

# PILOT REGULATORY IMPACT ASSESSMENTS IN SECURITIES MARKETS

## Inception Meeting with SEBI

27th May, 2026  
CUTS International HQ, Jaipur, India

# Agenda

01 Execution of the Contract

---

02 Scope of Ex-Post RIAs **02**

---

03 Discussion on Outlines **03**

---

04 Process and Progress: **04**

4.1 Literature Review **05-06**

4.2 Review of International Practices **07-08**

4.3 Stakeholder Mapping **09**

---

05 Next Steps **10**

---

06 Support Required from SEBI **11-14**

---

# 02 Scope of Ex-Post RIAs

These reforms have been undertaken in the recent past

## Pledge-Repledge Mechanism (2020)

The reform shifted margin collateral from broker-held title transfer to a depository-recorded pledge chain, ensuring clients remain beneficial owners of securities while improving transparency and control.

Key aspects include:

- Depository-based pledge and re-pledge mechanism
- Explicit client consent and audit trail
- Reduced misuse of client securities
- Infrastructure investment and resource allocation

## T+1 Settlement Cycle (2022)

Compression of trade settlement duration from T+2 to T+1 days aimed at improving market efficiency, liquidity, and risk management.

Key aspects include:

- Faster trade completion and improved liquidity movement
- Reduced counterparty and settlement risks
- Operational and technological preparedness
- Foreign exchange and liquidity management

# 03

## Outlines

### Applying the RIA framework to the reforms

- Pledge - Repledge Mechanism Outline
- T+1 Settlement Cycle Outline



Understanding the baseline



Identifying the problem and regulatory objective



Understanding the reform



Identification of stakeholders impacted



Identification of costs (in comparison to the baseline scenario)



Identification of benefits (in comparison to baseline scenario)



Estimation of costs of baseline and reform



Estimation of the benefits of the baseline and reform



Comparison of costs and benefits and estimation of net impact



Comparison of net impacts of the baseline scenario and reform



Conclusion and Suggestions

# 04 Process and Progress

**4.1. Literature Review**

**4.2. Review of International Practices**

**4.3. Stakeholder Interactions**

**Focus on**

**Pre-Reform Period  
Transition Period  
Post-Reform Period**

# 4.1 Literature Review for Pledge-Repledge Mechanism

1. Review of relevant circulars, discussion papers and reports	2. Review of expert commentary
<p>1.1 <u>Karvy scandal involving misuse of client securities led to reform in pledge-repledge mechanism</u></p>	<p>2.1 <u>In Margin Obligations to be Given by Way of Pledge/Re-Pledge in the Depository System</u> Airan (ICSI) noted that the framework may initially disrupt trading operations but would improve transparency, prevent misuse of client securities, and reduce excessive leverage.</p>
<p>1.2 SEBI's consultation paper, "<u>Segregation and Monitoring of Collateral at Client Level</u>", proposed a framework to strengthen the protection and monitoring of client collateral.</p>	<p>2.2 In the <u>Oxford Business Law Blog "Pledge Invocation"</u>, Neeraja discussed how the 2022 Supreme Court judgment in PTC India clarified rights relating to pledged dematerialised securities and beneficial ownership.</p>
<p>1.3 <u>National Exchanges member's submission to SEBI on issues relating to the new pledge/repledge system.</u></p>	<p>2.3 <u>SEBI's Investor Survey 2025</u> indicates that unauthorised trading and misuse of client accounts continues to remain a key concern for investors.</p>

