

Discussion Paper

Implementation of T+2 rolling settlement

[In light of the statement made by the Hon'ble Finance Minister in the Parliament in July 2002 that SEBI in consultation with RBI would be implementing T+1 rolling settlement. In order to set a deadline for the implementation, SEBI has proposed to implement T+1 rolling settlement latest by March 2004. As a precursory step to the implementation of T+1 rolling settlement and to facilitate the stabilization of the clearing and settlement systems and gearing the market structure and psyche towards T+1 rolling settlement, SEBI planned to implement T+2 rolling settlement by April 2003. This paper develops an implementable market design for introducing T+2 rolling settlement. A view would, however, be taken by SEBI on the basis of feedback from market participants and public on this paper. You are requested to kindly mail your suggestions at Parakh@sebi.gov.in or nehalv@sebi.gov.in by 15th February, 2003.]

***REPORT ON THE
IMPLEMENTATION OF
T+2 ROLLING
SETTLEMENT***

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INTRODUCTION

BACKGROUND

Capital markets are in the midst of a global, systemic restructuring. Communication and technology have enabled individual financial markets to link together creating one global market. Internationally, retail and institutional investors have been empowered leading to a more dynamic and sensitive market. The use of technology has enabled the investor populace to discount news more quickly and comprehensively. Technology has also enabled the formation of a larger and a fair market place. This platform has been a launching pad for the exponential growth in volumes showing a widespread and diverse interest in the securities market.

As the volume of securities trading in the global market place has increased in the recent years, the need for shortening the settlement and clearance cycle as a cost saving and risk management discipline has become critical to the orderly conduct of business. As a result many jurisdictions around the world are adopting shorter settlement cycles.

INTERNATIONAL EXPERIENCE

The current T+3 settlement cycle was achieved in the US June 1995 after an experience with times of market turbulence made the risks of a five-day settlement cycle abundantly clear. T+5 allowed too much time between trade execution and settlement for a trading party to become insolvent or for the value of a trade to deteriorate. But the U.S., a proactive regulatory environment is accelerating the trends towards further streamlining and automating processes towards further risk reduction and improved customer service. For example the Securities and Exchange Commission (SEC), has recommended quite sometime back that U.S. financial markets should reduce the settlement window from three days after trade date (T+3) to next day or Trade Date + 1 (T+1). The move to T+1 would imply automation of each step in the settlement process ("commonly referred to as straight-through processing"). Though, it must be said in the same breath that the US markets have twice postponed deadlines for achieving this; which itself testifies the difficulties and the investments required, in completely automating the process from trade order and execution to settlement. The current SEC dead line for testing of technology for all participant firms is June 2004 and. target date for the conversion to one-day settlement is June 2005

In Canada, which achieved the change from T+5 to T+3 in 1995, the Capital Markets Association (CCMA) is leading the move to T+1. The target date is June 2004. The reasons for moving to T+1 are the same as they were back then: significantly increasing trading volumes, market volatility and competitive pressures from other markets.

In Europe, firms are now creating direct links to settle stock exchange-listed equities resolve cross-border settlement issues. Efforts are underway to develop industry

communication standards and to normalize exchange services to prepare for effective global capital movement.

In Asia, particularly in Japan, Singapore and Hong Kong, significant progress has been made to establish shortened settlement cycles in recent years. In 1997 a Trade Date +3 (T+3) settlement convention was adopted for Japanese government bonds (JGBs)—a substantial decrease from the previous mark of Trade Date +7 (T+7).

In addition, the Bank of Japan had taken the lead in developing a Real Time Gross Settlement (RTGS) system for JGBs. RTGS will provide live intra-day settlement, and marks a critical step in developing a local infrastructure that will eventually permit T+1 settlement. Widespread adoption of a T+1 standard, however, remains several years away.

