Association of National Exchanges Members of India

Growing Asia – Its Promising Markets

TRUST	WELFARE	INTEGRITY	EDUCATION

Presentation by
Dr. Naresh Maheshwari – President ANMI

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

—	World	**57,937,460**
—	Asia	**16,774,002**
1	People's Republic of China	5,878,257
2	Japan	5,458,872
3	India	1,537,966
—	Russia	1,465,079
4	Australia	1,235,539
5	South Korea	1,007,084
6	Indonesia	706,735
7	Saudi Arabia	434,440
8	Republic of China (Taiwan)	426,984
9	Iran	337,901
10	Thailand	312,605
11	United Arab Emirates	239,650
—	Hong Kong	226,485
12	Israel	194,825

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 ill liquid 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

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

Current Business Alliances - 2

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
    - 1st Step is the listing and trading of indices and options there upon
    - 2nd 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

Thank You

A Presentation by

Dr. Naresh Maheshwari – President ANMI

Email: president@anmi.in

Web: www.anmi.in