FICCI

Banking & Finance DIGEST

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COST OF INTERMEDIARIES

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ABOUT FICCI

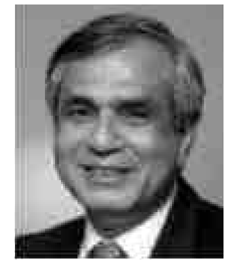
Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

PREFACE



As we release the seventh issue of our widely acclaimed bi-monthly digest, it gives me immense pleasure to learn that since its inception in April 2010, in a short span of time, FICCI's 'Banking and Finance Digest' has gone a long way, in facilitating a comprehensive forum to promote active debate and raise pertinent issues that concern the who's who of the entire BFSI sector in the country. The Issues discussed herein, over the past fiscal, have served as invaluable inputs for our extensive network of Industry members and stakeholders.

In this regard, the current issue of our Digest aims to bring to the forefront perspectives of experts from India Inc. and financial sector intermediaries on **'Cost of Intermediaries'**. Higher cost of intermediaries in emerging economies like ours is widely deliberated upon in the policy arena. In Indian context, higher costs per trade i.e. brokerage commission, taxes per transaction and market impact on price are significantly higher than most of the developed markets.

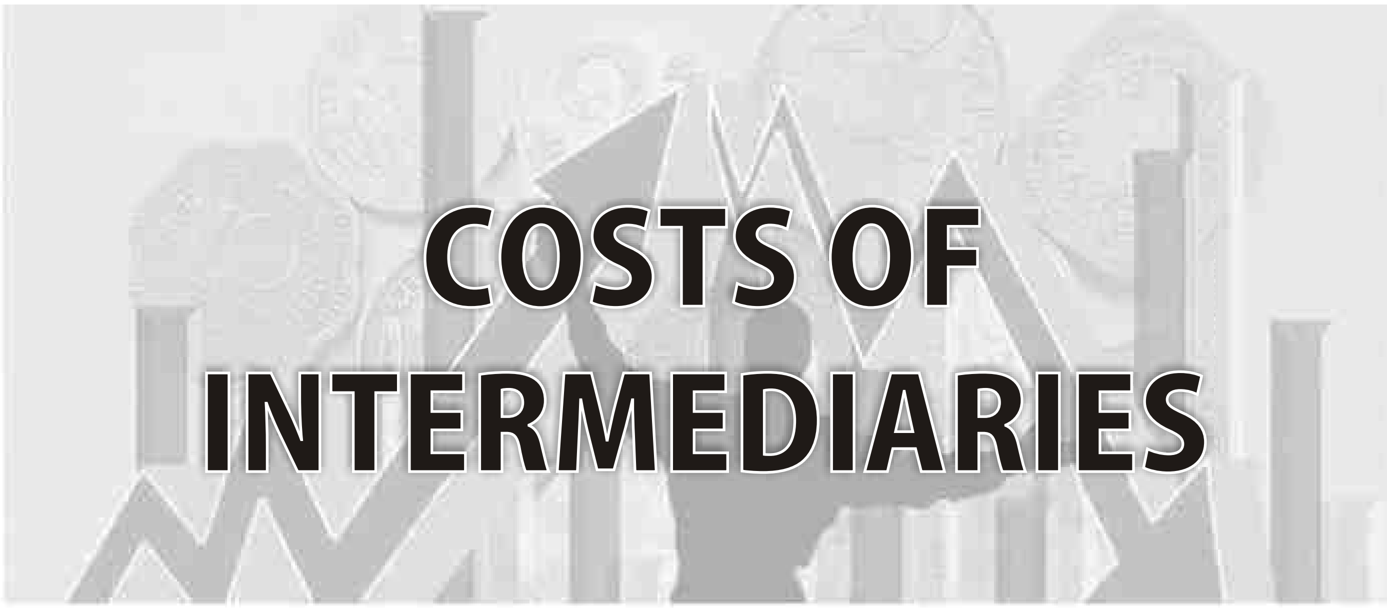
While reduction in the cost of intermediation will certainly help, much greater impetus must be given to streamline the gamut of processes required to have access to financial services and products. The procedures involved, need to be simplified and implemented with greater efficiency in order to promote financial market integration thereby allowing for the scope of reducing the cost of Intermediaries and restore investors interests. This will not only lead to widening of the investor base but also ensure a higher flow of funds into household savings which are currently at a relatively low level. As a result, India could well see the retail investor, benefiting from the lower businesses' cost of capital.

With collaborated effort on the part of the regulators, government and intermediaries, India could well see progress that will not only provide adequate stability and resilience to the Indian markets against uncertain foreign flows but also aid the development and competitiveness of domestic financial markets that will drive the government's inclusive growth and financial inclusion agenda forward.

We thank our Partner MCX-Stock Exchange for extending their support to help achieve our endeavour.

We do look forward to views and suggestion from the readers to help us improvise the content of the journal and make it more relevant and informative.

Dr. Rajiv Kumar
Secretary General
FICCI



COSTS OF INTERMEDIARIES

Anup Bagchi, Managing Director and CEO
ICICI Securities Limited

The history of the Indian Capital Market is more than 135 years old and we have seen a plethora of changes in the trading and settlement system over a period of time (i.e. moving away from the outcry trading system to the state-of-the-art anonymous online trading system and moving away from the physical settlement to settlement of transactions in demat form), resulting in high levels of automation in the Indian capital markets. Further, SEBI has also introduced the Know Your Client norms, allotting of Unique Client Code by Brokers to each client (to be input at the time of entering the client's orders), improved the Risk Management & Surveillance System at Exchanges and also mandated the inspection of the various market intermediaries at regular intervals. All this has helped us bring in the much required transparency and thus aided in building the investor's confidence in the Indian Capital Market.

