

Allow foreign investment in SEs?

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Strengthen regulatory standards first

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The ownership of exchanges should be largely left to market forces with minimal regulatory intervention. The regulatory goal should be to ensure that the securities trading industry is highly competitive. The death of the trading floor and the rise of electronic trading platforms have completely changed the nature of exchanges.

From being cosy clubs, they have become complex businesses that are technology driven. In the process, they have also become highly capital intensive. The ability to respond to the demands of a highly sophisticated and global user base has become paramount. SEs and derivative exchanges now require investors with deep pockets and willing to make the strategic investments required to grow the business.

Any attempt to exclude such investors tends to favour incumbent exchanges and perpetuate existing monopolies and duopolies. From the social point of view, this would lead to a less competitive and therefore less vibrant, less innovative and less investor-friendly capital market.

We must welcome foreign investment in our SEs and commodity derivative exchanges as well as the exchange-like entities that trade currency and fixed income products. SEs and derivative exchanges enjoy very attractive valuations in global markets today and we must allow our exchanges to tap these global markets to raise capital. Foreign exchanges and other strategic investors could also help revive and strengthen the less well performing exchanges and thereby foster greater competition.

India's position on foreign ownership should be the same as that of the Financial Services Authority of the UK which has stated: "We will be indifferent to the nationality of the owners or the managers of the London Stock Exchange, and will be concerned to ensure that the future operation meets our regulatory standards.

" We too should focus on strengthening our regulatory framework so that ownership of the exchanges becomes irrelevant. We must not allow the incumbent exchanges to wrap themselves in the flag and appeal to our xenophobia to block much-needed competition.

It will help unlock huge efficiency

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CMD, Financial Technologies Group

At the outset I need to congratulate the stand take by the government to permit 49% (26% by FDI & 23% by FII) foreign investments in SEs. This clearly follows the global precedence in exchanges like NYSE, CBOT & NYMEX which demutualised in record time. Subsequently, they got listed and are on an inorganic growth path through mergers and acquisitions. Exchanges are corporate entities akin to telecom, banking, aviation, insurance and electricity companies. Telcos are regulated by Trai and private banks by the RBI and enjoy 74% FII/FDI limits. The telecom and banking sectors are perceived to be extremely sensitive.

In this context, we cannot afford to disallow foreign investment in SEs. The government has rightly allowed 49% foreign investment and in time it should be scaled up at par with the banking industry, which is from the same vertical. Exchanges globally, while moving towards a demutualised era, came out with a limit of 5% for a broker and not for an investor, so that no broker could beat the purpose of demutual conversion. Now, that is changing and there seems to be no limit on ownership transfer and full-fledged M&As are happening with regulatory approval.

Disallowing a new strategic investor to enter beyond 26% would defeat the very purpose behind the same. A strategic investor would bring in huge capital, brand value and expertise and it would not be logical to cap it.

Taking cue from global precedence and similar verticals in India, we should allow free corporate activity, under Indian regulatory framework on a continuous basis. This would unlock huge efficiency without compromising shareholder value. European regulators who are perceived to be extremely conservative have taken a rational step of allowing 100% foreign investment.

Thanks to Sebi's relentless efforts at augmenting the standards of our capital market, India has already proven to be a global destination for investors at par with NYSE and NASDAQ and in this case also whatever they will decide will only be good for the long-term interest of our country.



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