

The Road ahead for Exchanges at GIFT City



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The Covid-19 Challenge

An unprecedented crisis is underway in the form of a pandemic "Covid-19" that has disrupted the global economy. It is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. India, too, has

not been spared from the exponential spread of COVID-19. While efforts are being mounted on a war footing to arrest its spread, the aftershocks are being felt in the economy. Never in living memory have governments, industry, civil society and the aam aadmi been united and is being forced to reassess how to lead lives, work and plan for a safer, healthier collective future.

On the bright side, this unforeseen crisis has also offered us with an opportunity to revisit how we conceive, design, regulate, build and operate in a new world, a different world. For instance, on 18 May, India crossed an unlikely milestone when it became the second largest producer of personal protective equipment (PPE) globally. It is a remarkable feat that India went from producing zero to 450,000 PPE kits a day in less than three months thanks to the government's aggressive manufacturing push. Similarly, the pandemic has once again shown that India's Pharma industry is an asset not just for India but for the entire world by exporting lifesaving medicines even to developed countries and reducing the cost of medicines for developing countries.

Self-Reliance in Financial Services

In his address on May 12, the Hon'ble Prime Minister of India announced financial incentives on top of previously announced packages for a combined stimulus of ₹20 lakh crore or 10% of GDP, addressing the financing and liquidity problems that firms, businesses and utilities are facing due to the lockdown. The initiative aims to build a self-reliant India by prioritising MSMEs, liquidity and welfare, agriculture, power distribution, mining, health, rural employment and housing sector reforms. The focus on import substitution, reviving demand and export-oriented industrialisation are key underlying themes. The multiplier effects of domestic manufacturing have been long well established by other Asian countries.

However, for sustainable growth and development, India can no longer afford to rely only on manufacturing sector. It must strengthen its services sector as well, particularly financial services and technology. An IFSC is an important catalyst in this process. I do believe that in today's times, businesses and companies are very well positioned to take advantage of the opportunity ahead of us. Raising capital is a strategic priority in this current scenario, and the by responding to the Prime Ministers call for Atmanirbhar Bharat, stock exchanges in India have demonstrated tremendous resiliency. Stock Exchanges and all associated market infrastructure institutions in India demonstrated tremendous growth despite the challenges posed by the Covid-19 pandemic and were fully functional despite the lockdown, on back of government and regulatory support, meticulous planning and technological advances, thus ensuring uninterrupted business continuity for market participants.

The current Government is not only making structural and administrative changes but has also given new directional leads with many new initiatives like Digital India, Make-in-India, smart cities as well as the IFSC. The IFSC would dovetail well with this vision, reduce dependence on foreign capital, serve the Indian diaspora, create jobs in India and generate revenues for the Government. Thus, it can be an engine of growth give India a leading share in global international financial and related professional services centre.

GIFT City

With this vision, Gujarat International Finance Tec-City (GIFT), Gujarat, India has set up International Financial Services Centre (IFSC) - the only approved IFSC in India. The GIFT IFSC is a gateway for inbound and outbound business from India, and fast emerging as a preferred destination for undertaking International Financial Services. The GIFT IFSC covers banking, insurance, capital market and allied services covering law firms, accounting firms and professional services firms. It provides very competitive cost of operation with competitive tax regime, single window clearance, relaxed Company Law provisions, International Arbitration Centre with overall facilitation of doing business.

Recently, the Government also setup a unified regulator - the International Financial Services Centre Authority (IFSCA) and permitted a Rupee derivatives to be traded at IFSC, a long standing demand of market participants. The government also proposed to set up an international bullion exchange at GIFT city, which will lead to better price discovery of gold, create more jobs and enhance India's position in such market. These steps bode well for the future of GIFT city.

India INX – the Preferred Destination to invest in India

In Jan 2017, BSE launched India International Exchange (India INX) India's first international exchange at GIFT City. The exchange is a subsidiary of BSE, with ICICI Bank also being a partner stakeholder. The exchange was inaugurated on January 2017 by Hon'ble Prime Minister Shri Narendra Modi as the first International Exchange at IFSC.

The exchange has been operating successfully at GIFT City and is the forerunner of a thriving capital market at GIFT IFSC. The cumulative derivatives trading turnover has crossed USD 934+ billion within a short span from January 2017 until June 2020. It has achieved the highest turnover of USD 4.90 Bn in a single day. The Average Daily Turnover in derivatives for FY 2019-20 is USD 2259+ Mn with an overall market share of 82% in GIFT IFSC. For Equity Index Futures and Options segment, during FY 2019-20 the Exchange had a market share of 50.57% as compared to SGX Nifty. Similarly, India INX's Gold Futures market share as compared to equivalent Gold Futures traded in Dubai was 55.74% during FY 2019-20.

