Reactions to Indian Stock Market’s Protectionism

What is the issue?

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- Indian stock markets had taken a protectionist move to safeguard its interest.
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- Such restrictive moves has created a rage across global trading platforms.
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What was the protectionist move of Indian stock market?

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- The three Indian stock exchanges, the BSE, NSE and the MSEI, decided to stop providing market data to enable trading on foreign exchanges and platforms. Click here to know more about the issue
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- Trading in Nifty, rupee and some stock futures have been shifting to the SGX and the Dubai Gold and Commodity Exchange (DGCX) over the last decade.
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- The SGX currently accounts for more than half the trades in Nifty futures and almost one-fourth of future trades in dollar rupee futures while DGCX accounts for one-third of rupee future volume.
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- To stop this migration of volume from domestic bourses the three Indian exchanges jointly decided to stop providing data feed on stock prices and indexes to foreign exchanges or trading platforms for trading once the ongoing licences with various exchanges expire.
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- Without the right to use the underlying prices, trading of derivatives on overseas platforms would have to stop.
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How India's move has impacted MSCI?

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- Morgan Stanley Capital International (MSCI) is the global index provider, India's weight over the indices is about 25 per cent.
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- MSCI's rage is mainly due to the decision by the exchanges to stop providing market data to index providers for the creation of indexes or other products.
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- Based on such indices MSCI would be made available for trading or settling derivatives on foreign exchanges or trading platforms.
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- With the recent restriction, MSCI will have to stop licensing data on India-specific indices to global exchanges.
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What are the measures taken by MSCI?

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- MSCI has already protected its back against such restrictive moves by other global exchanges through the "competitive landscape clause" in its market classification framework.
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- This framework is set out to determine the classification of a market in either of the three primary buckets frontier, emerging and developed.
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- One of the criteria used to determine the classification is market accessibility that includes openness to foreign ownership, ease of capital flows, efficiency of operational framework, competitive landscape and stability of institutional framework.
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- MSCI also plans to consult its institutional investors to see if they would be impacted by India's action and then move to re-classify India in its indices.
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How India might get affected by its measures?

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- There are many India-specific MSCI indices such as the MSCI India index with futures that are listed on many global exchanges.
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- The introduction of restrictive measures has led to a change in India's market classification in MSCI Inc., and will impact portfolio flows into India.
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- While the Indian market scores well on most of the benchmarks used to evaluate market accessibility, the recent move will make India fall short in the competitive landscape clause.
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Source: Business Line

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