

Competition in Stock Exchanges - Challenges and Opportunities



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Competition among stock exchanges, both at national and international level, has increased in recent times. As conventionally, exchanges were considered either as public entities or as formal private bodies regulated by public rules, often enjoying legal monopolist position, given their nature of business/activity, which resembled that of a public goods. However, over the last two decades, the competitive structures of stock markets across the

in the industry, but at the same time raised concerns around cybersecurity and data protection. The constant and evolving cybersecurity threats to stock exchanges are forcing them to focus on data protection and protecting their technology ecosystems, this comes at a cost. All these developments, although required to provide a seamless service to members and clients, puts additional pressure on revenues of exchanges.

Opportunities Galore

There is an old saying that every problem is an opportunity in disguise. The evolution of new financial instruments, massive advancements in information technology, and a greater financial market participation among common people is offering novel opportunities for stock exchanges to meet stakeholders' expectations and to stay abreast in a stiff competitive environment.

Increasing integration of global capital markets off late makes it easier for firms to access capital outside of their home countries. As the capital markets become increasingly globalized, investors have wider choices and are demanding better trading facilities, market efficiency and competitive services from stock exchanges. This provides an opportunity for exchanges to tap new markets and expand products and service offerings either on their own or through strategic partnerships and sometimes even both.

To address emerging challenges and tap opportunities, adoption of digital transformation is necessitated by stock exchanges to reduce manual operations, enhance market surveillance, lower latency for various services, provide data on demand, enhance service experience, etc. While the journey to digital transformation will not be easy, however, exchanges risk being displaced, if they fail to move forward.

The challenge for stock exchanges is to find new opportunities in the present environment, while surviving new challenges. Accordingly, many stock exchanges are now reworking their investment decisions, regulatory reforms, and strategic choices.

GIFT IFSC – Fast Emerging as a Global Financial & IT Hub

The capital market in the country witnessed a new dawn and made a mark in the global capital market with the advent of International Financial Services Centre (IFSC) at Gujarat's GIFT City in 2015. The latest Global Financial Centers Index, London, (March 2022) puts IFSC in GIFT City at the top amongst 15 centers globally, which are likely to become more significant over the next two to three years. This acts as a testimony of GIFT IFSC fast emerging as a global financial and IT hub.

Dawn of GIFT IFSC unveiled opportunity for exchanges to set up operations and offer services for a wide range of securities such as equities, commodities, equity derivatives, debt, currency & index-based derivatives, etc. BSE, Asia's first exchange, seized this opportunity to set-up the India International Exchange (IFSC) Limited (India

world have witnessed substantial changes.

Driving Forces for Enhanced Competition among Exchanges

Globally, stock exchanges are operating in an industry, which is fast getting reshaped by business challenges, emerging technologies, and strategic preferences. The emergence of technology in capital market operations, has enhanced competition among exchanges by eliminating barriers and monopolies. Further, advancement of electronic trading, regulatory reforms, globalization, and free capital mobility resulted in no dearth of competition among exchanges and completely transformed the business model of exchanges. The transformation of the securities markets led to increase in competition among stock exchanges, resulting in mergers, takeovers, creation of new exchanges, technological agreements among exchanges, strategic tie-ups, etc.

Myriad Challenges

In recent years, stock exchanges in global markets have faced several challenges due to regulatory mandates, technological advancements and increasing competition. Other significant issues impacting exchanges is concerns about data and cyber security, changing dynamics of financial intermediation, and environmental, social and governance (ESG) transparency.

Heightened regulatory mandates globally is prompting stock exchanges to focus on areas such as enhanced surveillance, risk management, robust operational processes, etc., which is escalating operations cost. Globalization is also opening the possibility of listing in multiple exchanges even outside the country resulting in squeezing of margins from increased competition.

Capital markets processes have become increasingly more digital as market participants demand faster execution speeds and seamless access to information. These technological advancements accelerated changes

INX) at GIFT IFSC. India INX, India's first International Exchange set up at GIFT City, which was inaugurated by the Hon'ble Prime Minister of India, Shri Narendra Modi, on Jan 09, 2017, and commenced its trading activities on January 16, 2017, never looked back and soon made a mark for itself in the global financial markets arena.