In Singapore and Hong Kong, widespread moves to adopt T+1 are underway. Finance ministries across Asia recognise that reducing the duration of the settlement cycle and implementing RTGS is desirable, although cross-border implementation initiatives, such as those in Europe, do not exist to date. In those markets where there are currently no plans to shorten the settlement cycle to T+1, the SEC's recent pronouncements has stimulated debate and introspection on the issue and serve as a catalyst for change.

THE INDIAN CONTEXT

The Indian securities market too has tackled challenges and embraced innovations in technology. The volumes in the domestic markets have increased substantially over the years. The cross border trades, more popularly known as FII trades, have also increased over a period of time. In July 2001, the Indian securities market made a paradigm shift from the century old account period settlement to a T+5 rolling settlement. Keeping abreast with the dynamics of the securities market and to integrate with the world markets, in April 2002, the Indian capital markets joined the league of developed markets in the world by the introduction of the T+3 rolling settlement cycle.

However the increasing volumes and the need for greater finance to fund the higher volumes have prompted policy makers and regulators to consider reducing the settlement cycle to T+2 rolling settlement and T+1 rolling settlement. The Hon'ble Finance Minister, Shri Jaswant Singh had also stated on July 31, 2002 in the Parliament, "*..... market risk management becomes far more efficacious at shorter settlement cycle. There is need, therefore, to move to T+1 rolling settlement from the existing T+3 by tuning up the funds and securities processing cycle. SEBI is being advised to take necessary action in this regard in consultation with the RBI.*"

Some policy thinkers agree with the above contention and feel that it is necessary to handle growing trade volumes and reduce risk, while others contend that the cost / benefit equation doesn't warrant the necessary work.

A reduced settlement cycle aligns efficiency of the clearing and settlement process with the efficiency and effectiveness clients can expect from the front end of the trade processes. It is therefore generally believed that achieving a reduced settlement cycle is critical for further development of the securities market. For one it significantly reduces settlement risk; second it has economic benefits and increases greater fungibility and flexibility of trading and investing.

To achieve this shift effectively, all market participants would be required to join in the efforts and begin preparing their own internal systems. The shortened cycle will affect all facets of the industry including broker / dealers, banks, transfer agents, custodians, investment managers and institutions.

There are four key features which characterise the reduction in the settlement process:

- 1) Seamless communication among all relevant market participants – multiple service providers are to be linked together in a seamless and cost-effective manner;
- 2) Significant real time processing – as settlement time frames are compressed real time or near real time processing needs to be achieved by all participants and dependencies on manual processes would be reduced significantly;
- 3) Virtual and not physical processing – there will be reduction if not a gradual elimination of physical securities and cheques; and
- 4) Concurrent and no sequential exchange of data and information – many steps in the transaction processing which are now occur sequentially or in batch modes would have to be concurrent.

SEBI'S ROADMAP TO IMPLEMENT A REDUCED SETTLEMENT CYCLE

In light of the statement made by the Hon'ble Finance Minister in the Parliament in July 2002 that SEBI in consultation with RBI would be implementing T+1 rolling settlement. In order to set a deadline for the implementation, SEBI has proposed to implement T+1 rolling settlement latest by March 2004. As a precursory step to the implementation of T+1 rolling settlement and to facilitate the stabilization of the clearing and settlement systems and gearing the market structure and psyche towards T+1 rolling settlement, SEBI planned to implement T+2 rolling settlement by April 2003 as an interim measure. The process of determining the framework for implementing T+2 rolling settlement is highlighted in the next chapter.

DETERMINING THE FRAMEWORK FOR T+2 ROLLING SETTLEMENT

DELIBERATIONS / DISCUSSIONS OF VARIOUS STAKEHOLDERS

SEBI had convened various meeting with the stakeholders / market participants who would be involved in the implementation of T+2 rolling settlement. The determination of the framework for T+2 rolling settlement was consultative with the stakeholders to facilitate effective implementation. The following meetings were convened to discuss the framework:

- 1) First Meeting with RBI, Exchanges (BSE and NSE) and Depositories on October 9, 2002
- 2) Round Table with RBI, Exchanges (BSE and NSE) Depositories, Depository Participants (DPs) having regional offices, brokers having large retail clientele, Foreign Institutional Investors (FIIs), Custodians and AMFI on November 7, 2002.
- 3) Meeting of the Sub-Committee constituted by the Round Table with a representative from each stakeholder group on December 5, 2002.
- 4) Second Meeting with RBI, Exchanges (BSE and NSE) and Depositories on December 24, 2002.
- 5) Meeting with the Custodians and Fund Managers on January 2, 2003.