As per SEBI regulations, any investor who wants to deal in the Primary Market (i.e. IPO [Initial Public Offering]/FPO [Follow-on Public Issue]/Offer for Sale) or in the Secondary Market (i.e. Cash Segment) must mandatorily have a demat account of his own; only then shall he be able to participate.

Till date, in India, we have about 1.92 crore active demat account holders [i.e. about 1.16 core active demat accounts with National Securities Depository Limited (“NSDL”) and about 75.7 lakh active demat accounts with Central Depository Services (India) Limited (“CDSL”)] while the Indian population for 2011 totals about 1.21 billion of which 50% of the population is below 25 years

of age. If we compare the number of active demat accounts vis-à-vis 50% of the Indian population (who are eligible to trade in the capital market), we only have 3.18% demat account holders who are eligible to participate both in the primary and the secondary market. From this, if we remove the inactive and duplicate and accounts the percentage will further shrink.

Hence, there is a need to re-look at the whole client on-boarding process and the various costs which are incurred by the investors/Brokers at the time of account opening and at the time of executing transactions (viz. broking cost, transaction costs [which are Exchange/Regulatory charges] and the demat charges). There is a need to simplify the client on-boarding process.

Let us take a look at the various costs incurred by the Broker/Client:

i) **Client On-boarding Cost:** This can be divided into two parts, viz. (i) At the time of Account Opening and (ii) Post-Account Opening. Let us look at these two aspects in greater detail.

   a. **At the time of Account Opening:** The Broker and client needs to enter into various agreements, viz. NSE Agreement, BSE Agreement, Depository Agreement [with the Broker if they are offering demat services or with the Depository Participant], Power of Attorney [if given by the client to the Broker/Custodian/Authorised Agent]. Only after the agreements are in place can they register the clients with them. The Broker/Client is required to pay stamp duty (as applicable on this instrument – which may also differ from State to State) on these documents before execution. Besides signing the said agreements, the client has to sign various other documents, viz. Combined Risk Disclosure Documents, Policies and Procedures pertaining to dealing with clients, Declaration to be given by the Client, Proprietary Trading intimation, Running Ledger Authorisation, etc. Thus, on an average the client needs to sign at 50-70 places.

   The other client on-boarding costs that the Broker incurs are (a) the cost of sourcing of the clients (which will depend on the acquisition model followed by the Broker), (b) stationery cost and (c) cost of processing of the client acquisition form (d) in person verification.

   The Broker may recover full/part of its cost of acquisition from the clients and there is a possibility that even after getting the customer on

board, he may not trade through the Broker at all due to personal reasons or market conditions.

b. **Post-Account Opening:** Even after client acquisition, the Broker needs to incur the cost of providing copy of entire account opening form to the client, cost of storing and maintaining the client's account opening form and other documents (both hard and soft copies [based on their policy]) irrespective of whether the client has executed any trade or not.

ii) **Brokerage Cost:** As per Exchange regulation, the maximum brokerage chargeable by a Broker in relation to trades executed in the Capital Market segment of the Exchange is 2.5% of the trade value exclusive of statutory levies. Further, Exchanges have allowed the Broker to charge a maximum brokerage of 25 paise, if the sale/purchase value of a share is Rs.10/- or less.

For Future contracts, Brokers can charge a maximum of 2.5% brokerage of trade value and for Option contracts the Brokers shall not be able to charge brokerage which exceeds 2.5% of the premium amount or Rs 100/- (per lot), whichever is higher.

The Broker offers various brokerage plans to their client which depends on product and service proposition.

iii) **Servicing Cost of the Client:** If the client has not given his/her email id to the Broker, then the Broker is required to send the physical hard copies of the various documents to the client through post/courier. Besides, the Broker is also required to maintain the register of dispatch alongwith Proof of Dispatch/Delivery. The documents to be sent to the clients are as follows:

a. Contract Notes

b. Daily Collateral Statement

c. Daily Margin Statement

d. Quarterly Register of Securities

e. Quarterly Ledger Statement

f. Annual STT (Securities Transaction Statement)

Further, if the client requests the Broker for duplicate copies of any of the above mentioned documents, the Broker is obliged to send them to the client.

iv) **Transaction Costs:** As per regulations, the Exchanges collect various charges from the Broker. They are as follows:

a. **Securities Transaction Tax (STT):** The client is required to pay the applicable STT on his transactions in a scrip (i.e. delivery or non-delivery) to the Government. The Exchanges are authorized

to collect the same from the Broker who in turn collects it from their clients. The STT rate for delivery trades is 10-12 times higher than intra-day trades.

b. **Exchange Transaction Cost and Service Tax thereon:** The same is collected by the Exchanges from the Broker based on their policy. The Exchanges collect the Exchange Transaction cost based on the turnover registered by the Broker during the month. The turnover may vary from one Broker to another Broker. The same is usually recovered by the Broker from their clients.

c. **SEBI Turnover Charges:** The Exchanges are required to collect the SEBI Turnover Charges from the Broker based on the directive of SEBI which is usually recovered by the Broker from their clients.

d. **Stamp Duty:** The Brokers are required to pay Stamp Duty on the client's transactions to the respective State Governments. The stamp duty charges differ from state to state and a few states do not have separate rate for non-delivery trades.

