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Nigerian Capital Market Transitions to T+2 Settlement Cycle

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The Nigerian capital market has achieved a significant milestone by transitioning its securities trading from a T+3 settlement cycle to a T+2 settlement cycle. To understand the importance of this change, it is helpful to first define these terms, which refer to the time it takes for a trade to be finalized.

Understanding Settlement Cycles (T+1, T+2, and T+3)

In the investment world, a "settlement cycle" is the period between the trade date (the day a security is bought or sold, denoted as T) and the settlement date (the day ownership and funds are officially transferred).

- **T+3 Settlement (Trade Date + Three Business Days):** Under this older standard, if you bought or sold shares on Monday, the transaction was officially settled three business days later, on Thursday. This was the long-standing practice in the Nigerian market.
- **T+2 Settlement (Trade Date + Two Business Days):** This is the new standard adopted by the Nigerian capital market. A transaction executed on Monday is now officially settled two business days later, on Wednesday. This reduction cuts the waiting period by a full day.
- **T+1 Settlement (Trade Date + One Business Day):** This is the most expedited cycle and is the current standard for some of the world's most advanced markets. A trade executed on Monday would settle on Tuesday. This is often the ultimate goal for modernizing markets.

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The Strategic Shift to T+2

The move by the Nigerian capital market, spearheaded by the Securities and Exchange Commission (SEC) in collaboration with entities like the Nigerian Exchange Limited (NGX) and the Central Securities Clearing System (CSCS), is a major, strategic modernization of the market's infrastructure.

- **Enhanced Market Efficiency and Resilience:** The core benefit of moving from T+3 to T+2 is the significant enhancement of market efficiency. By accelerating the completion of trades, the transition introduces greater operational resilience and streamlines the post-trade process.

- **Mitigation of Counterparty Risk:** A shorter settlement period directly reduces the time that both the buyer and seller are exposed to counterparty risk, the risk that one party in the transaction may default before the final exchange is completed. This contributes to a more secure and stable trading environment.

- **Increased Market Liquidity:** The acceleration by one business day means investors gain quicker access to their capital (from sales) or securities (from purchases). This rapid return of assets facilitates faster reinvestment and enables more agile portfolio management, which is a key mechanism for boosting overall market liquidity and fostering greater trading activity.
- **Alignment with Global Standards:** The adoption of T+2 is a deliberate effort to align the Nigerian capital market with the prevailing practices of major global financial hubs. This commitment to international best practices strengthens the integrity of the market, enhances its competitiveness, and makes Nigeria a more attractive destination for both domestic and foreign portfolio investors.

In essence, the transition is more than a technical update; it is a foundational step that strengthens market infrastructure and investor confidence, paving the way for future sophisticated financial products and the potential eventual migration to an even faster T+1 cycle.