FIRST MEETING WITH RBI, EXCHANGES (BSE AND NSE) AND DEPOSITORIES ON OCTOBER 9, 2002

The first meeting with RBI, Exchanges (BSE and NSE) and Depositories was convened on October 9, 2002 to discuss the broad issues which needed consideration for the implementation of T+2 rolling settlement. A summary of the main issues discussed in the meeting are as follows:

- 1) Preponing the time for confirmation of trades by all market participants to T+1 morning (11:00 a.m.)
- 2) System upgradation and connectivity of various DPs to enable processing of transfer instructions with a shorter lead time.
- 3) Inter-depository real time connectivity and processing of transactions.
- 4) Awareness about EFT facilities among the bank branches at the centers where EFT was already operational and extension of EFT facilities to about 100 centers.
- 5) Modification in the risk containment system.
- 6) Impact of T+2 rolling settlement on existing distribution network - sub-brokers

- 7) Designing an alternative clearing and settlement system for 1,600 companies whose shares are not dematerialized. Aligning the clearing and settlement system for such stocks with the T+2 rolling settlement.

ROUND TABLE ON NOVEMBER 7, 2002

A Round Table was convened on November 7, 2002 with RBI, Exchanges (BSE and NSE) Depositories, Depository Participants (DPs) having regional offices, brokers having large retail clientele, Foreign Institutional Investors (FIIs), Custodians and AMFI to highlight and resolve the operational difficulties of the market participants in implementing T+2 rolling settlement. A summary of the main issues discussed in the Round Table are as follows:

- 1) The institutional investors agreed to confirm the trades by T+1 morning (11:00 a.m.).
- 2) DPs agreed to upgrade their systems and connectivity to enable processing of transfer instructions with a shorter lead time.
- 3) Depositories agreed that inter-depository real time connectivity and processing of transactions would be implemented by December 2002.
- 4) Need to implement intra-day trade confirmation mechanism in the cash segment as prevalent in the derivatives segment
- 5) Permission to FIIs for advance remittances for pay-in of funds and payment of interest on such money remitted early for pay-in purposes.
- 6) Absence of EFT facilities in all branches of the banks located at major business centers.
- 7) Complexities of timely trade confirmations, timely receipt of transfer advices of funds and securities through the medium of sub-brokers.
- 8) Constitution of a sub-committee of the participants of the Round Table to identify all the issues in a structured manner which needed to be addressed and give a time frame to address each issue with the possible solutions.

MEETING OF THE SUB-COMMITTEE CONSTITUTED BY THE ROUND TABLE ON DECEMBER 5, 2002

The Round Table felt the need to identify all the issues necessary for the implementation of T+2 rolling settlement in a structured manner and give a time frame to address each issue with the possible solutions. Hence a representative from each group was nominated to form the sub-committee. A meeting of the sub-committee was convened on December 5, 2002 and the summary of decisions taken by the sub-committee is as follows:

