

T+1 (Trade plus 1 day) settlement cycle



Why in News?

Recently, Securities and Exchange Board of India (SEBI) allowed stock exchanges to start the T+1 system as an option in place of T+2 for completion of share transactions.

Reason for its introduction

- ✓ It has been introduced on an optional basis in a move to enhance liquidity.
- ✓ If T+1, settlement of the trade takes place in one working day and the investor will get the money on the following day.
- ✓ The move to T+1 will not require large operational or technical changes by market participants, nor will it cause fragmentation and risk to the core clearance and settlement ecosystem.

About T+1

- ✓ If the stock exchange opts for the T+1 settlement cycle for a scrip (a substitute or alternative to the legal tender), it will have to mandatorily continue with it for a minimum 6 months.
- ✓ A scrip is a substitute or alternative to legal tender that entitles the bearer to receive something in return.
- ✓ Thereafter, if it intends to switch back to T+2, it will do so by giving one month's advance notice to the market.

Benefits of T+1 Settlement

- ✓ Reduced Settlement Time
- ✓ Reduction in Unsettled Trade
- ✓ Reduction in Blocked Capital
- ✓ Reduction in Systemic Risks