The under mentioned table gives the applicable cost structure of each of the said cost items:

v) **Demat Costs:** The client will have to pay charges to their DP (Depository Participant) / Depository, based on their agreement with them. The charges applicable are as given below:

a. Annual Service Charges to Depository Participation (for maintaining the Demat Account)

b. Transaction charges on sell Transaction (Market or Off-Market)

c. Pledge Creation/Closure/Confirmation/Invocation (if availed) by Depository Participant / Depository

The regulatory agencies should take a re-look at the various regulatory costs as stated above (viz. STT, Stamp Duty, Exchange Transaction Charges, SEBI Turnover charges). They should consider reducing the same over a period of time to bring down the cost, thus lessening the

Particulars	Cash				Future & Options					
	Delivery		Intraday (each side)		Future (each side)		Option Sell (each side) (On Premium)		Option Buy (On Premium)	
	%	Per Crore	%	Per Crore	%	Per Crore	%	Per Crore	%	Per Crore
STT on Transaction (Avg one leg)	0.1250%	12500	0.0125%	1250	0.0085%	850	0.0085%	850	0.0000%	0
Transaction Charges (As applicable to TM)	0.0031%	310	0.0032%	320	0.0018%	180	0.0500%	5000	0.0500%	5000
ST on Transaction Charges	0.0003%	32	0.0003%	33	0.0002%	19	0.0052%	515	0.0052%	515
SEBI Turnover Fees	0.0001%	10	0.0001%	10	0.0001%	10	0.0001%	10	0.0001%	10
Stamp Duty (Maharashtra state)	0.0100%	1000	0.0020%	200	0.0020%	200	0.0020%	200	0.0020%	200
Cost to Customer (Maharashtra)	0.1385%	13852	0.0181%	1813	0.0126%	1259	0.0658%	6575	0.0573%	5725

Note:

1.Service Tax on Brokerage will be charged @ prevailing rate.

2.Exchange recovers transaction charges on the basis of turnover of respective Broker and that may vary from member to member.

3.In case of Futures, STT is applicable only on sale side @ 0.017% and the same is considered @ 0.0085% on both sides in the above sheet.

4.In case of an Options exercised, STT is payable @ 0.125% on settlement price.

5.Stamp duty will be applicable as per the rates applicable in respective states.

burden on the end clients.

While there is a cap on the brokerage the actual brokerages on delivery, non-delivery as well as on derivatives are a small fraction of the cap and they are competitive globally. Further, brokerage for Futures & Options trades which attracts most of the market volume is even less than the cash segment delivery brokerage. The Broker has to bear the risk of client default which arises due to credit risk and market volatility. Besides the risk, the Broker has to provide a host of services to the client at the time of trade execution and also after the trade is executed as mentioned above (point no.(iii)).

Besides the cost incurred, the process of acquiring the client is tedious. The clients have to sign at many places in all the documents. Hence, there is an immediate need to re-look at the client on-boarding process and we should explore the possibility of signing of Member Client Agreement as Terms and Conditions so that we can eliminate the requirement of paying stamp duty. Further, the other standard documents which are stated above can be given to the client in the form of a booklet/soft copy and the Brokers should be allowed to take client's signature/confirmation (as the case may be).

Further, we can also explore the possibility of

having a common KYC registration process which will reduce duplication of work in the financial services industry.

While reduction in the cost of intermediation will certainly help, much greater impetus can be given by simplifying the process of on-boarding, reducing costs of opening an account to ensure that it becomes viable to open accounts and also service accounts with a low client activity.

Anup Bagchi
Executive Director
ICICI Securities Limited

Mr. Anup Bagchi is the Executive Director of ICICI Securities Limited. ICICI Securities Limited (i-SEC) is India's leading investment banking firm and is the first service in India to provide complete end-to-end integration, for seamless electronic trading on the stock exchanges through its brand ICICIdirect.com Apart from being a leader across the spectrum of investment banking, it offers every aspect of business from domestic and international capital markets advisory to M&A advisory, Private Equity syndication, Restructuring and infrastructure advisory.

During his 15 years tenure, with ICICI Bank he has held many key positions in the field of Retail Banking, Corporate Banking and Treasury. He is also the Director in ICICI Securities Limited, ICICI Securities Inc., Comm. Trade Services Limited and Financial Planning Standards Board, India. He has done his B.Tech from IIT Kanpur, followed by a MBA in finance from IIM Bangalore.

Mr. Bagchi was honoured with The Asian Banker Promising Young Banker Award, He was the only leader to be named for this award from India. Recently Business Today has named Mr.Anup Bagchi as one of India's Hottest Young Executives. His hobby entails reading, on a regular basis.

COSTS OF INTERMEDIARIES

Dipti Neelakantan, Chief Operating Officer
JM Financial

As India embarks on a consistent high growth trajectory a-la China, one of the important debates that have been occupying the minds of market players, academia and regulators is how to make available the benefits of this high growth to a wider Indian Diaspora spread across more than 30 States and Union territories. This debate has often been headlined as Financial Inclusion, Inclusive Growth or Growth with a human touch.

As a keen observer of the financial markets over the last 3 decades, I believe, we have made substantive progress in this direction. We have improved our banking system, our clearing and settlement processes, our regulatory framework and above all fostered healthy competition in financial markets by opening it up to private and foreign players. Our financial system has come out unscathed from the Asian crisis, the dot com bubble and the sub prime aftermath.

Some of the key metrics such as number of investors in stock market, number of bank customers, number of mutual fund folios, number of Demat accountholders etc. have increased steadily over time and are a testimony to our progress.

Is the job done? Should we sit on our laurels? If we go by the available datapoints about Life insurance penetration, Bank Branches per 100,000 population, spatial & regional distribution of bank branches & ATMs, Mutual Fund AUM to GDP, Bank Deposits to GDP, Market Capitalisation to GDP or Household Savings per Capita and compare them to developed world datapoints, the answer becomes obvious.

Collectively we have done a good job in the past decade but we need to do better in the coming one. We have caught the low hanging fruits but now we need to reach out to the last mile.

Global and Indian experiences in this regard suggest that one of the prime reasons why spread of financial services slows down beyond a point is the high cost of intermediation. The incremental gains from providing financial services don't compensate for the incremental cost of delivery.

