Concerns over Indian Stock Market Trade

Why in news?

\n\n

National Stock Exchange of India Ltd (NSE), BSE Ltd and Metropolitan Stock Exchange has released a joint action agreement.

\n\n

What is the trend in Indian derivative market?

\n\n

\n
- Exchanges as business entities need to promote their products globally or earn index service fees from foreign bourses.
\n
- Indian stock markets has various problems ranging from the non-availability of sophisticated financial products, tax uncertainty, administrative complexity in governing capital flows outside India.
\n
- Due this reasons the volumes in derivative trading based on Indian securities including indices have reached large proportions in some of the foreign jurisdictions.
\n
- This has resulted in migration of liquidity from India, which is not in the best interest of Indian markets.
\n

\n\n

What is the Joint action about?

\n\n

\n
- Exchanges used to provide real-time data online through dedicated private, high-speed, leased line circuits.

\n

- Which include licensing indices, prices of Indian securities for trading derivatives on foreign exchanges.
\n
- The three stock exchanges released a joint press statement for terminating existing licensing agreements with overseas exchangesfor providing indices and securities-related data feed services.
\n
- The exchanges will also have a clause in contracts with data vendors that any market data shared by the exchange should not be used to trade on foreign exchanges.
\n

\n\n

What is the need for this move?

\n\n

\n

- SGX (Singapore stock exchange) starts trading a few hours before Indian exchanges, and SGX Nifty futures are generally referred to by traders for early trading decisions.
\n
- Recently SGX started offering single-stock Nifty futures on top 50
\n Indian stocks, which account for more than a third of the futures volumes on the National Stock Exchange (NSE).
\n
- Foreign portfolio investors use such contracts to hedge their exposure in the cash segment, and moving to Singapore reduces costs as contracts are dollar-denominated and offer tax advantage.
\n
- This decision by SGX to launch single stock futures that has led to the current action by Indian agencies.
\n
- The exchanges, Securities and Exchange Board of India (SEBI) and the finance ministry take this measure to counter SGX's growing market share and concerns that foreign exchanges are becoming price setters for Indian securities.
\n

\n\n

What will be pitfalls of this move?

\n\n

\n

- Instead of economic reforms India has taken the path of interfering in Singapore’s ability to produce Nifty futures trading.
\n
- The loss will be for the Indian exchanges, who will lose revenues they currently earn from licensing their indices.
\n

\n\n

\n

- Foreign investors will feel that the cost of doing business in India is high, that policymakers lack sound instincts, and India will further lose appeal in the global community.
\n
- The international finance community will also look for workarounds that undermine the action.
\n
- The action constitutes protectionism, which harms a market (Singapore Stock Exchange, or SGX) that has served global investors well.
\n
- As with all protectionism, this decision favours one industry (the domestic securities industry) and harms the larger economy as the costs of foreign investment into India have just gone up.
\n

\n\n

\n\n

Source: Business Standard, Live Mint

\n