# 4.1 Literature Review for T+1 Settlement Cycle

1. Review of relevant circulars, discussion papers and reports	2. Review of expert commentary
<p>1.1 SEBI's 2013 discussion paper, "<u>Risk Management - Safer Markets for Investors</u>", proposed T+1 settlement to reduce unsettled market exposure, but implementation was delayed due to infrastructure readiness concerns.</p>	<p>2.1. In an interview, <u>Prasanna Jha (Citi Bank)</u> notes that India's transition to T+1 has reduced settlement risk and improved market efficiency, while requiring operational adjustments for investors.</p>
<p>1.2 SEBI note on "<u>Enhancement of Scope of Optional T+0 Settlement Cycle</u>" states that the reduced risk in a shortened settlement cycle is reflected in the decline in the average daily margin collected by CCs following the transition from T+2 to T+1.</p>	<p>2.2 An analysis in EPW "<u>An Assessment of the Impact of the T+0 Settlement Cycle on Market Liquidity and Price Efficiency in Indian Markets</u>" by Krishnan et al finds that India's T+1 settlement cycle improved liquidity and reduced settlement risks, while increasing the need for operational preparedness.</p>
<p>1.3 <u>NSE Report on "Indian Capital Markets: Transformative Shifts Achieved Through Technology and Reforms"</u> (July 2024) noted that the shift from T+2 to T+1 reduced the average daily margin at the NSE Clearing Limited (NCL) level from INR 12,000 crore in FY 2022 to INR 4,000 crore during the first 9 months of FY 2024.</p>	

# 4.2 Review of Global Practices for T+1 settlement Cycle

United States	United Kingdom	European Union
<ul style="list-style-type: none"> <li>• Key implications identified by the <u>U.S. Securities and Exchange Commission for the T+1 transition</u> included significant compliance and technology upgrade costs, with industry-wide costs estimated at USD 5.51 billion.</li> <li>• The SEC also highlighted benefits such as lower settlement and counterparty risks, reduced collateral requirements, and a decline in unsettled transactions from USD 88 billion to USD 44 billion.</li> </ul>	<p>Key challenges and costs identified in “<u>Accelerated Settlement Taskforce Report</u>” by Govt. of UK include:</p> <ul style="list-style-type: none"> <li>• Higher technology and operational upgrade costs</li> <li>• Increased FX and settlement processing challenges</li> <li>• Greater need for automation and extended operating hours</li> <li>• Risk of short-term settlement fails and liquidity fragmentation</li> <li>• Estimated investment of USD 30–50 million annually for large financial institutions over three years</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits identified by <u>European Securities and Markets Authority (ESMA)</u> include lower counterparty risk, reduced margin requirements, faster settlement, and improved alignment with global markets.</li> <li>• Key concerns identified include system upgrade costs, operational adjustments, workforce expansion, increased automation requirements, and potential short-term settlement inefficiencies during the transition, with costs expected to vary across stakeholders.</li> </ul>

# 4.2 Review of Global Practices for Pledge- Repledge Mechanism

United States	United Kingdom	European Union
<u>Rehypothecation</u>		
<ul style="list-style-type: none"> <li>• Rehypothecation is heavily regulated by the U.S. Securities and Exchange Commission and the Federal Reserve.</li> <li>• Rehypothecation of client margin securities is capped at 140% of the client's outstanding debit balance.</li> </ul>	<ul style="list-style-type: none"> <li>• No cap on rehypothecation.</li> <li>• The UK has relied heavily on the Title Transfer Financial Collateral Arrangement (TTFCA), allowing extensive rehypothecation of client assets and making it a major global hub for the practice.</li> </ul>	<ul style="list-style-type: none"> <li>• Moderated framework with no specific cap on rehypothecation.</li> <li>• European Market Infrastructure Regulation (EMIR) and Securities Financing Transactions Regulation (SFTR) impose transparency and collateral reuse restrictions, while UCITS rules limit asset reuse to protect investors.</li> </ul>

