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Trading places

Indian exchanges have a reason to stop providing data to foreign exchanges, but the transition has to be managed well

The surprising show of solidarity displayed by the three domestic stock exchanges, the BSE, the NSE and the MSEI, in halting the sharing of security and index data with foreign exchanges and trading platforms, appears to be part of a well-planned strategy that aims to achieve two objectives. One, to stop migration of trading activity from domestic bourses to overseas exchanges and two, to promote trading at the International Financial Service Centre at GIFT City in Gujarat. The exchanges could achieve both these objectives over the long term, but for now, the transition needs to be managed well to ensure minimum disruption to global trades in these securities. Care also needs to be taken that this move does not erode the credibility of the Indian stock market.

It would be wrong to term the move to stop providing Indian stock price data and Indian indices data, either directly or through subsidiaries or other third party vendors, to foreign stock and derivative exchanges and other trading platforms, as protectionist. The exchanges have been bearing a loss due to the transaction charges foregone, owing to this migration in trading volume; the exchequer has also been earning lower tax revenue from capital market trades. The charges for the live-data feed and for licensing the indices to foreign exchanges are not enough to compensate the exchanges. Lower transaction cost coupled with a conducive tax regime had made the Singapore Stock Exchange enjoy more than 50 per cent share in global trades in Nifty futures. Similarly, dollar-rupee futures traded on Dubai Gold and Commodities Exchange had been surpassing the volume on some of the domestic exchanges. Domestic exchanges are well within their rights to decide to stop providing the data to foreign trading platforms to stop this revenue leakage. The placatory stance adopted by the Singapore Stock Exchange in stating that it will work jointly with NSE in developing solutions from NSE's International Exchange in GIFT City proves this. While investors and traders in offshore destinations could be miffed, they have an alternative trading venue for Indian securities and derivatives in India's IFSC at GIFT City.

With the recent changes in the budget, both transaction cost as well as taxation of gains made in the Indian IFSC have become quite competitive. Foreign investors wishing to avoid currency risk can now trade Nifty and other stock futures on the exchanges located here. The shift in trading will, however, not take place overnight, as traders typically tend to converge on bourses where volumes are higher. Transaction volumes are almost negligible on the GIFT exchanges currently. The exchanges in the GIFT IFSC could enter into an agreement with other offshore exchanges to develop products that could be jointly listed and traded, with mutual benefits. The exchanges also need to communicate the rationale behind the move to global investors so that they do not turn away permanently from Indian securities.