Growing Asia – Its Promising Markets

Association of National Exchanges Members of India

Presentation by
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## Ratio of Asia to World GDP 2010 GDP (nominal) N1 millions of US dollars

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (nominal) millions of US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>People's Republic of China</td>
<td>5,878,257</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>5,458,872</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>1,537,966</td>
</tr>
<tr>
<td>4</td>
<td>Russia</td>
<td>1,465,079</td>
</tr>
<tr>
<td>5</td>
<td>Australia</td>
<td>1,235,539</td>
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<td>6</td>
<td>South Korea</td>
<td>1,007,084</td>
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<td>7</td>
<td>Indonesia</td>
<td>706,735</td>
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<td>8</td>
<td>Saudi Arabia</td>
<td>434,440</td>
</tr>
<tr>
<td>9</td>
<td>Republic of China (Taiwan)</td>
<td>426,984</td>
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<tr>
<td>10</td>
<td>Iran</td>
<td>337,901</td>
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<td>11</td>
<td>Thailand</td>
<td>312,605</td>
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<td>12</td>
<td>United Arab Emirates</td>
<td>239,650</td>
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<tr>
<td>13</td>
<td>Hong Kong</td>
<td>226,485</td>
</tr>
<tr>
<td>14</td>
<td>Israel</td>
<td>194,825</td>
</tr>
</tbody>
</table>

*World GDP: 57,937,460*

*Asia GDP: 16,774,002*
Issues in Asia

• Protectionist measures as a responses to the global economic crisis will worsen the situation further.
• Economic slowdown should not be used to become a trigger for building walls around us by erecting barriers in movement of people, services and capital.
• Declining: Global demands and availability of capitals.
• Increasing: Trade Business
• Mounting: Debts
• Efficacy: Bretton Woods Institutions
Introduction

- The recent crises has clearly demonstrated the need to develop well functioning local-currency bond markets
- High costs of funds a restraint on investments and eroding profitability
- The key to robust financial markets is the availability and stable costs of long-term funds
- Aiming at financial market development to enhance economic growth
- The need for portfolio stability for investors.
- Financial Reforms for FDI have been implemented and more are planned
Strategies and measures being deliberated to attract foreign investors and enterprises in India
• Foreign Direct Investment Norms (FDI)
  – This is a prudential issue involving company ownership in India. Foreign ownership norms relaxed to 49% in most cases.

• LLP’s – A new window for FDI

• FDI in multi Brand Retail in the offing
  – 100% FDI allowed in wholesale trade
  – 49% FDI in multi brand retail expected
  – 100% FDI allowed in wholesale trade through automatic rule w/o performance related conditions

• FDI in defense industries increased to 50%
  – This is an significant measure which will result in an inflow of investments and technology

• Easing of Listing and delisting norms for speedier clearance
  – This will do away with complex listing and de-listing requirements
• Breather for foreign partners – Press note 1 of 2005 scrapped
  – Prior approval for any further investments now not required and NOC requirement from local partner no longer required

• Convertibles - a new lease of life
  – Amended FDI policy allows investors flexibility to prescribe a conversion formula upfront as opposed to a fixed conversion price or ratio

• Shares without Cash Consideration
  – The amendment allows Indian companies leverage to buy machinery and equipment from foreign collaborators without being stymied by cash considerations

• SME Exchange norms under finalization (Similar to (AIMS))
  – Companies with less than 25 crores nett worth will be able to list on the SME Exchange
  – This will provide a market place to SME at less cost and compliance for raising resources.
Business Alliances - Global Exchanges

• SEBI announced a *Liquidity Enhancement Scheme (LES)* to encourage liquidity in illiquid securities in the derivatives segment and which will be operational for six months.

• NSE has started the scheme of its super denominated index of DOW & S&P

• The scheme enables the exchanges to incentivize traders / market makers / clients to generate volumes in the futures and options contracts of the underlying products.

