



## **National Clearing Company of Pakistan Limited**

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

---

**NCCPL/CM/JANUARY-24/07**

**January 16, 2024**

### **SUBJECT: NCCPL's JOURNEY & ROAD MAP TO T+1 SETTLEMENT CYCLE**

**Dear Broker Clearing Members, Non Broker Clearing Members, Custodian Clearing Members & Settling Banks,**

This is in continuation of National Clearing Company of Pakistan Limited "NCCPL" letter reference number NCCPL/CM/SEPTEMBER-23/05 dated September 11, 2023 addressed to Brokers Clearing Members, Non-Broker Clearing Members, Custodian Clearing Members and Settling Banks whereby NCCPL shared its vision for transition to a shorter settlement cycle of T+1 from the existing T+2 settlement cycle. Further, all the concerned stakeholders were requested to share their views and recommendations on the proposed transition to shorter settlement cycle with NCCPL.

In this regard, NCCPL has not received recommendations and comments from majority of the stakeholders. You would agree that any such transition will have significant impact on operational and technical landscape of our securities market and at the same time such change could not be withheld for a long period to ensure compatibility with the regional / global capital markets that are making continuous progress towards achieving this milestone.

As communicated earlier through our above mentioned letter, NCCPL is confident that transition to a shorter settlement cycle can be handled efficiently at its end however, close coordination and collaboration with all concerned stakeholders is essential to highlight any obstacles that are anticipated to hinder implementation of a shorter settlement cycle and to determine a way forward for overcoming them to ensure a swift transition.

NCCPL on its part, has reached out to a limited audience through different forums to gather information regarding the perceived impact of transition to a shorter settlement cycle from T+2 to T+1 and it came across various matters that needs to be deliberated and resolved before its implementation such as time available for non-exchange transaction affirmation process to Custodian Clearing Members, operating hours of leverage markets, mark-to-market loss collection and disbursement for ready/ derivative contract etc. Further NCCPL, in order to facilitate market participants, also conducted an awareness session on T+1 settlement cycle on January 15, 2024 in the PSX auditorium. NCCPL shall also conduct separate session with foreign custodian banks.

It is reiterated that this proposed change in the settlement cycle will add significantly towards further enhancing the efficiency of the securities market operations and lead to its alignment with the best practices adopted and implemented by reputed securities exchanges in the world. It will also demonstrate our strong commitment and capability to adapt ever transforming global service benchmarks to foreign investors and securities markets. Therefore, a collective and sincere effort is expected from all concerned stakeholders to achieve this objective.



## **National Clearing Company of Pakistan Limited**

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

---

Accordingly, all the concerned stakeholders are again requested to share their recommendations on the matter by January 20, 2024. It may please be noted that the prescribed timeline will be strictly observed as NCCPL intend to initiate a pilot run of the T+1 settlement cycle by April 15, 2024.

A brief overview of the T+1 settlement cycle has also been attached with the letter for your review and ready reference.

For any further queries or concerns, please feel free to contact the Customer Support Department at UAN 021-111-111-622 or visit our website [www.nccpl.com.pk](http://www.nccpl.com.pk)

You can approach our Customer Support Services through WhatsApp vide 021-111-111-622 or Click [here](#).

**Regards,**

\_\_\_\_\_sd\_\_\_\_\_

**Imran Ahmed Khan**

Chief Operating Officer &  
Company Secretary

**CC:**

1. Executive Director - Policy, Regulation and Development Department - SMD  
Securities & Exchange Commission of Pakistan - Islamabad
2. Chief Executive Officer - Pakistan Stock Exchange Limited
3. Chief Executive Officer - Central Depository Company of Pakistan Limited
4. Managing Director - Pakistan Mercantile Exchange Limited
5. Chief Executive Officer - Mutual Funds Association of Pakistan
6. Chairman - Pakistan Banking Association
7. Pakistan Stock Brokers Association



# Transition to T+1 Settlement Cycle

Presented By: NCCPL

## Scope

- Globally, most stock exchanges in developed as well as emerging markets follow the Trade day plus two (**T+2**) settlement system.
- In an effort to reduce risk, increase overall efficiency of the securities markets, create better use of capital, different financial markets initiated an industry change from **T+2** to **T+1** settlement cycle.
- **T+1 settlement cycle** means investors buying stocks will get the delivery of the shares on the day after the transaction is executed.
- The Chinese equity market is already functioning on a T+0/T+1 settlement cycle, however many markets in the region are still on **T+2**.