One of the metrics which regulators like RBI have in the past used to measure Intermediation Cost is the ratio of Operating Cost to Total Assets. Let us see how various participants fare in this regard.

Sr.No.	Category	FY 2008-09	FY 2009-10
1.	Scheduled Commercial Banks	1.71	1.66
2.	All India Financial Institutions	0.70	0.72
3.	NBFCs – D	3.10	2.76

Source: RBI report on Trend & Progress of Banking in India

While the intermediation cost ratio per se doesn't look alarming, any further reduction will only help in reaching out financial services to a larger set of population.

What are the causes for this high operating cost i.e. intermediation cost? Primarily these are:

a) Legacy manpower costs;

b) Manpower inefficiency;

c) Technology obsolescence costs;

d) Not leveraging technology to its fullest;

e) Lack of robust outsourcing platforms;

f) Competition, both from local and international players, resulting in increasing service standards;

g) Customer awareness resulting in increasing customer service level expectations;

h) Financial Inclusion related costs:

- Low transaction ticket sizes;
- Spread of business over a large geographical area;

I) High cost of compliance including KYC;

j) High legal costs in cases of deficiencies / defaults;

k) Lack of infrastructure / process sharing by players;

l) Non pass through nature of most taxes and statutory levies.

The good part is that most of the above are well understood by market participants and regulators. In the last few years, we have seen concerted effort on their part to address some of these shortcomings. A few examples are:

a) Use of "Aadhar" card issued by UIDAI for KYC;

b) Assignment of KYC responsibility to CDSL Ventures by Mutual Fund Industry;

c) Sharing of ATM Infrastructure by Banks;

d) Use of Micro-ATMs and Handheld deices for branchless banking;

e) Extensive use of Phone Banking and Net Banking to provide Anytime Banking;

f) Use of Core Banking Solution to provide Anywhere Banking;

g) Outsourcing branch set up and branch infrastructure by banks to third party vendors;

h) Introduction of mobile wallet for small value transactions;

I) Increased use of electronic payment systems.

Going forward, some of the initiatives that can be taken are:

a) Reduction / elimination of statutory levies on small value transactions;

b) Reduction / elimination of statutory levies on equipment / infrastructure used for branchless banking/service delivery;

c) Implementation of GST;

d) Allowing backward area tax benefits on i) investments made to reach out to customers in Tier V and Tier VI centres and ii) any income earned therefrom;

e) Use of lean and other methodologies for streamlining back office processes;

f) Retraining / reskilling of staff to handle front office jobs;

g) Implementation of Straight Through Processing of transactions.

(The author is the Group Chief Operating Officer of JM Financial Group. Views expressed herein are personal.)

Dipti Neelakantan
Chief Operating Officer
JM Financial

Ms. Neelakantan is the Group Chief Operating Officer at JM Financial. Ms. Neelakantan is a fellow member of the Institute of Company Secretaries of India and a graduate in Commerce from Sydenham College, Mumbai.

Over 30 years of experience of Ms. Neelakantan includes her journey since 1981 with J. M. Financial group during which she worked in various capacities, locations and disciplines including financial structuring, end to end delivery of capital market transactions, mergers and acquisition advisory, active engagement with Regulatory Authorities, syndication, compliance, stock broking, sales and distribution of financial products, general corporate management and governance.

Ms. Neelakantan has been associated with SEBI as a member of various committees and with FICCI as a member of their Capital Market Committee during last several years. In these roles, she has actively contributed to the ongoing reforms in Capital Market Regulations. She is currently the Chairman of the National Investment & Investors Education Committee at Assocham.

Ms. Neelakantan is currently Member of the SEBI Committee on Disclosures and Accounting Standards (SCODA) and Member of FICCI's Capital Market Committee.

COST OF INTERMEDIATION: A DELIBERATION INTO INFORMATION ASYMMETRY VS. MARKET EFFICIENCY

U. Venkataraman, Executive Director
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&
Arbind Kumar FRM, Research and Product Development
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The evolution of financial intermediation is probably the best innovation for global economic development which enabled the flow of financial resources from 'person with surplus' to the 'person in need'. The prime reason for the growth of financial intermediation is the different need of end users and transaction cost for direct participation whilst other reasons can be associated with search and verification for the interested parties, ongoing monitoring and enforcement in case of non-fulfillment of the agreed terms. These associated costs are function of various indigenous factors arising out of informational asymmetry as well as exogenous factors resulting from policy structure.

Research shows that, any prudent person takes his/her decision to invest separately from his/her decision to save. On the other hand any entity planning to invest in a productive business output may not be able to finance all its investment need from its own resources. An individual with surplus funds may want to lend these funds to the entity in order to either participate directly in productive economic activities (in the form of Equity) or simply seeking a higher return (in the form of Debt). Similarly it is logical for the firm wanting to borrow funds from individual directly as it would save cost associated with

intermediation. In practice direct lending, like this, does not generally happen and instead funds are channelized through financial intermediation involving a bank or a Stock Exchange, simply because of the cost advantages, both commercial and convenience, due to economies of scale.

Regulators, policy makers and professionals often indulge in debate for the cost and benefits of centralization vis-à-vis transparency involved in financial market. On one side where fragmentation and opaque market may offer opportunities for the development of intermediaries, on the other hand centralization may infringe innovation. Several empirical studies indicate that the associated cost of transaction has significant impact to the market efficiency, even if trading is

relatively centralized and price information is seamlessly transparent. The current structure of Capital market transaction through Stock Exchanges, globally, is developed form of market intermediation, as it reduces the associated frictional cost shared by both the capital providers as well as value enhancing firms.

Profits to any broker or investment firm are higher if that requires extensive intermediation where as a trade involving large counterparties is comparatively riskier. But the causality between profits and risk of informational asymmetry is ambiguous, since the means of transacting the financial instrument is an endogenous choice of the market participants.

