

MEMO# 24314

May 21, 2010

Institute Letter to Securities and Exchange Board of India Concerning T+0 Margins on Institutional Trades

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TO: INTERNATIONAL COMMITTEE No. 7-10
INTERNATIONAL INVESTING SUBCOMMITTEE No. 3-10 RE: INSTITUTE LETTER TO
SECURITIES AND EXCHANGE BOARD OF INDIA CONCERNING T+0 MARGINS ON
INSTITUTIONAL TRADES

On May 19th, the Institute was made aware that the Securities and Exchange Board of India (SEBI) was seeking input regarding the implementation of upfront margining (or early pay-in) on a T+0 basis for equity trades of institutional investors. Comments are expected by May 31, 2010. On May 21, 2010, the Institute submitted a letter generally addressing the substantial issues a T+0 regime would present for US registered investment companies and attached a June 2008 Institute letter to SEBI that described the challenges and problems in more detail. Generally, we describe the following concerns:

- **Challenges and Issues with Currency Conversion or an INR Balance:** To enable a US Fund to meet a T+0 payment, a US Fund must convert USD on T+0 or have an INR balance sufficient to cover the payment. US Funds, however, are not generally able to convert USD into INR on a same-day basis and INR balances present regulatory and practical problems for US Funds, including with respect to the Indian foreign exchange regulations as well as tax certifications for repatriations.
- **Detrimental Impact on Portfolio Management:** To comply with a T+0 requirement, US Funds would be effectively forced to maintain INR balances, meaning increased currency risk and the commitment of additional assets to fund the balances. Also,

trade execution would be limited to the INR already on account, rather than being able to purchase sufficient INR to settle trades later, based on their exact needs (generally done on T+1 by the local custodian). Further, US Funds, like other FIIs, do not earn interest on those balances resulting in additional costs of investing in India

- **Increased Operational Risks:** To meet US legal standards, US Funds follow strict trade validation processes, including procedures to confirm the correct execution of a trade before a sub-custodian is directed to release funds. A T+0 requirement compromises this important process and means custodians would need to act only on a broker's trade instructions without validation by the US Fund. It is unclear if US Funds or custodians would be willing to enter into such an arrangement. The T+0 requirement also alters the settlement cycle, increasing a US Fund's risk exposure in this cycle.
- **Legal Restrictions on Borrowing by US Funds:** Arrangements permitting third-party payments on behalf of a US Fund, such as by brokers, present possible regulatory issues under both US and Indian law. Indian regulations prohibit the extension of credit to FIIs and US law strictly limits the ability of US Funds to enter into lending arrangements.

For additional background on this issue, please see International Committee Memorandum 14-08, dated June 9, 2008.

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[Attachment](#)

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