- 1) The custodians said that the implementation of the STP had been smooth, although volumes had yet to pick up. They expressed their concern about inter-operability of systems among the multiple service providers. The issues of common interest of service providers, viz., sharing of fees, sharing of liabilities, ironing out technological problems, legal issues etc needs to be sorted out. The participants felt that the issue of inter-operability could be solved by making bridges between the vendors who attracted the major traffic of the STP transactions. NSDL, which had taken a lead was requested to take the initiative for resolving the problems arising out of non availability of inter-operability and other related issues.
- 2) Fund Managers expressed a need for implementing the facility of electronic transfer (EFT) / movement of funds expeditiously in the banking system.
- 3) Exchanges were asked to introduce intra-day trade confirmations in the cash segment as is the practice prevalent in the derivatives segment at present.
- 4) Confirmation of the trades by the institutional players by 11:00 a.m. on T+1. An Exception window would be opened by the exchanges for late confirmations for an additional fee.
- 5) Download of the obligation files during banking hours. Hence the exchanges / Clearing House / Clearing Corporation were asked to process and download the obligation files to the brokers / custodians latest by 1.30 p.m. on T+1.
- 6) The investors / custodians would be required to write their instructions for pay-in of securities to the DPs in physical form (instruction slip) latest by 4 p.m. on T+1 and in electronic form (on internet) by 6 p.m. on T+1.
- 7) Execution of instructions before pay-in time should not be considered as non-compliance of meeting the pay-in obligations for that day. The retail investor has one and a half days i.e. the entire T day and upto 3 p.m. on T+1 day to give instruction to DPs and DPs shall have time to execute the instruction till pay-in commences on T+2 morning. This time frame was considered adequate to meet the pay-in obligations for the retail investor.
- 8) The Exchanges / Clearing House / Clearing Corporation would uniformly accept the downloading of the pay-in files of securities and funds until a little before pay-in time.
- 9) The Exchanges / Clearing House / Clearing Corporation would process the pay in / handle shortages and execute the pay-out of securities and funds latest by 1:30 p.m. on T+2. However the Exchanges / Clearing House / Clearing Corporation would endeavour to reduce the time lag between the pay-in and pay-out of securities and funds as and when system stabilizes.

- 10) The exchanges were instructed to discourage changes in client IDs after the market hours and take necessary action against members making repeated changes. However genuine mistakes could be rectified.
- 11) The participants of the meeting unanimously voiced the concern of the absence of a widespread network of EFT for transfer of funds which was essential to implement T+2 rolling settlement.
- 12) RBI was also requested to consider permitting FIIs to bring advance funds to meet pay-in obligations and these funds could earn interest.
- 13) To curtail the risk of failed deliveries in T+2 rolling settlement regime, a need of a vibrant stock lending and borrowing facility.
- 14) The need to review the present risk containment measures in view of T+2 rolling settlement by the Risk Management Group.

SECOND MEETING WITH RBI, EXCHANGES (BSE AND NSE) AND DEPOSITORIES ON DECEMBER 24, 2002

The sub-committee had formulated a time schedule which would be followed by the various participants of the clearing and settlement process. Since the exchanges and depositories would require the maximum infrastructure / systemic changes to implement the time schedule, a meeting was convened on December 24, 2002 to address their issues / concerns (if any) in implementing the proposed time schedule. A summary of the main issues discussed in the meeting are as follows:

- 1) A facility of on-line trade confirmation by exchanges in the cash segment would be desirable as is available in the Derivative / F&O Segment.
- 2) The exchanges agreed to open an exception window for late confirmation of trades. In order to discourage late confirmations, the exchanges would levy additional charges for such late confirmations. The time limit for the late confirmations would be fixed by the exchanges in a manner that the download of the final obligation files to the brokers' terminals by the designated time is not delayed. The exchanges would use the present system of penalties judiciously to prevent malpractices of intentional wrong confirmations.
- 3) Mutual Funds and FIIs would be mandated to enter the unique client code assigned to each scheme or sub-account respectively at the time of order entry.
- 4) The exchanges would Process and download the obligation files to the brokers latest by 1.30 p.m. on T+1

