Protectionism in the Stock Market

What is the issue?

\n\n

\n
- Structural problems within India's stock exchanges are causing trading in Indian derivatives to move offshore.
\n
- But rather than addressing them, BSE, NSE and MSE recently announced stopping data feed regarding Indian stocks and indices to overseas exchanges.
\n

\n\n

What are the aspects that drove the move?

\n\n

\n
- While foreign exchanges seem to be doing better at attracting new clients, India's stock exchanges aren't willing to compete.
\n
- Instead, they've resorted to protectionism to guard the home turf against foreign exchanges by resorting to data feed disruption.
\n
- They've spelt out their intention to not renew existing agreement with foreign exchanges regarding data-sharing, most of which will expire in 6 months
\n
- The reason stated is that offshore derivatives could be causing "migration of liquidity from India, which is not in the best interest of Indian markets".
\n
- But in reality, higher volumes of Indian derivatives are trading in the offshore market than in domestic bourses, which has spooked Indian exchanges.
\n

- This crackdown on offshore derivatives market is hence more to boost the businesses of Indian exchanges than anything else.
\n
- This move is also expected to benefit ambitious endeavours such as the "International Financial Services Centre" in Gujarat.
\n

\n\n

What are the structural issues in the Indian stock market?

\n\n

\n
- Index derivatives such as the SGX Nifty that is linked to stocks that form Nifty, have gained the patronage of large foreign investors for many reasons.
\n
- These instruments are traded for longer hours in offshore exchanges, including hours when Indian exchanges are closed for business.
\n
- Contrarily, the proposal to extend trading hours by Indian stock markets has failed to take off.
\n
- Also, places like Singapore and Dubai, are low-tax jurisdictions that offer investors the chance to lower their transaction costs.
\n
- In India, in contrast, the securities transaction tax and the capital gains tax discourage foreign investment in financial assets.
\n
- All of these make the foreign exchanges more investor-friendly, and the fact that offshore derivatives are denominated in dollars adds to their allure.
\n

\n\n

What are the challenges?

\n\n

\n
- **Sustainability -** Foreign bourses will find other ways to list derivatives linked to Indian stocks and indices without any help from Indian exchanges soon.
\n
- The present move, thus, is unlikely to rein in the vast offshore market for Indian derivatives.
\n
- **Addressing Demand -** Singapore Exchange Limited (SGX) had recently

decided to introduce futures on individual stocks that are part of Nifty.
\n

- Incidentally, the SGX's decision to introduce futures was spurred by the SEBI's decision last year to restrict foreign investment in domestic futures.
\n
- While the current protectionism can be seen as a counter to this, it needs to be recognized that offshore markets are simply catering to the unmet demand.
\n
- **Way Forward -** India's policymakers should hence address the structural problems that have caused trading in Indian derivatives to move offshore.
\n
- This would be a far better response than any knee-jerk response favouring domestic exchanges and also boost trading volumes and businesses.
\n

\n\n

\n\n

Source: The Hindu

\n