

IGIDR Roundtable on
*Next generation Clearing & Settlement
Systems for India*

Venue: Taman, Hotel Westin, Goregaon, Bombay

20th June, 2012

A key institutional reform in the financial sector was the clearing and settlement of equity market trades through the clearing corporation. This reform enabled a national market with anonymous order placement, and resulted in a growth of equity market volumes by several orders of magnitude. Institutional clearing systems are now used for the clearing of commodity derivatives, currency derivatives and debt markets. These risk management systems have held up well during the last 15 years where there have been several large and unusual shocks, both domestic as well as international.

Since the original reforms however, there have been several developments important for clearing and settlement systems. One is in the area of technology which can help improve operational processes and lower costs of clearing and settlement. Another is in the area of risk measurement and forecasts. Both of these serve as an impetus to review the existing clearing and settlement systems from the viewpoint of the next phase of technical reforms.

More fundamentally, there have been structural changes that need to be recognised and incorporated. The first is the increased level of competition of financial infrastructure in the form of multiple exchanges, clearing corporations and depositories. This was one of the core concerns behind the creation of the *Bimal Jalan Committee on Review of ownership and governance of market infrastructure institutions* instituted by SEBI.

However, this report did not take into consideration competition that arises

from the increased level of integration of the financial sector that causes competition at the level of asset classes such as equity, debt, commodities and currency. This arises because the same members and customers invest across all these markets simultaneously, and their investment decisions are optimal when they are based on economic reasons of return and risk, rather than differential costs imposed by differential institutional structures across these sectors. Thus, the reforms debate needs to recognise competition beyond institutions within a sector, but rather across sectors itself.

Lastly, given the greater level of integration between domestic and international financial systems that is available today to Indian firms and investors, these debates must also taken into consideration the international debates and developments. There have been several global discussions on these issues by global regulators such as BIS and IOSCO since the 2008 Credit Crisis, which need to be incorporated into the Indian discourse for the form and structure of the next generation reforms for the clearing and settlement systems of the Indian financial markets.

Towards this goal, this roundtable will discuss two broad issues:

- A review of the current Indian clearing & settlement landscape and issues therein.
- Implications of the global debate on clearing & settlement system reforms and the Indian perspective.
- Changes and trends in the global C&S systems.
- Designing an agenda for C&S reforms, with two perspectives:
 1. Changes that can be implemented on a short horizon such as consolidation of C&S practices and processes across financial sectors. Here, the target horizon for implementation is between 6 months to a year.
 2. Changes that can only be implemented with further testing and research, over periods of longer than a year.