- 5) The exchanges opined that the automatic downloading of the pay-in files of securities and funds, though desirable, should not be mandated. Instead the exchange mechanism should encourage brokers to shift to the automatic download facility.
- 6) Further, it was decided that the pay-in of securities from the broker pool accounts would be permitted until 10:30 a.m. on T+2 in order to facilitate the depositories to download the files to the exchange / Clearing House / Clearing Corporation by 11:00 a.m. on T+2.
- 7) STP would also be achieved between the exchanges and the depositories. The exchanges would download obligation files to the depositories based on the unique client code. The depository could then download pay-in obligations of the client to the respective DPs. For meeting the pay-in obligations of clients, DPs would not be required to put in instructions manually, rather it would mark the obligations online. This would facilitate easy execution of large number of instructions and save a lot of input time for the DP. The exchanges agreed that this would be desirable and they would gear their systems to implement the same. However this system was not a pre-condition for the implementation of T+2 rolling settlement.
- 8) The Clearing House / Clearing Corporation would complete the pay-out to the Depositories / Clearing Banks by 1:30 p.m. on T+2 and the Depositories and the Clearing Banks would in turn complete the process by 2:00 p.m. on T+2.
- 9) It was agreed that the instructions for pay-in of securities by the investors / clients should reach the DPs in physical form latest by 4 p.m. on T+1 and in electronic form by 6 p.m. on T+1. The depositories would accept requests from DPs till 8 p.m. for 'same day processing'.
- 10) In order to complete the pay-in at 11:00 a.m. on T+2, it was felt that the depositories would accept transfers from the broker pool accounts till 10:30 a.m. on T+2. The depositories would require half an hour for processing the requests and downloading the pay-in files to the Clearing House / Clearing Corporation at the designated time of 11:00 a.m. on T+2.
- 11) It was decided that all instructions received by the depositories must have an execution date. The execution date can be current date or future date. Instructions will be valid till the pay-in deadline or till EOD of the execution date, whichever is earlier. In case the account does not have sufficient balance before pay-in deadline or till EOD, such instructions will fail.
- 12) It was decided to disseminate the schedule for T+2 rolling settlement by the first week of January 2003 so that the market would get adequate time to adjust to the new schedule.

- 13) The participants of the meeting felt that a simulation of the various activities as per new time schedule in February 2003 would not be effective as the systemic changes would not have been complete leading to negative feedback on the new schedule. Besides in the past, there was no simulation exercise carried out while shifting from account period settlement to T+5 rolling settlement and T+3 rolling settlement.
- 14) **Other Issues:**
- a. It was decided to e-mail the proposed calendar to the exchanges and the depositories for their comments before disseminating to the market in the first week of January 2003.
 - b. SEBI would convene a meeting with the leading FIIs / Custodians and fund managers of Mutual Funds on January 2, 2003 to discuss the T+2 rolling settlement schedule and to mandate the input of the unique client code for each sub-account or scheme at the time of order entry.
 - c. The issue of mandating STP for the market was discussed and it was decided that STP would not be made compulsory for the market participants at this stage.
 - d. A meeting of the Risk Management Group would be convened to suggest the margining structure, risk containment measures, auction / close-out procedure and the Stock lending / borrowing program for T+2 rolling settlement.
 - e. The present risk containment system is designed to contain risk upto the client level. The input of the unique client code at the time of order entry is a pre-condition for this system to function. Hence the sub-broker network would be an impediment in the system of client level risk containment mechanism. Hence it was decided to modify the existing market structure of sub-brokers and re-align them on the lines of the structure of the derivatives market viz. registering of Trading Members by the exchanges for the sub-brokers with a minimum capital adequacy. The sub-brokers who could not meet the capital adequacy prescribed by the exchanges could register themselves as remisors or authorized persons of the existing Trading Members.
 - f. SEBI would request Department of Telecommunications (DoT) and Telecom Regulatory Authority of India (TRAI) to waive / reduce the WAN to WAN connectivity charges for the securities market.
 - g. **Implementation of Electronic Funds Transfer (EFT):** The participants of the meeting unanimously voiced the need of a widespread network of EFT in atleast 100 centers by April 2003 to facilitate the effective

implementation of T+2 rolling settlement. In this regard the following was decided:

- i. RBI would be requested to implement EFT in all branches of the Clearing Banks in the 15 centers by January 2003
- ii. RBI would be requested to extend the number of centers having EFT to atleast 100 centers by April 2003 and ensure that all branches in these centers have EFT facility.
- iii. RBI would be requested to forward a list of branches which have already implemented EFT in the 15 centers. This list could be forwarded to the exchanges who could in turn encourage members to transact with those branches.
- iv. RBI would be requested to have a special clearing session at 3:30 p.m. every day to facilitate the quick and efficient movement of funds in T+2 rolling settlement environment.
- v. RBI would also be requested to reduce the cost of EFT to help the widespread acceptance of EFT by the retail investors.

