

IFSC at GIFT City – how India INX is making it a pivot for entry into global capital markets



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For India International Exchange, India INX, the journey thus far has been quite interesting. It is the first International Exchange of India set up at International Financial Services Centre, at Gujarat International Finance Tech City (GIFT City).

India INX was launched as the first International Exchange from India on 9th Jan, 2017 by Prime Minister Narendra

Modi and have recorded a daily average turnover of USD 57+ million as of August 2017 with total daily turnover exceeding USD100Mn on 5th May, 2017. While for the initial months the market attraction was around newly launched SENSEX50 and its underlying, with introduction of commodities, the market has seen interest picking up in both equity as well as commodity derivatives.

Vision for INX is beyond the ordinary

India INX's vision, in a way, has been cast in the national aspirations that Prime Minister Narendra Modi mentioned in his inaugural address of the exchange. In ten years, IFSC set up at GIFT City should become a price setter for few of the largest traded instruments in the world – across currencies, commodities, equities, interest rates or any other financial instrument. And why not? Global financial centres like London, Singapore, HongKong, Dubai or New York are buzzing with business volumes being exported from large growing emerging economies like India – in terms of both services bought by Indian companies as well Indians working in these financial centres. Today more than USD50 billion is spent by Indian companies in charges for buying services from other global financial centres. The corporates and the manufacturers go abroad to hedge their input and output price risk, importers and exporters hedge their risk of freight and product price abroad, international traders hedge their currency risk abroad, etc. More than 50% of trade in Indian currency happens outside India. This is not just true of financial services. India's consumption of gold is 25% of global physical gold consumption p.a. Yet, our importers hedge their gold prices abroad with 97% of exchange traded gold volume being traded overseas.

Many firsts are at offer from India INX

Being India's first international exchange, India INX is offering several firsts. For one, it is the first international exchange in Asia and Europe which trades uninterrupted for 22 hours. It overlaps with all time zones right from Japan to US allowing participants from all parts of the globe to trade in the exchange and react to real time information and market movements.

Second, it is also the first exchange which will allow foreign investors to invest in India market underlying simultaneous with global securities without incurring any currency risk as the market operates and settles in USD.

Third, ease of entry norms have been set at par with any global jurisdiction. For example – eligible foreign investors can directly start trading at INX by merely completing their KYC process with a trading member of the exchange. Further, FPIs registered in India, can directly start trading at INX as long as they ring fence their IFSC operations from domestic operations. Even all SEBI registered intermediaries or its international associate can now directly provide intermediary services at IFSC post approval from SEBI.

Fourth, a new version of India's leading stock market index, sensex was launched at India INX for the first time – SENSEX50. In a short span of time, the liquidity in SENSEX50 as traded at INX has already surpassed the volume of other exchanges.

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Competitiveness of India INX is more organic as compared to global IFSCs

There are several inherent strengths that India INX comes with. At an era when capital markets technology is about speed of access and order matching, India INX offers its technology platform with world's fastest speed of 4 microseconds. It hosts an in-house datacenter offering co-location facilities open to all participants – be it member or client across the globe. To offer perspective, this is one fifteenth the speed of Singapore exchange which is at 60 microseconds.

Products on offer at India INX offer a very exhaustive portfolio to investors. It includes Single Stock Futures of top 107 Indian stocks, index futures, foreign Single Stock Futures of Apple, Google, Facebook, Microsoft

and JP Morgan and a wide basket of cross currency derivatives and commodities which includes gold, silver, gold kilogram to name a few.

Supporting the real economy and its fund requirements is to the core of an exchange. India INX also plans to offer fund raising platform to support the real economy starting with debt securities and eventually expanding the basket to equity products as well – to both Indian and foreign issuers.

Technology evolution is also transforming cost structure of participants. The price point of India INX is significantly cheaper as compared to global exchanges – sometimes as low as 70% of the cost of other exchanges. For brokers, clearing members or other intermediaries, this enables them to compete better especially those who are offering client facing services like Mutual Funds, Alternative Investment Funds, Pension Funds, etc.

The Journey has just begun

These are early days for India INX. The exchange has received warm response from all types of participants – members and clients with an eagerness to be part of the

story. But realizing a vision beyond the ordinary will require commensurate extraordinary effort from all stakeholders. An exchange is just one of them which will have to offer a comprehensive suite of services. The role of regulators will serve to be the differentiator in developing the ecosystem at GIFT IFSC. This would mean significant departure from extant policies and guidelines which, over the years, have contributed to USD50+ billion in export of services p.a.

Much was already announced in 2015 budget with several tax waivers being offered at GIFT IFSC. Regulators, too, have realized the same and have been constantly reviewing their policies, guidelines and have issued several amendments applicable for IFSC. Much more will be required in days to come – for example allowing individuals (Indian or foreign to invest in IFSC), easing some of the operational roadblocks for exchanges, etc. Despite of the issues that remain, IFSC mission has seen one of the most recent concerted efforts to liberalize India's capital market in recent years.

With action picking up at all front, the coming years will be full of excitement for global capital markets.