# Settlement Mechanism in International Stock Exchanges

## Implementation of T+1 Settlement Cycle - India

- On **September 07, 2021**, the Securities and Exchange Board of India (SEBI) permitted stock exchanges to introduce T+1 settlement cycle effective from **January 01, 2022**, on any of the securities available in the equity segment.
- On **February 25, 2022**, the first batch of securities transitioned to T+1 settlement. Thereafter, every month a batch of around 500 securities transitioned to T+1 settlement.
- From **January 27, 2023**, all securities, i.e. equity shares including SME shares, exchange traded funds (ETFs), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), Sovereign Gold Bond (SGB), Govt. bonds and Corporate Bonds, trading in the equity segment are now settled only on T+1 basis.

## Implementation of T+1 Settlement Cycle - India

- Due to technology change most of the clearing house are moving towards T+1 settlement cycle as efficient operational processes enable seamless clearing and settlement possible within limited time.
- Transition to T+1 settlement cycle resulted in an increase in the margins collected by clearing houses in India.
- However, margins are held for a period of a day instead of 2 thereby still adding to enhancement in the liquidity available at the disposal of market participants.
- India is now considering to introduce T+0 settlement cycle for the capital market.

## Transition of Settlement Cycle to T+1 - US

- On February 9, 2021, the Securities and Exchange Commission (SEC) issued a proposal to shorten the securities settlement cycle from T+2 to T+1 in a document titled “Shortening the Securities Transaction Settlement Cycle”.
- On February 15, 2023, SEC approved a final rule to transition the securities settlement cycle in the United States from two days to one on May 28, 2024.
- The products subject to the T+1 standard settlement cycle include the “securities” defined in Section 3(a)(10) of the Exchange Act which covers among others, equities, corporate bonds, UITs, mutual funds, ETFs, ADRs, security-based swaps and options.
- European and South American markets have indicated that they will continue to study the impacts of a T+1 settlement cycle but, do not have current plans to facilitate such a transition prior to a U.S. transition.



## Transition of Settlement Cycle to T+1 - Canada

- On **December 01, 2021**, the Canadian Capital Markets Association (CCMA) announced plans to shorten Canada's standard securities settlement cycle from two days to one day after trade date (T+1).
- Canada's central securities depository is in the process of fully replacing its CDSX clearing, settlement, and corporate actions systems to better automate post-trade processing. Therefore, any such major change would flow after complete implementation of systems.
- Foreign currency – on a T+2 settlement cycle – was not an issue for T+2, but will be significant matter to look into (except for the U.S./Canadian currency pairing) when FX and securities settlement cycles diverge.
- They plan to implement this change by first half of 2024.

## Expected Benefit of T+1 Settlement Cycle

- It is expected to reduce the overall systemic risk of the settlement ecosystem. Due to reduced settlement cycle leading to lesser unsettled transaction, the counterparty and operational risk will also decline, specially during the period when the market is volatile.
- The reduced settlement cycle will mitigate the market risk and counterparty risk, which will ultimately lead to lower margin requirements, allowing broker to have more liquidity to trade in the securities market.
- T+1 Settlement cycle over period will lead to infrastructure advancement across securities market, the key institutions i.e. exchange, depository and Central Counter Party (CCP) will have to ensure robust and straight processing.
- The market participants will also need to remove manual processing and adopted automated processes.

## Expected Benefit of T+1 Settlement Cycle

- T+1 settlement cycle will result in standardization of industry practices which in turn will add towards enhancing the efficiency and transparency of the capital market operation.
- Both purchase and sale transactions can be wrapped up a day earlier
- Traders availing financing to buy shares can save one day's interest.



# Settlement Mechanism of NCCPL

## Settlement Cycle at NCCPL - Overview

- NCCPL provides clearing, settlement and risk management services for trades executed at Pakistan Stock Exchange (PSX) through an automated system known as National Clearing and Settlement System (NCSS).
- Currently, the trades and transactions are settled based on **T+2** settlement cycle.
- NCCP is also performing the risk management and act as a CCP.
- Additionally, it is also acting as an authorized intermediary for the leverage market which includes margin trading, margin financing and Securities Lending and borrowing.