# 4.3 Stakeholder Mapping

## 1. Stakeholder Identification

List all stakeholder categories for both RIAs, including SEBI

## 2. Questionnaire Design

Circulated for Pledge - Repledge

Work in progress for T+1 settlement cycle

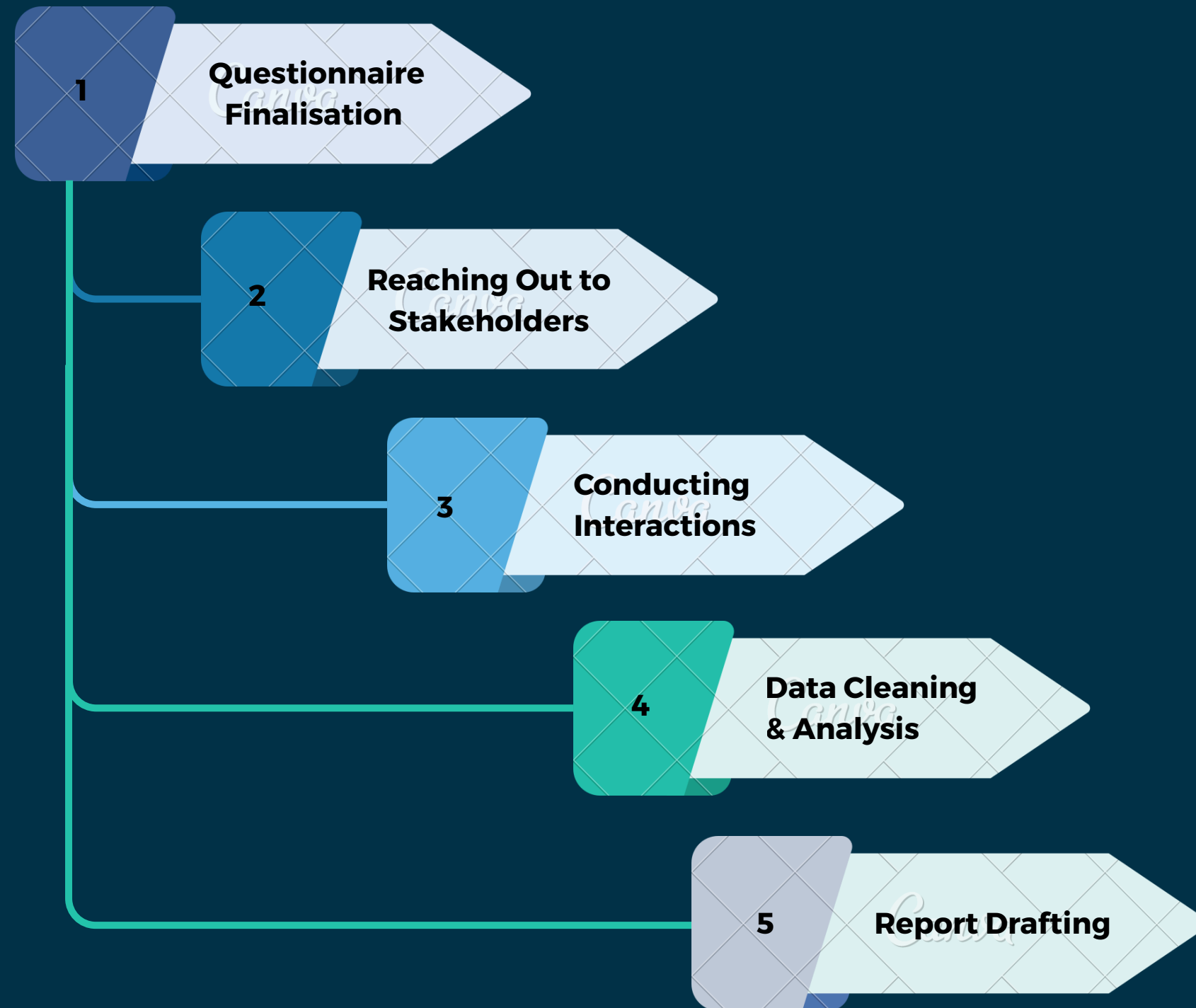
## 3. Stakeholder Consultations

Reaching Out

Conducting Interactions

# 05

## Next Steps



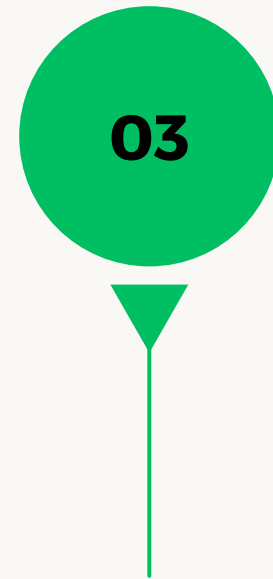
# 06 Support Requested from SEBI



Relevant data and information from SEBI related to the issues.



