Our Views

T+0 settlement cycle - Dalal Street ahead of Wall Street, a precursor to instant settlement

Of late, a question being asked is whether the Dalal Steet is moving ahead of the Wall Street in terms of market infrastructure and whether the move is too fast. Some of the recent changes and proposed changes in our capital markets include movement towards T+1, now T+0, and secondary market ASBA. Such questions make me recall my first visit to the Wall Street late 1990s. I vividly recollect that the Wall Street at that time was still following dual trading system, a combination of online and floor trading. It was quite a disappointment to see the globally famous money capital of America lagging our own Dalal Street which had already moved completely online. The point is, it's not a new phenomenon that the Dalal Street is ahead of the Wall Street.

Some of the new initiatives like ASBA in the secondary market are indeed unique and fully leverage the digital platforms like UPI built by the government over the past decade. ASBA is rolled out for the equity cash segment as an option and later may include other segments. This facility is based on the blocking of funds for trading in the secondary market through UPI. The new process will allow blocked funds to remain in the client's account and eliminate the need of upfront transfer to the broker. The blocked funds will leave investors accounts only on the instructions of the clearing corporation after completion of the trade. The idea behind this initiative is to reduce the excess float going to broker's accounts. Its more efficient to leave the balance in the customer's account which also safeguards investor's fund from operational risk at the broker's end. Funds blocked from the savings account can earn interest for the investors. Blocking of lump sum accounts will also be possible, where funds can be debited multiple times for settlement obligations across days. In my view this is a more secure and transparent system.

Last month, after a long debate we witnessed the part implementation of T+0 settlement cycle for trading in the securities markets. Timely and quicker settlement is a sign of an efficient market as it reduces the risk of any wrongdoing. In the past, our securities markets have faced challenges because of faulty settlement systems. One is often reminded of the 1992 stock market crisis which had its origin in the flaws of our settlement system then. Understanding the need for a faster and secure settlement cycle, the regulators over the years have worked towards the evolution of the settlement cycle over decades. Post the implementation of online trading and securities in demat form, the settlement period reduced to T+7. In 2001 it became T+5, and then T+3 in 2002 and further reduced to T+2 in 2003. We finally implemented a full T+1 settlement cycle in entirety only at the beginning of the last year.

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Post the implementation of the T+1, we haven't faced any major challenges. Further, T+0 is being implemented gradually to avoid any systemic risk. The Transition from T+1 settlement cycle to T+0 may seem rapid, but our successful implementation of T+1 since 2023 showcases the robustness of our market infrastructure. So now, with a part movement towards a T+0 settlement, instead of questioning whether we are going too fast, we must appreciate that we are keeping up with the technology evolution which is enabling us to move ahead with greater speed. Therefore, I think this is a right move for the market in the long run. Like always, we are setting a global benchmark in markets infrastructure and am sure Wall Street will also move to T+0 settlement cycle soon.

In fact, I view the implementation of T+0 settlement cycle as a precursor to instant settlement process. Since our banking system facilitates real time fund transfers and the depository system has access to client holdings, by enabling instant debit and credit of securities it will be possible to implement instant settlement system. Ten years back who would have imagined of UPI as a payment method and of its massive success as one of world's largest real-time payment system that processes >10 billion transactions monthly. This has happened without any glitches/ defaults. I am confident that the robustness of the Indian equity market infrastructure will similarly be able to facilitate an instant settlement system someday very soon.

A reduced settlement may require tweaking of the workflow for various post trade operations. A faster settlement system would mean that FIIs will have to bring in larger sums of money in advance, exposing them to the currency risks and higher currency conversation cost. These will require thinking and recalibrating but are certainly not unsurmountable tasks.

In conclusion, post the implementation of T+0 settlement cycle, we must set our eyes on an instant settlement process which will again be first in the world. With this the Dalal Streel will certainly stay ahead of the Wall Street in terms of market infrastructure.

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