MEETING WITH THE CUSTODIANS AND FUND MANAGERS **ON JANUARY 2, 2003**

In the second meeting with the exchanges and depositories held on December 24, 2002, it was decided that a meeting with the FIIs, Custodians and Fund Managers would be convened to discuss the T+2 rolling settlement schedule and to mandate the input of the unique client code for each sub-account or scheme at the time of order entry. Accordingly a meeting was held with the major FIIs, Custodians and Fund Managers on January 2, 2003. The main issues discussed were as follows:

1. The custodians and fund managers reaffirmed that it would be feasible for them to confirm the trade before 11.00 A.M. on the T+1 day. Late confirmation of trades would be allowed strictly on exceptional basis, as per the procedure to be laid down by the exchange and against payment of specific charges as levied by the exchanges.
2. It was agreed that mutual funds and FIIs, for execution of trade, would issue orders scheme-wise / sub-account wise. The present practice of allocating trade to various schemes / sub-accounts will no longer be permitted.
3. Depository window shall be available to market participants on a continuous basis and would not be withdrawn by depositories for a long time, say, 2-3 hours.
4. The custodians and funds managers also insisted that SEBI encourage that contract notes should be provided by brokers in electronic form, and make the issuance of physical contract notes optional.

5. It was suggested that in order to issue electronic contract notes, certain amendments in the bye-laws of stock exchanges would be necessary. For the, the requirement of issuance of physical contract note needs to be waived where electronic contract note has been issued.
6. Exchanges should support development of front-end at brokers / sub-brokers terminal to facilitate the use of abbreviated keys for inserting client code speedily.
7. To further smoothen the money flow and to meet the deadlines, it was suggested that RBI may permit FIIs to bring money in advance of pay-in. Interest would, however, be payable on such money brought in advance.

TIME SCHEDULE FOR THE IMPLEMENTATION OF T+2 ROLLING SETTLEMENT

As decided in the second meeting with the exchanges and depositories, the proposed time schedule for the implementation of T+2 rolling settlement would be disseminated to the public by the first week of January 2003 so that the market would get adequate time to adjust to the new schedule. Accordingly, SEBI vide press release dated January 3, 2003 disseminated the following time schedule for the implementation of T+2 rolling settlement:

- a) Confirmation of the institutional trades by the custodians latest by 11.00 a.m. on T+1. A provision of an exception window would be available for late confirmations. The time limit and the additional charges for the exception window would be decided by the exchanges.
- b) The exchanges / Clearing House / Clearing Corporation would process and download the obligation files to the brokers' terminals latest by 1.30 p.m. on T+1.
- c) DPs shall accept instructions for pay-in of securities by the investors in physical form atleast upto 4 p.m. and in electronic form by 6 p.m. on T+1.
- d) The depositories would accept the requests from DPs till 8:00 p.m. for 'same day processing'.
- e) The Depository would permit the downloading of the pay-in files of securities and funds till 10:30 a.m. on T+2 from the broker pool accounts.
- f) The Depository would process the pay-in requests and transfer the consolidated pay-in files to the Clearing House / Clearing Corporation by 11:00 a.m. on T+2.
- g) The Exchanges / Clearing House / Clearing Corporation would execute the pay-out of securities and funds latest by 1:30 p.m. on T+2 to the Depositories and Clearing Banks and the Depositories and the Clearing Banks would in turn complete the process by 2:00 p.m. on T+2.

