Headline: NSE/BSE raises issues of Indian taxation/regulation-Editorial	
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NSE/BSE raises issues of Indian taxation/regulation

Mistaking their joint action for protectionism incorrect but govt must address the issue of why investors want to use SGX

IT IS EASY, but incorrect, to categorise the joint action by NSE, BSE and MSE—to immediately terminate the agreements for licensing indices to foreign exchanges like Singapore's SGX and to stop providing them live data feed—as a form of protectionism. Volumes of Nifty futures on SGX, the argument goes, have been going up steadily, so Indian stock exchanges—and possibly the Indian government as well—are rattled and their wanting to stop SGX type of competitors is a form of protectionism. While it is not clear why the exchanges gave out their feed in the past or licensed other exchanges like SGX to create competitor products for that matter, it is obvious they are well within their rights to stop this so since these are proprietary in nature. To understand why this is standard market practice and not protectionism, try and get a Nasdaq or a CME to give a competitor live feed that can help create rival products—for an exchange, or a country, to not want to fragment liquidity is a perfectly valid concern.

There are, however, larger issues that need to be addressed, indeed these should have been addressed a long time ago by the government, given the way volumes of Indian products were rising so fast on the SGX. If investors/traders were migrating to SGX over the years, was this because of Indian taxes like the STT and, now, the long-term capital gains tax (LTCG) were too high and ensured a lot of paperwork for investors? If it is a factor, even if not the only one, then what is India's strategy to counter this? It is true that India can't compete with every country on tax rates, but if the tax policy is not thought through, this can lead to India losing out in a big way and consistently exporting its markets. If it is Sebi's rules and regulations, such as banning participatory notes or various KYC norms that irk investors, this also needs to be thought through.

On the face of things, the government is addressing these issues though the GIFT international financial services centre (IFSC) in Gujarat. Since dollar trading will be allowed in GIFT, there will be no exchange risk of the sort investors need to deal with in BSE/NSE/MSE and there is no STT or other tax such as the LTCG tax imposed in this budget either on exchanges in GIFT. In which case, by not extending the tax breaks to local stock exchanges like BSE, NSE and MSE, the government seems to want to migrate part of their business—that done by foreigners—to the GIFT IFSC. That can't be great strategy since it ensures Mumbai will never get the same chance of becoming an international finance centre. Indeed, this newspaper has always been uncomfortable with SEZs for this very reason of them taking away business from mainland companies due to unfair tax sops. Similarly, if Sebi's regulations and the need to file tax and other returns by local investors are too onerous, this needs to be fixed for them and not just for investors in GIFT-type IFSCs. In short, the move by the three exchanges is not protectionist, but it throws up many questions that the government and regulators need to think about if India wants to retain its markets and not export them away.