• This will help exchanges to extract value out of their global exchange alliances

• It will help in building a healthy order book in the underlying securities as well as trading in global indices for an
  – Effective hedge against volatility from overseas markets
  – Better price discovery.
  – Contracts will be Rupee denominated w/o currency risk

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Current Business Alliances
A gradual move to globalization

- The National Stock Exchange of India Limited
  Alliances with SGX, S&P, DJIA
    - The NSE NIFTY is already listed on the SGX
    - Currently Offering Index Futures on S&P 500 and DJIA and Options on S&P 500.
    - Will soon offer options on DJIA and FTSE 100
    - Further products expected

- The BSE Limited
  Alliances with Nasdaq
    - Plans to offer options contracts of Nasdaq 100
    - Plans for offering weekly rollover in futures,
    - Larger number of options,
    - Increase in series

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Query:

- **Will such collaboration and common trading platforms lead to the future integration of Capital Markets in the region?**
  - No much initiative has been taken by any Indian Exchange. ASEAN Region, however the current collaboration with exchanges abroad is a healthy development;
  - India is following a step by step process
    - 1\textsuperscript{st} Step is the listing and trading of indices and options there upon
    - 2\textsuperscript{nd} step will follow with stock futures
    - Finally trading ADR and other depository receipts
  - This will lead to more efficient price discovery and integration process

- **Is it a desirable scenario for further economic development in the region**
  - Yes - an integrated Market will help raising of finances with a more efficient disclosure of company valuation for investments.
  - Economic slowdown should not be used to become a trigger for building walls around us by erecting barriers in movement of people, services and capital.
Mergers between exchanges globally

Advantages:

• Cross border mergers increases potential investor base
• Globalization, deregulation and technology permits smaller trading vehicles to enter market - at lower cost

Disadvantages:

• Merging a country’s stock exchange raises political opposition
• Globally questions raised as to ability of a country to be a financial center
• Regulatory approvals required to avoid dominancy of an exchange to deter competitions
The Indian Market – Prospects

- Indian market gradually moving towards globalization
- Currently valuations are at low levels – the underlying are fairly valued
- So an opportunity definitely exists – given that within the next few years Indian GDP growth will make it the third largest economy
- However during the current crises period the market has under performed due to overseas factors
- Financial reforms will lead to faster growth and large inflows of FDI – given that that Europe debt crises slows down
The Bond Markets in India

Disclaimer:

India are not members of the ASEAN and we cannot comment on the Asian Bond Market Initiative.

Nevertheless considering the importance for development of a viable Bond Market in India, we would like to share with you Indian Bond Market development initiatives.
Current Bond Market in India

Bond Market Size

• In terms of percent to GDP Bond Markets in India might appear lower than other Asian countries

• In absolute terms however it is third behind China and Korea

• However India has a low level of corporate debt markets

• The turnover ratio of sovereign debt is low in comparison

• Fairly liquid turnover in long-term dated securities
Motivation for development of a bond market

• Surge in Infrastructure investment is being financed by bank lending.
  – Financial crises leading to instable interest rates
  – Sector exposure limits constrains growth
  – Alternative stable funds mechanism needed for stable growth

• Debt is an important channel for financing fixed asset investment in manufacturing as well

• Markets are more efficient than banks and must be developed quickly to sustain investment momentum
Government of India move to strengthen Bond Markets

• The Indian government has commenced an inter-regulatory effort to identify and address barriers to bond market development.
  
  – Inter regulatory overlap – RBI & SEBI for development of Corporate debt
  
  – Tax and Revenue implications
  
  – Prudential Implications
    
    Liberalization of investment norms for Insurance Companies and Provident / Pension / Gratuity Funds
  
  – Alternative means of risk mitigation – CDS, Bond Insurance
Measures Implemented

Primary Market
• Removal of TDS
• Simplification though Stronger disclosure norms
• Rating rationales as basis of issues by unlisted companies
• Raising of FII limits
• Banks, Investment Banks to act as market makers

Secondary Market
• Trade reporting system
• Unified Market Conventions
• Electronic clearing & settlement systems
• Reporting platform for OTC interest rate derivatives
• Facilitation of DvP through transitory pooling accounts
• REPOS in corporate bonds
• Credit Default Swaps
Measures that need consideration

Tax and Revenue implications

- Exemption from withholding tax for FII’s
- Rationalization of taxes and duties
- Reconciling definitional differences

Prudential Implications

- Liberalization of investment norms for Insurance Companies and Provident / Pension / Gratuity Funds
- Single unified database to ensure reporting by all entities
- Repo lending by insurance companies and mutual funds
- Partial Credit Enhancement by Banks

Alternative means of risk mitigation

- CDS,
- Bond Insurance

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Thank You

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