***ACTIONS REQUIRED TO IMPLEMENT THE TIME
SCHEDULE FOR T+2 ROLLING
SETTLEMENT***

Based on the time schedule, the following actions required to implement the time schedule for T+2 rolling settlement. The actions have been sorted into the following broad heads to facilitate implementation:

- 1) Exchanges / Clearing Corporation / Clearing House
- 2) Brokers
- 3) FIIs / Custodians / Fund Managers
- 4) Depositories / DPs
- 5) RBI
- 6) Other Issues

**EXCHANGES / CLEARING CORPORATION / CLEARING
HOUSE**

PRE-REQUISITES

- 1) All Trade confirmations to be received by 11:00 a.m. on T+1. An Exception window for late confirmations would be available. An additional charge would be levied to discourage late confirmations and the time limit would be fixed by the exchanges in a manner that the download of the final obligation files to the brokers by 1:30 p.m. is not delayed.
- 2) Process and download the obligation files to the brokers / custodians latest by 1.30 p.m. on T+1.
- 3) Receive the pay-in of securities and funds latest by 11:00 a.m. from the depositories and Clearing Banks respectively.
- 4) System of handling shortages of funds and securities in an expeditious manner to facilitate the pay-out of securities and funds latest by 1:30 p.m. on T+2. The securities shortages to be closed out for which a formula to be decided by the Risk Management Group.
- 5) Pay-out of funds by Exchanges / Clearing House / Clearing Corporation by 1:30 p.m. on T+2.

- 6) Amendments in the Bye-laws of stock exchanges, to waive the requirement of an issue of a physical contract note in case an electronic contract note has been issued.
- 7) Amendment to the bye-laws to mandate the pay-out of funds and securities to the client by the broker by 2:30 p.m. on T+2
- 8) Discourage changes in client IDs and take necessary action against members making repeated changes. However genuine mistakes could be rectified.
- 9) Designing an alternative clearing and settlement system for 1,600 companies whose shares are not dematerialized. Aligning the clearing and settlement system for such stocks with the T+2 rolling settlement.

DESIRABLE CONDITIONS

- 1) Facility of on-line confirmation. NSE would design a system to implement on-line confirmation of trades in the cash segment as in the derivatives segment
- 2) Encourage brokers to opt for automatic downloading of the pay-in files of securities and funds.
- 3) The exchanges at the time of order entry itself shall capture details of client's depository account and would download the details of the client's account to the depository so that the depository could map the client details to the DP to avoid data entry of the instruction.
- 4) Exchanges would support development of front-end software for brokers to facilitate use of abbreviated keys for inserting the unique client code speedily.

BROKERS

PRE-REQUISITES

- 1) Accepting pay-in instructions from investors into the pool account until 10:30 a.m. on T+2.
- 2) Submit the final pay-in files to the depository and the Clearing Bank latest by 10:30 a.m. on T+2 so that pay-in can be completed by 11:00 a.m. on T+2.
- 3) Receiving the pay-out of funds and securities from the Clearing Banks and depositories latest by 2:00 p.m. on T+2

- 4) Making the pay-out of funds and securities to the clients latest by 2:30 p.m. on T+2.

DESIRABLE CONDITIONS

- 1) Development of front-end software to facilitate use of abbreviated keys for inserting the unique client code speedily
- 2) Designing of an appropriate front-end and back-end system which would enable locking of the client ID at the time of order entry for all kinds of investors (retail and institutional).
- 3) Brokers may opt for automatic downloading of the pay-in files of securities and funds.

FIIIS / CUSTODIANS / FUND MANAGERS

PRE-REQUISITES

- 1) Confirmation of the trades **electronically** by the institutional players to the Custodians latest by 11:00 a.m. on T+1. An Exception window would be opened by the exchanges for late confirmations for an additional fee.
- 2) Institutional players (FII and MFs) would be mandated to enter the unique client code assigned to the sub-account / scheme at the time of order entry.

