Business Standard

India to move to T+1 settlement from Friday: Here's what experts say

Friday will be a landmark day for the domestic markets with all listed stock entering the so-called T+1 settlement cycle

Samie Modak | Mumbai January 26, 2023 Last Updated at 18:42 IST

Photo: Bloomberg

Friday will be a landmark day for domestic markets, with all the listed stocks entering the professed T+1 (trading plus one day) settlement cycle.

About 200 stocks, which account for more than 80 per cent of India's market capitalisation, will be settled on a next-day basis, with effect from January 27.

This will evidently complete the transition to the T+1 cycle that started in February 2022 with the bottom 500 stocks in terms of market value.

T refers to the trading day. Currently, the settlement is largely done on a T+2 basis, meaning that securities bought or sold by an investor will reflect in his/her dematerialised account after two days.

The latest phase will be the most crucial since these 200-odd stocks are where foreign portfolio investors (FPIs) have a bulk of their holdings.

FPIs have been averse to the switch to a faster settlement cycle, citing operational challenges in adjusting to the regime because of differences in time zones, booking foreign exchange either late in the evening of trade day or early morning the following day. Pre-funding will also mean the cost of doing transactions in India will go up.

It remains to be seen how the transition impacts their investment pattern. The shift is happening when domestic markets are witnessing FPI outflows. So far this month, they have sold shares worth nearly Rs 20,000 crore.

FPIs continue to remain apprehensive. But domestic brokerages have hailed the switch, saying it will free up capital faster.

SWITCH ON

"India will be the first country in the world to have a T+1 settlement cycle. It augurs well for the Indian equity markets from a liquidity perspective and shows how well we have grown on this digital journey. This will also help investors in reducing the overall capital requirements with the margins getting released on T+1 day and getting funds in the bank account within 24 hours of the sale of shares. The shift will boost operational efficiency as the rolling of funds and stocks will be quicker"

Ajay Menon, Managing Director & Chief Executive Officer-Broking & Distribution, Motilal Oswal Financial Services

"As Indian markets embark on T+1 for the final list of large stocks from today, the question is if the systems are robust enough. The T+1 system was enabled by solid strides in technology. Rapid bank transfers, the rise of the Unified Payments Interface as a payment mechanism, superior bandwidth, and the predominance of online and application-based trading have helped the cause. The shift from physical to digital in broking communication, dissemination, execution, and risk management has largely catalysed the progression to T+1"

Gagan Singla, Managing Director, BlinkX by JMFL

"We believe T+1 should sail through smoothly. This will also help reduce margin requirements and thereby the cost of transactions. It will be helpful to investors and diminish the overall risk for the market"

Kamlesh Shah, President, Association of National Exchanges Members of India