The associated transaction cost may be structured around the following four heads namely Search, Verification, Monitoring and Enforcement costs. The presence of transaction costs makes it very difficult for a potential lender to find an appropriate borrower and vice-versa but the Capital market offers unique opportunities to both the capital providers as well as corporate in reducing the cost, increasing convenience and assurance.

i. Search costs: While both lender and borrower will incur costs of searching for, and finding information about, a suitable counterparty, the increase in informational efficiency and reduced time and effort of accessing the relevant information has reduced this cost significantly especially in Capital Market. This cost would be further reduced with technological advancement.

ii.Verification costs: The cost associated with verification for both lenders and borrowers with precise accuracy may be huge. Though the credit rating agencies are very helpful in recent days, but the integrity of rating agency and timely updating and disseminating of the relevant information is very crucial to reduce this cost. The standard of information should be enhanced under prudence of regulatory purview which would further bring down this cost.

iii.Monitoring costs: Post transaction monitoring is very essential and it attracts huge cost. A stricter risk management and surveillance procedure coupled with

judicious compliance is necessary and the presence of strong surveillance system by Exchange and central counterparty in the form of Clearing Corporation helps to minimize this cost significantly.

iv. Enforcement costs: Multi layered regulation as practiced in Capital Market through Exchanges and market regulators in presence of pertinent regulatory framework as solvency law, contract acts etc. ensures minimization of this cost in case of probable default, though its probability is very minimal in presence of efficient risk management practices followed by the Clearing Corporation, a central counterparty.

Though the above mentioned costs were significantly higher in early stage of development, the evolution of Exchange mechanism has reduced these cost significantly especially in the recent era with the technological advancement, relatively wider market participants, spread on on-line trading creating better control and accessibility, assurance of non-default by the counterparties, almost obsolesce of fraudulent trades and bad delivery of shares due to dematerialization, reduced settlement cycle, enhanced regulation etc across the globe. Coming to India the cost of securities transaction, at a time, was as high as 5% which is now nearly 0.50% for the retail participants.

A quick comparison of costs associated with the Capital market transaction is depicted below.

I. Debt: If we see the recent primary debt issues to public by IDFC and PFC, the cost of issuance is very huge. In case of IDFC it is nearly 2.5% of the issue while it is nearly 1.8% in case of PFC. The comparative shallow volume in exchange makes the secondary market transaction costlier compared to the equity and other liquid instruments.

ii. Equity: Similarly in case of primary issue of equity is also significantly costly and it ranges in 6 to 10 percent of the issue size. The major costs are associated with Merchant Banker (roughly 3%), Legal (roughly1%), Operational (roughly 2%) and advertisement (roughly 2%). While secondary market transaction is also on higher side in presence of several transaction fees and taxes. A quick comparison of the costs is tabled as below and from the table it is quite evident that the tax constitutes a major part of the total transaction cost for a member firms which is more than 80% in case of Futures and Cash market transactions, while it is more than 50% in case of Options transaction.

A hypothetical efficient market can be conceived as if there is no cost associated with the transaction. But in reality the cost associated with the transaction should be only operational offering real value arbitrage for the market participants to make a rational choice between direct participation and participating through efficient intermediaries.

But the imposition of artificially increased cost, in form of taxes that too in the range of 80% to 90% makes the transaction more skewed towards tax and policy arbitrage rather than true value arbitrage for the secondary market transaction. Further there is differential tax treatment for cash and derivatives trades, Delivery verses non-delivery trades, across different states which again encourage tax arbitrage between transactions. For example the delivery based equity trade attracts 10 times higher STT than nondeliverable (intra-day) equity trades, is definitely enticing the market participants for speculative trades. This Tax and Policy arbitrage is quite evident in the recent market turnover as the deliverable market transaction is lowest (2.8%) as it attracts highest cost and Option market turnover is highest (67.7%) as it attracts lowest cost.

Cost of Transaction in Indian Capital Market, Applicable for Member: Member pass this cost to the Investors, along with the Cost of other Services by the Members

Types of Charges (per Rs Crore - assuming 50 lakh for BUY and 50 lakh for SELL)	Cash Segment (Delivery)	Cash Segment (Non-Delivery)	Futures Segment	Options Segment
Exchange Transaction Fee	0.0035% (Rs 350)	0.0035% (Rs 350)	0.0019% (Rs 190)	0.0019% (Rs 190)
SEBI Fee	0.0001% (Rs 10)	0.0001% (Rs 10)	0.0001% (Rs 10)	0.0001% (Rs 10)
Service Tax on Exchange Transaction Fee	10.3% (Rs36.05)	10.3% (Rs 36.05)	10.3% (Rs 19.57)	10.3% (Rs 19.57)
Securities Transaction tax (STT)	0.125% for Buyer and Seller (Rs 12,500)	0.025% for Seller (Rs 1250)	0.017% for Seller (Rs 850)	0.017% on Premium for (Generally Option Premium is 2% of Notional Value of Trade)
Stamp Duty (in case of Maharashtra)	0.002% (Rs 200)	0.002% (Rs 200)	0.002% (Rs 200)	0.002% (Rs 200)
Total Tax Cost	Rs. 12,736.05	Rs. 1,486.05	Rs. 1,069.57	Rs. 236.57
Total Transaction Cost	Rs. 13,096.05Plus Rs 4.5 per Debit Instruction charged by Depository	Rs. 1,846.05	Rs. 1,269.57	Rs. 436.57
% of Capital Market Turnover (BSE & NSE) in May 2011	2.8%	7.3%	22.2%	67.7%

Another form of direct cost associated with the market intermediaries can be sketched around the unnecessarily repetition of operational procedures such as repetitive KYC (Know Your Client) and KYD (Know Your Distributor), multiple memberships for various market segments, etc.