DESIRABLE CONDITIONS

- 1) The facility to borrow / lend securities / funds to meet the settlement obligations.

DEPOSITORIES / DPS

PRE-REQUISITES

- 1) DPs shall accept instructions for pay-in of securities by the investors in the physical atleast upto 4 p.m. and in electronic form upto 6 p.m. on T+1
- 2) Inter-depository real time connectivity
- 3) Design systems which would permit the investors to make pay-in of securities to the broker's pool account upto 10:30 a.m. on T+2.
- 4) Permit transfers from the broker pool accounts to the depository till 10:30 a.m. on T+2.

- 5) Depositories would download the processed pay-in files to the exchange / Clearing House / Clearing Corporation latest by 11:00 a.m. on T+2
- 6) Pay-out of securities to the brokers' pool account by 2:00 p.m. on T+2.
- 7) All instructions received by the depositories must have an execution date. The execution date can be current date or future date. Instructions will be valid till the pay-in deadline or till EOD of the execution date, whichever is earlier. In case the account does not have sufficient balance before pay-in deadline or till EOD, such instructions will fail.

DESIRABLE CONDITIONS

- 1) STP would also be achieved between the exchanges and the depositories. The exchanges would download obligation files to the depositories based on the unique client code. The depository could then download pay-in obligations of the client to the respective DPs. For meeting the pay-in obligations of clients, DPs would not be required to put in instructions manually, rather it would mark the obligations electronically. This would facilitate easy execution of large number of instructions and save a lot of input time for the DP. The exchanges agreed that this would be desirable and they would gear their systems to implement the same.

RBI

PRE-REQUISITES

- 1) RBI would be requested to extend the number of centers having EFT to atleast 100 centers by April 2003 and ensure that all branches in these centers have EFT facility.
- 2) RBI would be requested to have a special clearing session at 3:30 p.m. every day to facilitate the quick and efficient movement of funds in T+2 rolling settlement environment.

DESIRABLE CONDITIONS

- 1) Awareness about EFT facilities among the bank branches at the centers where EFT was already operational. RBI would be requested to implement EFT in all branches of the Clearing Banks in the 15 centers by January 2003. RBI would also be requested to forward a list of branches which have already implemented EFT in the 15 centers. This list could be forwarded to the exchanges who could in turn encourage members to transact with those branches.

- 2) RBI would also be requested to reduce the cost of EFT to help the widespread acceptance of EFT by the retail investors.
- 3) Permission to FIIs for advance remittances for pay-in of funds and payment of interest on such money remitted early for pay-in purposes.

OTHER ISSUES

PRE-REQUISITES

- 1) It was decided to convene a meeting of the Risk Management Group in the first week of January 2003 to suggest the margining structure, risk containment measures, auction / close-out procedure and the Stock lending / borrowing program for T+2 rolling settlement.
- 2) Modify the sub-broker structure to re-align them on the lines of the structure of the derivatives market viz. registering of Trading Members by the exchanges for the sub-brokers with a minimum capital adequacy. The sub-brokers who could not meet the capital adequacy prescribed by the exchanges could register themselves as remisors or authorized persons of the existing Trading Members.
- 3) Amendment to SCRA, SCRR, SEBI (Stock Broker and Sub-broker) Regulations, Bye laws of the exchanges to provide for electronic contract notes in lieu of physical contract notes.

DESIRABLE CONDITIONS

- 1) Request Department of Telecommunications (DoT) and Telecom Regulatory Authority of India (TRAI) to waive / reduce the WAN to WAN connectivity charges for the securities market.
- 2) Concerns about inter-operability of STP systems among the multiple service providers and sorting out issues of common interest viz., sharing of fees, sharing of liabilities, ironing out technological problems, legal issues etc. NSDL to take lead to sort out differences and build bridges between the systems of the leading players. Also in order to achieve seamless flow of data not only inter-connectivity with the domestic vendors would be required but also the connectivity with global service providers would be necessary to facilitate FII transactions.

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