The exchange also launched monthly and weekly derivative contracts on the Indian rupee on May 8, 2020 for international investors and non-resident participants who currently participate in rupee trading in various offshore markets. The India INX platform offers such participants, an additional trading venue at par with the other offshore market platforms. Long trading hours and USD settlement at IFSC would also help to improve access for overseas participants. Hon'ble Finance Minister Smt. Nirmala Sitharaman inaugurated Rupee Dollar Derivatives on India INX on May 08, 2020 during the Covid-19 lockdown which are available for trading for 22 hours to all international participants across the globe. Even during the Covid-19 pandemic & lockdown, India INX was operational for 22 hours nonstop. Daily turnover in Rupee Derivatives at the exchange is now averaging more than US\$ 200 million, with a market share of close to 87% among GIFT IFSC based exchanges.

The Global Securities Market platform of India INX, which caters to the needs of Indian and foreign issuers to raise funds has emerged as the leading primary markets platform at GIFT IFSC with 100% market share in Medium Term Notes ("MTN") establishment and 99% market share in listed bonds in GIFT IFSC. As on March 31, 2020, the Global Securities Market has cumulatively established USD 48.57 billion of MTN and listed USD 21.28 billion of debt securities including masala bonds and green bonds.

The distinct competitive advantages INDIA INX offers for global investors are a liquid and deep market which is open for trading for 22 hours a day, robust governance and risk management aligned with PFMI, higher position limits with single market access and a wide choice of collaterals such as Foreign securities, Bank Guarantees,

Fixed Deposits, cash, Government Securities, AAA rated international securities etc.

It is the most cost competitive exchange globally and world's fastest exchange with a speed of 4 μs. It has tied up ICSDS for settlement of trades and collateral management and mitigates currency risk as trades are settled in US Dollars.

INDIA INX has been in the forefront in partnering with the regulators across the securities market, banking and other government authorities for initiating various measures to make the securities market at the IFSC at par with the global financial centres. This has led to engendering an ecosystem at the IFSC which caters to a diverse set of participants.

Advantages of Becoming a Member at India INX

The substantial increase in trading volume and open interest on the INDIA INX across index, commodities and currency derivatives further reinforces our leadership as India's leading International Stock Exchange. This is a clear indication of the effectiveness of our strategy and showcases our capability to become a leading international derivatives exchange in the years ahead. Further, trading in rupee derivatives is already attracting more participants to the IFSC, thereby, increasing liquidity and expanding the IFSC securities market further.

Indian or foreign entity, having an IFSC based subsidiary, can become a member of the Exchange. Foreign participants have an option to trade using the Omnibus facility with the Segregated Nominee Accounts structure. All registered FPIs have been grandfathered, thus, enabling them to trade directly in equity and commodity products. Eligible Foreign Investors (EFI) can trade as clients of a trading member of the Exchange by completing the Know-Your-Client (KYC) formalities with the trading members. Funds at IFSC can invest in India through FPI, FVCI or FDI routes.

While the journey so far for INDIA INX has been short, it has been pioneering in the true sense. While registering many firsts, as mentioned above, it has also been a "Thought Leader" and a "Go To" reference point for new initiatives in the securities market at the IFSC.

India INX's vision, in a way, is witnessing the trajectory and aspirations set by Prime Minister Narendra Modi 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 should become a leading fund raising destination for Indian and Foreign issuers."

The China Conundrum - Can GIFT City take advantage?

Recently, China introduced a national security law in Hong Kong, and it is facing unrest as a result. Many settled and trading in Hong Kong are not comfortable

with this and some foreign investors are considering moving out of Hong Kong. Many investors and funds that invested via Hong Kong are also looking to diversify to other centres. This is an opportune time for India to attract business at the GIFT City from those exiting Hong Kong. GIFT IFSC is an alternative that can service not just India oriented investments, but also be a hub for servicing global investors much like Hong Kong, Singapore, Mauritius or other domiciles. The IFSC zone in GIFT city, Gujarat, offers tax and supportive regulatory framework comparable with any global financial centres. These include waiver of several taxes like transactions, dividend distribution, capital gains, GST, stamp duty, lower withholding tax rate of 4% on interest payments for bonds listed on IFSC Exchanges etc.

However, the IFSC zone needs further push in terms of good regulatory and taxation system that provides certainty and ease of doing business. Product innovation by permitting composite equity derivatives and convertible debt and asset backed securities, permitting international exchanges at GIFT IFSC to specify equity as well as GDR listing framework at par with global exchanges will go a long way in deepening and widening the market. Permitting direct dollar clearing or clearing in other major foreign currencies like the pound and euro, like in Hong Kong could make a difference.

Future Outlook

Located at the crossroads of continents, GIFT city in India provides unprecedented conditions and opportunities for its participants and investors: legal system based on the principles of the English law, independent regulatory framework consistent with internationally recognised standards, best tax regime, depth and breadth in financial services and instruments', and English as a working language. For financial institutions searching for an ideal location to set up a service centre and operationalize their transformation, GIFT city offers advantageous tax incentives aimed at facilitating the establishment and development of financial services in India.

The current scenario is clearly an inflection point for policymakers to attract the fund industry and trading business and create a vibrant financial services ecosystem. A well-coordinated effort from the Government of India, Ministry of Finance and Exchanges at GIFT IFSC to attract participants from Hong Kong and other countries will go a long way in boosting GIFT city credentials as a serious player as global businesses look to diversify their business risks.