## Settlement Cycle at NCCPL - Overview

- NCCPL has multiple categories of Clearing Members that include, Broker Clearing Members “BCM”, Non-Broker Clearing Members “NBCM”, Custodian Clearing Members “CCM” and Professional Clearing Members “PCM”.
- To facilitate the NBCM, CCM and PCM, NCCPL has Implemented Institutional Delivery System ‘IDS’ which enable them to settle their trades executed by BCM on their behalf directly with NCCPL.
- Leverage segments are available through out and after trading hours to enable investors to obtain financing against their securities purchase, while SLB is available for short selling and preventing delivery failures which is not actively utilized.



# Proposed Changes in NCCPL's Settlement Mechanism

## T+1 Settlement Cycle at NCCPL – Vision

- NCCPL has remained at the forefront when it comes to developing and implementing efficient systems and processes that facilitates the market participants.
- Capital Gain Tax System, online account opening, introduction of customer verification process during COVID 19, are a few such examples.
- Keeping in view the vast professional experience and capability of its team, NCCPL is confident that such a transition to a shorter settlement cycle is very much possible for NCCPL.
- The other infrastructure institutions are also not likely to be hard hit by any such transition in terms of their technical and operational capacity.



## T+1 Settlement Cycle at NCCPL – Key Considerations

- The applicable regulatory framework needs to be revisited to highlight the changes required for transition to T+1 settlement cycle.
- Trade data transmission, clearing, netting, balance order and settlement through banks, the entire process needs to be reviewed in terms of its operational efficiency and effectiveness for ready, derivative and leverage market.
- The impact of shorter settlement cycle in terms of risk management which includes Exposure, Liquidity, Concentration and Special Margins. Further, collection and distribution of MTM Losses. Any similar changes in RMS as witnessed in other jurisdictions post T+1 cycle implementation.
- The Impact of T+1 settlement cycle on NCCPL's role as a CCP, especially in terms of settlement guarantee fund and default management including contract close out mechanism for derivative market.

## T+1 Settlement Cycle at NCCPL – Key Considerations

- The leverage segments will need to be reviewed particularly in terms of their operational timings to ensure facilitation to market participants.
- Impact of short settlement cycle on SLB when used for meeting pre-existing interest required for shot sale or managing a delivery failure.
- The shorter settlement cycle may have an impact on the corporate entitlement related practices adopted in the securities market.
- Technical, operational and financial impact of the transition on the Clearing Members and the investors.
- Creating awareness among market participants and convincing them on the utility of the shorten settlement cycle.

## T+1 Settlement Cycle at NCCPL – Operational Process

- The international CCM are responsible for settling majority of the trades executed in the securities market by the foreign individual and institutional investors.
- The CCM are using the IDS functionality to affirm the trades till T+1. Due to different timing zones investors may have, the existing T+2 settlement cycle works in their favor.
- Additionally, forex spot market in Pakistan has its own settlement timing and mechanism which is presumably aligned with T+2 settlement cycle as no difficulty in meeting settlement obligation by CCM is witnessed.
- The transition to T+1 settlement will significantly impact the CCMs both in terms of transaction affirmation and settlement, therefore, they being a significant CM and contributor in term of foreign investment, have to play a major role to ensure swift transition.

## T+1 Settlement Cycle at NCCPL – Operational Process

- **Foreign Exchange for foreign investors:** This is one of the key points and the State Bank of Pakistan (SBP) should be involved in these conversations in order to devise smooth process flow in terms of channeling of foreign exchange repatriation.
- **Pre-funding and / or funding timelines:** In continuation to the above, SBP needs to review the FX booking cut-offs so that the foreign investors have sufficient time to book FX. This is an essential point, given the change to T+1, the foreign investor clients will have less time to release their instructions and get the FX booked considering time-zone differences.
- **Technological Integration between Stake-holders:** In the current scheme of things, certain tasks such as pre-matching is performed manually, having a uniform and STP system in place at the level of all stakeholders is essential. Despite the cost it may entail, this would play a key role in shortening timelines and ease of processing.

## T+1 Settlement Cycle at NCCPL – Way Forward

- NCCPL will arrange awareness sessions for the market participants.
- Engage with infrastructure institutions to highlight changes / revisions required with respect to clearing, settlement and risk management process essential for switching to T+1 settlement cycle.
- Gather all recommendations and comments from concerned stakeholders by **January 20, 2024.**
- Provide a time based roadmap for the implementation of T+1 settlement cycle duly agreed with all concerned stakeholders.
- Make sincere efforts to initiate a pilot run of the T+1 settlement cycle by **April 15, 2024.**



**Thank you!**

[www.nccpl.com.pk](http://www.nccpl.com.pk)