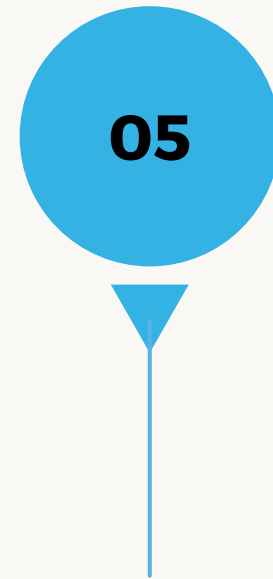
Interview with SEBI officials and get their inputs as SEBI is a key stakeholder.



Assistance from SEBI in facilitating interactions with other stakeholders.



Letter of Authorisation for reaching out to other stakeholders.



POC from SEBI for data and interview related coordination.

## 6.1 Data and Information Required from SEBI for the Study

Purpose: To assess the overall market, operational, investor protection, and systemic impact of the margin pledge-repledge reform

S.NO.	Parameters	Key Aspects
1	Policy Rationale and Regulatory Objectives	Policy Rationale, PoA risks, Regulatory Alternatives, Consultations, International Benchmarking, Administration and Supervision Mechanism
2	Market & Operational Impact	Turnover, Liquidity, Leverage, Collateral Efficiency, Participant Impact
3	Investor Protection & Grievances	SCORES Data, Pledge Disputes, OTP Failures, Complaint Trends, Resolution Timelines
4	Enforcement & Compliance Outcomes	Misuse Cases, Broker Violations, Penalties, Enforcement Actions, Pre/Post Comparison
5	Broader Market & Welfare Outcomes	Market Participation, Investor Confidence, Systemic Stability, Participation Trends, Impact Assessments

## 6.2 Data and Information Required from SEBI to Assess the Impact on SEBI's Operations and Oversight Functions

Purpose: To assess the institutional, supervisory, enforcement, and cost implications of the reform on the regulator

S.NO.	Parameters	Key Aspects
1	Supervisory & Technological Preparedness	IT upgrades, Surveillance Systems, Cybersecurity, Reporting Systems, Supervisory Data Availability
2	Institutional Capacity & Implementation	Staff Training, Awareness Initiatives, Intermediary Coordination, Implementation Support, Transition Challenges
3	Regulatory Burden & Enforcement Efficiency	Grievance Burden, Supervisory Workload, KPIs, Enforcement Efficiency, Dispute Resolution Timelines
4	Financial & Administrative Costs	Policy and Consultation Costs, IT Development, Training, Monitoring and Enforcement, One-time vs Recurring costs, Pre/Post Cost Comparison
5	Long-Term Regulatory Outcomes	Transparency, oversight capability, market integrity, investor confidence, systemic resilience, reform effectiveness

## 6.3 Assistance from SEBI in Facilitating Interactions With Other Stakeholders

S.NO.	Parameters	Key Aspects
1	Facilitating consultations with key stakeholder groups	Exchanges, Depositories, Clearing Corporations, Brokers, Custodians, DPs
2	Assistance in identifying additional stakeholders beyond the existing CUTS outreach	Introductions, Referrals, Connecting with Relevant Officials and Industry Participants, Market Participants, Associations, Operational Entities, Investor Groups
3	Facilitating internal discussions within SEBI	Interactions with Relevant Departments/Officials Involved in the Implementation and Supervision of the Mechanisms
4	Organising and participation/support in selected stakeholder meetings	Joint Meetings with Some of the Stakeholders, If Required
5	Support in obtaining stakeholder-specific data and information	Official Communications/Recommendation Letters for Data Requests and Consultations

# THANK YOU!

- Amol Kulkarni, Director (Research) CUTS International
- Tasmita Sengupta, Senior Research Associate, CUTS International
- Bhavika Khatter, Research Associate, CUTS International
- Neha Srivastava, Programme Assistant, CUTS International