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FPIs unhappy with the prospect of instantaneous settlement in Indian equities markets

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The equities markets transitioned to the shorter T+1 settlement cycle in January this year, from T+2 earlier

BY JANAKI KRISHNAN

Foreign portfolio investors are deeply unhappy at the prospect of an even more shortened settlement cycle in the equities markets, anticipating more challenges in funding the transactions than in the current T+1 settlement cycle.

The equities markets transitioned to the shorter T+1 settlement cycle in January this year, from T+2 earlier. While FPIs were not happy with it they have had no choice other than to go along with it as evidenced by the strong FPI inflows into the equity markets. India is not a market that foreign investors can ignore, and they have no choice other than to comply with regulations, though there are logistics challenges.

Last month at a media briefing SEBI chairperson Madhabi Puri Buch said that the regulator was looking at introducing an instantaneous settlement cycle, possibly using the UPI mechanism.

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"While instantaneous settlements should prove efficient for the domestic investors, SEBI should ensure that it does not inconvenience the FPIs, since under such settlement mechanism, FPIs would have to predict the entry price and pre-fund their transactions, keeping in view the time difference between India and their jurisdiction," said Prakhar Dua, Leader, Regulatory Practice at Nishith Desai Associates.

He pointed out that certain countries had to move away from real-time settlement cycles to accommodate the needs of foreign investors.

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FPIs follow a certain process while undertaking transactions in the Indian stock markets. A US-based foreign investor, for instance, who wants to buy shares in India will send the funds in US dollars to the custodians, who will then book the forex and convert it into Indian rupees and then transfer it to the cash account it holds on behalf of the FPI. Funds have to be placed with the custodians by the time settlement takes place. When the settlement went from T+2 to T+1, the window for the transfer of funds and converting to the local currency became shorter.

Industry circles said that with an instantaneous settlement cycle FPIs will have to predict the entry price, that is the price at which they will buy the shares, and have to pre-fund the transaction.

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More than half of the registered FPIs are from the US and Europe, and the time difference would pose challenges, they said.

"It is not impossible, but they will have to pre-plan and pre-fund their transactions now," Dua said.

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