7 trillion to $5 trillion in a year. IPOs are on the rise. **Client-centricity, Liquidity, and risk management gained significant importance.**

**The Global Readiness of Cross border entities started in February 2023:**
Interestingly Institutional Investors from over 61 countries who participated in T+1 settlements, as registered in their own native countries which has yet to migrate to T+1.

Besides, leading Global Custodians and banks -the likes of BNYM, State Street, JP Morgan, Northern Trust, Citibank, HSBC, Standard Chartered, Deutsche, BNP Paribas, Société General, Brown Brothers Harriman have been part of India's T+1 Settlement ecosystem since February 2023, directly or through their agents. **In effect Investors (most of them being leading global names) and leading intermediaries mainly from emerging and advanced markets have been ready for T+1 Settlements thanks to their participation in the India rollout.** So have been Bloomberg, SWIFT, the tax consulting entities.

This in the background of ongoing discussions especially in Europe wrt the introduction of T+1 or the merits of a single European CSD. Europe has a different set of challenges to navigate with legal , currency, taxation, time zones, multiple depositories to name a few.

The two key ingredients for T+1 success can be summarized as:

1. Leadership by the Regulatory entity **@SEBI** supported by the MIIs (Exchange, Depositories, Clearing houses). In the case of US, SEC leading the way.
2. The participants (including global Investors) faith in 1 above, led to investments to make change happen.

**The combined efforts of both yielded/continues to yield significant multiple benefits.** The one-day takeout has multiple benefits resulting in improved market liquidity, though the market liquidity may not be same across stock types.

The resultant below-listed factors collectively contributed to a more diversified, efficient, and attractive market environment with increased opportunities for investors and Intermediaries alike. The qualitative outcomes of the below are measurable.
These can be bucketed into:

- ◊ **Funding and Liquidity**
- ◊ **Confidence, Transparency**
- ◊ **Digitization, Standardization, Ops**
- ◊ **Wealth Creation, Attractiveness**

| **Funding and Liquidity** | **Confidence, Transparency** |
|---|---|
| 1. Decreased funding liquidity demand given lower margin requirements. | 1. Enhanced transparency and increased Investor confidence<br>2. Enhanced Investor protection |

| | |
|---|---|
| 2. Adoption of newer, swifter, lower cost digital payment modes- The UPI<br>3. Most beneficial where the cost of funds is more expensive, especially Frontier and Emerging markets<br>4. Higher Liquidity due to shorter settlement cycles | 3. From problem definition and queries to solutioning and FAQs<br>4. Sharing the experiences and best practices globally<br>5. Focus on Comprehensive training initiatives for resource development and upskilling |
| **Digitization, Standardization, Ops** | **Wealth Creation, Attractiveness** |
| 1. Improved Digitization, higher STP rates<br>2. Development of Standardized Operational Process at Industry level<br>3. Emergence of Integrated solution providers<br>4. Development of best practices that can be emulated globally.<br>5. Adoption of APIs and other technology tools to enhance market operations.<br>6. Phased rollout of framework provided flexibility to make system changes, procedural modifications, develop SOPs<br>7. Development of customized solutions<br>8. Evolution of uniformity in settlement practices<br>9. Mitigation of Reduced Counterparty Risk and exposure, improved efficiency, at CCPs and market participants | 1. Improved market attractiveness<br>2. Increased potential for Sec lending<br>3. Increase in the product types and class<br>4. Expanded Custody, and FA opportunities leading to significantly high returns.<br>5. Diversification of Investor base from over 61 countries<br>6. Increased activity from FPI, PE, AIF<br>7. Growth in the responsible and adaptive Investor base.<br>8. Enhanced compliance and tighter Risk containment norms<br>9. Potential to boost liquidity in less liquid stocks as well, especially in those markets where listings are few/ markets are unattractive. |

**There have been hiccups as well:**

1. Initial increase in trade breakages/fails rose (esp the cross border). These increased costs, however gradually reducing over time
2. Elevated attrition rates due to increased volumes and evolving client expectations
3. Investments required for managing risk, compliance, technology upgrades rose
4. The financial landscape witnessed a transformation where digitally efficient providers outperformed smaller players unable to adapt
5. Short term frustrations, stemming from rapid changes created challenges and a perception of complexity in Indian markets. That being addressed, the market started overperforming
6. The Operational demands and costs for cross-border clients and providers increased. Cross-border investors and providers alike had to adjust their operational readiness also due to differences in time zones, necessitating robust systems for liquidity flow and settlement, per the needs of a single market

**Not a Jugaad**

What was presumed to be a "**Jugaad**" was in essence a well-thought cleanly executed game changer that led to greater wealth creation.

Globally, Technology infrastructure to shorten the settlement cycle exists with many CCPs and participants in the Securities industry borne by the fact that investors from 61 countries are actively engaged in India's T+1 rollout since February 2023. A change in thought process wrt assessing and managing change that engages diverse stakeholders, management of Operational risk led by astute leadership of policy makers toward a singular goal of Wealth creation is what it all takes.

No longer is it about defending the existing, it's an agreeable fact that front view driving vs rear view driving gives a much clearer and safer field of vision…😊

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**About:**

Viraj Kulkarni founder and CEO of PIVOT Management Consulting, India is a GC Legend. PIVOT is an advisory firm in the Securities Services space. It advises across 7 verticals and is Asia's leading Securities Services Consulting Company. It is based in India and Cyprus, recognized for Innovative Consulting at the GC event Asia 2024. PIVOT is also a founding member of TSSAG. Viraj's blog on GC page, "India: An emerging market or advanced Market" was the most read in 2023.