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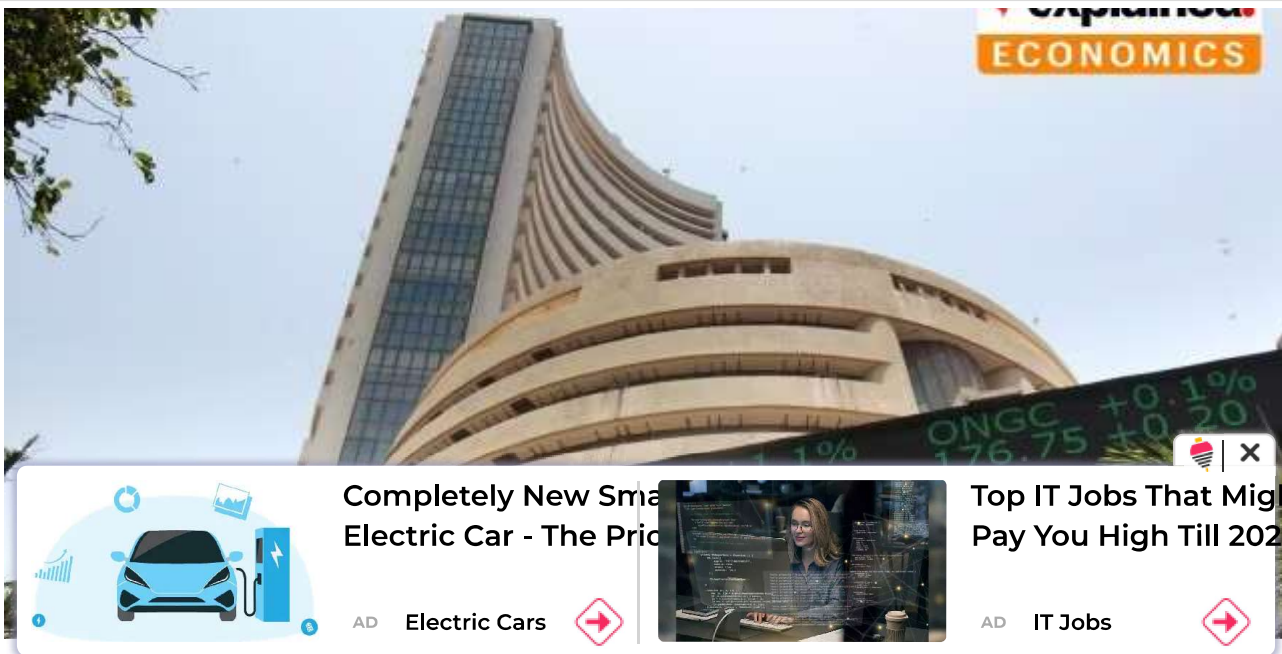
T+0, instant settlement cycle: What is the new SEBI proposal and its potential benefits for investors?

Currently, under the T+1 settlement cycle, securities and funds are settled by the next day of the trade. How can the proposed system be made more conducive to Indian investors? Here's what a recent Sebi consultation paper has said.

Written by [Hitesh Vyas](#)

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 **NewsGuard**



Sensex Hits 40K for first time as leads show second term for PM Modi. Sensex settled 300 points lower as global stocks tumble at BSE of India on Thursday. (Express Photo by Pradip Das)

The Securities and Exchange Board of India (SEBI) has proposed the introduction of a facility for clearing and settlement of funds and securities on T+0 (same day) and instant settlement cycle on an optional basis. The facility will be in addition to the existing T+1 (trade plus one day) settlement cycle in the secondary markets for the equity cash segment.

The markets regulator, in a consultation paper, has proposed to introduce a shorter settlement cycle in two phases. How does this cycle work now and why has this been proposed? We explain.

What is the current settlement cycle followed in the securities market?

In its endeavour to keep pace with the changing times and carry out its mandate of development of securities markets and investor protection, SEBI has shortened the settlement cycle to T+3 from T+5 in 2002 and subsequently to T+2 in 2003.

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At present, the settlement of funds and securities happens on the T+1 cycle. It was introduced in 2021 in a phased manner and was fully implemented in January

What has SEBI proposed now?

It said that for the equity cash segment, in addition to the existing T+1 settlement cycle, a shorter settlement cycle may be introduced as an option. It proposed to implement it in two phases – Phase 1: T+0 Settlement Cycle and Phase 2: Instant Settlement Cycle.



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In Phase 1, an optional T+0 settlement cycle (for trades till 1:30 PM) is envisaged, with settlement of funds and securities to be completed on the same day by 4:30 PM.

In Phase 2, an optional immediate trade-by-trade settlement (funds and securities) may be carried out. In the second phase, trading will be carried out till 3.30 pm.

SEBI has suggested that to begin with, T+0 settlement shall be made available in the top 500 listed equity shares based on the market capitalisation. This will be done in three tranches of 200, 200, and 100, from lowest to highest market cap. As per the consultation paper, the exchanges will have to coordinate to publish a common list of securities and calendar for migration under T+0 settlement.

The surveillance measures applicable in the T+1 settlement cycle will also apply to securities in the T+0 settlement cycle. Securities under the trade-for-trade settlement will not be permitted for T+0.

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Over the last few years, Indian securities markets have seen tremendous growth, both in terms of volumes, value, as well as number of participants, SEBI said in the consultation paper released recently. This increase in the participation of new investors puts a greater onus on the regulator to make markets more efficient and safer for its participants, with a special focus on retail participants.

“The significant evolution of payment systems in the country in recent years coupled with sophisticated and robust technologies used by Markets Infrastructure Institutions (MIIs) appears to present further opportunities for advancing the clearing and settlement timelines, on an optional basis,” the regulator said in the draft paper.

The average Indian has rapidly embraced UPI (Unified Payments Interface) and instant payment platforms. This flexibility can be extended to equity dealing as well.

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In today's age, reliability, low cost and high speed of transactions are key features that attract investors to particular asset classes, the paper said. To that extent, reducing settlement time and hence increasing the operational efficiency of dealing in Indian securities can further draw and retain investors into this asset class.

What would be the features of the proposed T+0 settlement mechanism?

It is observed that a high percentage of retail investors bring upfront funds and securities before placing an order. For the period June 2023, for around 94 per cent of delivery-based trades with value up to Rs 1 lakh per transaction, investors made early pay-in of funds and securities, the consultation paper said.

An instant settlement mechanism would enable instant receipt of funds and securities, vis-a-vis existing pay-out on T+1 day. It would eliminate the risk of settlement shortages since both funds and securities will be required to be available before placing the order.

account directly for those who are trading through blocked amounts using the UPI facility (UPI Clients).

Providing the option for instant settlement will help establish Indian equities as an asset class with the features of resilience, low cost and time for transaction, superior in all ways to emerging claimants of alternative asset classes, the paper said.

What are the benefits of the new mechanism?

For clients, the option is expected to provide flexibility in terms of faster pay-out of the funds against the securities to the sellers and faster pay-out of securities against the funds to the buyers. For the securities market ecosystem, the option is expected to provide flexibility in terms of faster pay-out of the funds against the securities to the sellers and faster pay-out of securities against the funds to the buyers.

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