Most importantly, the cost associated with illiquidity in the secondary market transaction, which may be very significant, often erratic and sometime even traumatic. In case of illiquidity situation a participant may not be able to enter into the trade, offering value proposition. Illiquidity cost may have even heightened impact if the participant is not able to exit from the position at optimal time and value. The measurement of this cost associated with illiquidity is very complex to quantify in the continuous time. For the sake of simplicity let us assume the only cost associated with the illiquidity is the Bid-Ask spread. The following table shows the BID-ASK spread of companies selected from BSE 100 and BSE 200 according to lowest Market Capitalization in the respective Indices.

It is quite evident that the cost associated with illiquidity is nearly 0.13% of the transaction value translating to nearly Rs 13,000 per Rs Crore in case of 100th and 200th companies of respective BSE100 and BSE200 Index. This additional cost associated with illiquidity makes the transaction even costlier in the secondary market. Now if we include the actual impingement of illiquidity, removing relaxed assumption in the above computation, the secondary market trading proves to be even more deterring in the current non-competitive environment.

There is huge scope for increasing cost efficiency, both transactional as well as liquidity, through economies of scale for the Capital Market, greater competition amongst Exchanges, more number of intermediaries, wider investor base etc. This competitive market will also benefit development of new products - not yet available in the country, like, Bond Market, SME Platform, full range of Interest Rate Derivatives market etc. Globally the Bond market and

BID-ASK Spread of 100th and 200th Companies of BSE100 and BSE200 Indices

Companies	Constituent of Index	Best Buy Price (BSE)	Best Sell Price (BSE)	BID-ASK Spread (BSE)	Weighted Avg. Price (BSE)	Best Buy Price (NSE)	Best Sell Price (NSE)	BID-ASK Spread (NSE)	Weighted Avg. Price (NSE)
IVRC Ltd.	BSE 100	77.00	77.15	0.15	76.53	77.25	77.30	0.05	76.48
Bombay Dying	BSE 200	373.05	373.50	0.45	374.34	373.05	373.55	0.50	374.31
The information is collected from the respective Exchanges' website on June 13, 2011 nearly at 3 pm.									

Disclaimer
The views expressed hereby are solely of the author and may not necessarily reflect in whatsoever manner, those of MCX Stock Exchange.

Interest Rate Derivatives account for more than 80% of the Exchange traded market whereas in India Equity and Equity derivatives account for more than 80% of the Exchange traded market and despite such excessive concentration of Equity, we are witnessing such high cost of trading. However, it is seen that as more product segments develop and as investor population increases, many costs will come down through wider participation and higher liquidity, besides, the Government will also consider lowering the tax rate with higher tax receivables from a wider tax base and bigger market. The economies of scale in Capital Market will then be similar to that has been observed in other industries such as telecom, insurance, aviation, banking by the way of fair competition.

U. Venkataraman
Executive Director
MCX Stock Exchange (MCX-SX)

Mr. Venkataraman is presently Executive Director, MCX Stock Exchange. MCX Stock Exchange, India's new exchange offers at present trading in Currency Futures in four Currency Pairs and a market leader in Currency Futures. Mr. U. Venkataraman has more than 20 years of experience in the Financial Market. His expertise and experience cover a broad business and Product Spectrum - Asset Liability Management, Foreign Exchange, Fixed Income and Derivatives.

Prior to joining MCX Stock Exchange, Mr. Venkataraman was the Head of Treasury at IDBI Bank in Mumbai, presently the 7th largest Bank in the Indian Financial Market, where he was in charge of the entire Treasury operations of the Bank.

Mr. Venkataraman has attended several training programmes in India and abroad on professional subjects such as Foreign Exchange Bourse, Market Risks & Derivatives, International Payments & Trade Finance among others. He has also conducted customer seminars on Currency Risk and Interest Rate Risk Management.

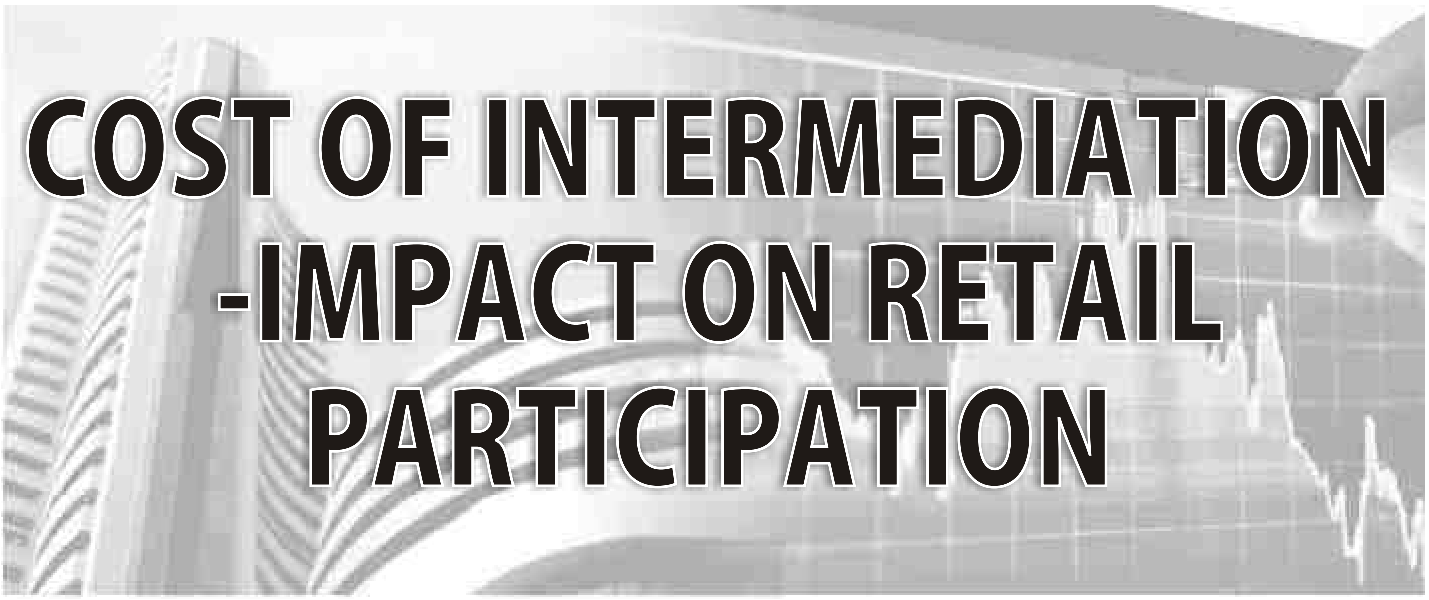
He has been a visiting faculty at a number of professional institutions such as Institute of Chartered Accountants of India; Institute of Chartered Financial Analysts of India, Institute of Company Secretaries of India as well as in the Special Programmes conducted by Trade Bodies and Associations like FICCI.

