



## One-Hour Trade Settlement

**For Prelims:** One-Hour Trade Settlement, [Securities and Exchange Board of India](#), [Application Supported by Blocked Amount \(ASBA\)](#), Instantaneous Trade Settlement.

**For Mains:** Benefits of One-Hour Trade Settlement.

[Source: TH](#)

### Why in News?

Recently, the [Securities and Exchange Board of India \(SEBI\)](#) has announced that it is aiming to launch One-Hour Settlement of trades by March 2024 in order to enhance the **efficiency of trade settlement processes**.

- The SEBI will launch [Application Supported by Blocked Amount \(ASBA\)](#)-like facility for trading in the [Secondary Market](#) by January 2024.

### What is Application Supported by Blocked Amount (ASBA)?

- ASBA is a mechanism introduced by the SEBI to facilitate the **application and allotment process for Initial Public Offerings (IPOs)**, rights issues, and other securities offerings.
- ASBA is designed to make the **application process more efficient and investor-friendly** by allowing investors to apply for shares without transferring the **entire application amount upfront**.
- It entails that the amount to be paid for subscribing the shares **does not get debited from the investor's account until the shares have been allotted** by the company.

### What is the Trade Settlement?

- **About:**
  - Trade settlement is a critical process in the financial markets that involves the transfer of funds and securities between parties involved in a trade.
  - It ensures that the **buyer receives the purchased securities**, and the seller receives the **agreed-upon funds**.
  - In the context of securities trading, this settlement **process finalizes the transaction**.
- **T+1 Settlement Cycle:**
  - In January 2023, India adopted the [T+1 settlement cycle](#), where T represents the trade date.
  - This means that trade-related settlements occur **within one business day or 24 hours** of the actual transaction.
  - India became the second country, after China, **to implement the T+1 settlement cycle**

- in top-listed securities.
- This transition brought several advantages, including **increased operational efficiency, faster fund transfers, prompt share delivery**, and improved convenience for participants in the stock market.

## What is SEBI's New Plan for Real Time Trade Settlement?

- **One-Hour Trade Settlement:**
  - Under this scheme, when an **investor sells a share**, the money from the sale will be credited to their **account within one hour**, and the buyer will receive the purchased **shares in their demat account within the same time frame**.
  - This represents a **significant reduction in settlement time** compared to the existing T+1 cycle.
- **Instantaneous Trade Settlement:**
  - SEBI acknowledges that achieving instantaneous settlement is a more intricate task, **requiring additional technology development**.
  - Therefore, they plan to focus on implementing one-hour trade settlement first and then proceed **towards instantaneous settlement**.
    - The timeframe for launching instantaneous settlement is projected to be by the end of 2024.

## What are the Benefits of One-Hour Trade Settlement?

- **Faster Transactions:**
  - Investors will experience **significantly reduced settlement times**, enabling quicker access to funds and securities.
- **Enhanced Liquidity:**
  - Quicker settlement can lead to improved market liquidity as funds become available for **reinvestment sooner**.
- **Risk Reduction:**
  - Reducing the settlement time can mitigate **counterparty and market risk, enhancing overall market stability**.
- **Investor Convenience:**
  - Investors will appreciate the **swifter access to their funds and securities**, making the market more user-friendly.

PDF Reference URL: <https://www.drishtias.com/printpdf/one-hour-trade-settlement>