Government of India's vision to position GIFT IFSC as India's gateway to the world of global finance, got a fillip in April 2020 with the establishment of the International Financial Services Centres Authority (IFSCA) as a unified regulator for GIFT IFSC. IFSCA's ushered in various regulatory initiatives benchmarked with international best practices. The regulator's furthering support to promulgate GIFT IFSC as a hub for Alternative Investment Funds (AIFs), Fin-tech, REITS, INVITS, etc., has unveiled new business and investment avenues for stock exchanges.

India INX Tapping Emerging Opportunities Geopolitical Developments

The fast-emerging GIFT IFSC, which has conducive tax and supportive regulatory framework comparable to any international financial centres is only going to boost the IFSC as a favourable investment destination for global investors. Added to this, the current geopolitical challenges of the world could well work in favour of the GIFT IFSC in attracting more foreign financial institutions. China's growing trade rift with the US, rising internal tensions in Europe amidst Brexit, and newfound political tensions due to Russia-Ukraine conflict, might favour India INX by enhancing its attractiveness as a listing destination for non-domestic firms and investment destination for investors. India INX as emerged as a preferred listing destination within IFSC and has established USD 69+ Bn of MTNs and listed USD 46+ Bn of bonds. On the Secondary market, the cumulative turnover is USD 5.87+ Trillion as on 30th June 2022 with highest daily turnover of USD 30.3 Bn

Sustainable Financing

The global capital market is witnessing a paradigm shift in recent years as the world is transitioning to a sustainable finance. The GIFT IFSC gave a new thrust to 'Sustainable Financing' not only with its beneficial tax regulations, but also ensuring robust regulations encouraging greater participation from within India and outside India. As a part of its role in facilitating green finance, India INX, which is committed to facilitate fund raising for green financial projects and promotes ESG (environment, social and governance) standards launched 'GSM Green' Platform, in 2019. GSM Green is now fast becoming a preferred platform for listing of green bonds. To boost green finance, India INX and LuxSE joined together to sign a cooperation agreement through which the two exchanges will enhance the visibility of listed Indian securities towards international investors by facilitating admission of such securities on LuxSE.

India INX GA – Opens a New Conduit for Domestic Investors

Innovation is the trait of a competitive financial market structure where the market participants need to continuously innovate to remain relevant. One such move is launch of India INX Global Access IFSC Ltd. (INX GA), a wholly owned subsidiary of India INX. This facilitates India INX to provide an outbound platform to investors via its INX GA. Herewith, resident individuals can use the India INXGA platform to transact and invest in global stocks in an easy and convenient manner under the Liberalised Remittance Scheme (LRS) route. India INX GA offers stocks from the US, Canada, UK, Europe, Australia, and Japan, covering about 80 per cent of the investing universe and eventually plans to provide access to over 135 exchanges across 33 countries worldwide covering global exchanges in America, Europe, Asia Pacific and Africa.

GIFT IFSC as a world-class fintech hub'

India's emergence as a top destination on the global fintech map was possible on the back-off structured, regulatory, and government support for the growth of fintech start-ups in India. In 2020, IFSCA with an objective to develop a world class FinTech hub at the IFSC came-up with a "Regulatory Sandbox Framework." India INX is making yet another significant stride in this direction through "launch of Innovation Sandbox Portal at India INX." With this launch, India INX will provide Fintech companies a window where in innovative ideas and products can be tested on a pilot basis before implementing them in the market. The move is set to encourage adoption and usage of financial technologies to further develop and maintain a transparent securities market ecosystem.

Conclusion

Thriving exchanges of the future likely will be characterized by their understanding and adoption of innovative solutions and enabling technologies that are designed to attract a broader ecosystem of players and provide them with access to more data for decision-making and the ability to access markets seamlessly.

India INX's incessant focus on creating a comprehensive eco-system for offering universal exchange services has helped set up a strong business foundation for the Exchange's international business. The stock exchange characterized by novel revenue streams, efficient operations, resilience, and ability to adapt and innovate, and a symbiotic network of ecosystem partners has not only contributed to its success but also immensely bolstered GIFT IFSC to become an "Investment Gateway" for India.