Arbind Kumar FRM
Research and Product Development
MCX Stock Exchange

Arbind Kumar FRM

Arbind Kumar FRM is a senior member of the Research and Product Development team at MCX Stock Exchange. Mr. Kumar’s extensive experience of nearly two decades in various industries includes several financial products and their derivatives across asset classes as Equity, Indices, Interest Rate, FX, Commodities; Traditional as well Alternative investments, Risk Management and Consulting.

A member of Global Association of Risk Professionals, USA, Mr. Kumar has an MBA (Finance). He coaches Finance professionals in Advanced Derivatives Trading strategies, Risk Management and advanced Portfolio Analysis Models.

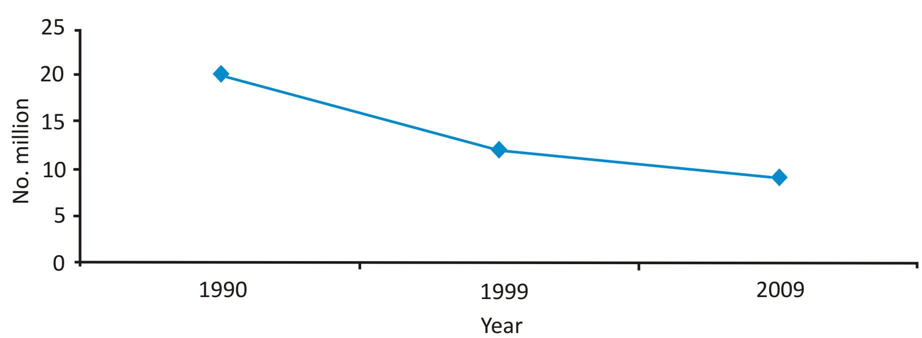


COST OF INTERMEDIATION -IMPACT ON RETAIL PARTICIPATION

Aarthi Ramakrishnan
Head of Capital Markets, Centrum Capital Ltd.

The Indian stock market has been booming over the last decade. However according to official data, retail participation in the stock market has declined from 20 million in the 1990s to 12 million in 1999, and just around 8 million in 2009, despite the fact that the Sensex has grown by 20 times during this period. As a percentage of the total population, the retail investor participation is just 1.3%, whereas in the US and China it is 27.7% and 10.5% respectively, according to the Bimal Jalan Committee report. There has been a decline in investor population, according to official studies, in a decade, which by all accounts was the best decade in living memory.

Retail Participation in Equity Markets



As per the RBI, the proportion of shares, debentures and investment in Unit Trust of India in household savings was 14% in 1990. In 2007-08 it was down to 13%, despite the fact that the market valuation has gone up 20 times during this period. Where are investors putting their money? Bank fixed deposits occupied 32% share of the household savings. It

is now 50%. Savers are happy to put their money into banks.

There could be several factors driving the decline in household savings into capital market instruments. This is certainly not due to lack of product choice. There are over 3,000 actively traded stocks, 230 diversified equity mutual funds, over 100 life insurance products, the New Pension System, portfolio management schemes and other financial products. We are not lacking in distribution channels to reach investors either. There are over 600 brokers, 1,000 financial planners, over 20,000 active financial advisors, over 3 million insurance agents, 25-30 banks and their "relationship managers", many websites for comparison and purchase online. Then there is media-dozens of print publications, 4-6 TV channels regularly talking about financial products.

On average, Indian households invest their savings in excess of $65 billion annually in bank deposits. This can work wonders if gets directed to market-linked instruments. Unlike the US, where equities comprise 45% of households' net financial wealth in 2007, in India it constitutes merely 10%.

Pre financial crisis, rising prosperity fuelled increase in household surplus to be deployed. And it was an easy assumption that a branch and a few relationship managers are all one needed to vacuum the savings into the coffers of financial firms and of course, the pockets of intermediaries.

In markets such as Korea and Taiwan, the retail institution is actually more powerful than foreign institutional investors. Taiwan's retail investors are among the most active in the world and they contribute almost 70% of the local bourse's trading activities. In Taiwan in 2008, 39.5% of the listed shares were held by domestic individuals against 12.2% by foreign institutional investors. Against this, the share of retail investors in India remains less than 8%. According to a report by the Swarup Committee, out of India's 188 million investors holding financial assets in 2009, only eight million participate in the capital markets, directly or indirectly.

Decline in investor participation in India is due to many complex macro as well as procedural issues. The reason or declining retail participation in the capital market is because of various factors including problems ranging from the difficulties for investors in opening a demat account to price manipulation, poor performance of financial products, mis-selling by financial mintermediaries and poor grievance redressal. Retail investors face many procedural hurdles, and to add to this they are required to bear increased overall transactions cost involved in equity transactions.

The average transaction cost for equity shares for retail investors is higher than that for institutional investors on account of higher brokerage. An equity transaction cost for retail investors include Brokerage Commission, Service Tax (ST), Securities Transaction Tax (STT), SEBI turnover charges, Transaction Charges (inclusive of Service tax) and Stamp duty. To add to this are demat related charges and the capital gain tax for short-term transactions.

Though the total transaction costs in India has been reduced by nearly half with the introduction of screen-based trading, it is still high compared to advanced markets. The various charges applicable as one date for transactions in cash segment are as follows:

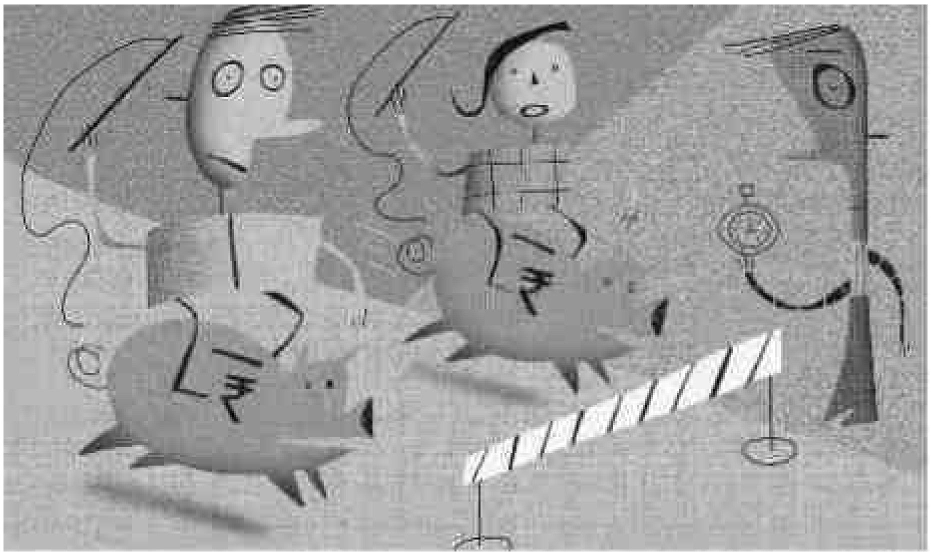
Stock broker's commission differ not only from firm to firm, but also within a particular firm They can vary depending on the size of the transaction, the volume of business done by the customer, the services the broker may perform for the customer, or a combination of these and other factors. Normally lower the volumes higher could be the broker commissions.

To add to various above cost attached to equity transactions, retail investors face gamut of other procedural issues to enable investments in equity market. Investors are required to open a demat account and go through cumbersome KYC procedures. Along with this, the customer has to sign on numerous forms, many of which they sign without asking too many questions. The charges involved in opening and maintaining a demat account are not in favour of the retail investor either. Investors have to cough up nearly Rs. 550 - Rs.3,500 to merely open an account. Added to these are account maintenance and transaction charges. Brokers usually tend to give less attention to small investors where the investment ticket is relatively low and look for investors with deeper pockets, where the commission wallet is significant.

The power of attorney (POA), which gives brokers the power to operate their clients account for conducting trades, is often misused. This is taking place in spite of the lengthy and complicated procedure of creating a demat account and is a de-motivation for the investor.

Portfolio management services have also faced issues in servicing the retail investor. There is need for prudential regulation of PMS schemes. Clarity around investment norms and restrictions to churning and trading are required. They have been cases where investors have lost a major portion of their fund value due to excessive churning. Moreover, there is dire need for transparency and investor education on how the portfolio is being handled.

Charge Name	Applicable Rates	Remarks
Stock Brokers' commissions	0.15% - 0.75%.	On Turnover (buying/ selling). Subject to maximum of 2.5%
Service Tax / CESS	10.30%	on Brokerage
Transaction Charges	0.0000325	NSE
Transaction Charges	0.0000323	BSE -On Turnover
Transaction Charges	0.0000225	BSE- On Turnover for Passive Order
Stamp Duty	0.00002	For Maharashtra –(levied as per state if specified by states)
SEBI FEES	0.0001	On Turnover
Minimum Delivery Chargesg.-50	0	Varies from Broker to Broker
ST on Transaction Chg	10.30%	on Transaction Chg
Security Transaction Tax	0.00025	On Square off Transaction as per exchange file
Security Transaction Tax	0.00125	On Delivery Transaction
Demat Charges	Rs. 20-40	Per entry
Demat Account Maintenance charges	~ Rs. 350 p.a.	
Short term capital gain	@ 15%	



The issues related to demat accounts, mis-selling, and PMS can be tackled to some extent with proper investor education. But, issues like price manipulation, corrupt accounting practices and over-pricing, incorrect grading, increased transaction cost etc, are issues which cannot be controlled by the investor. It is the job of the regulators, stock exchanges and the government to ensure prudent regulation through appropriate regulatory and penal procedures.

Though various steps have been taken to develop the capital market and increase the base of investors there is still potential to improvise the process and reduce the overall transaction cost. Reduced transaction costs prompt investors to trade more frequently resulting in higher volumes. This also makes bid-ask-spreads narrower, which reduces implicit transaction costs.

At the heart of these changes is the single objective of enhancing retail investors' participation in the capital markets, either directly or indirectly, by reducing costs, expanding reach, increasing accountability of manufacturers and advisors and ultimately increasing the value proposition to the retail customer.

To begin with, the revised Direct Taxes Code (DTC) Bill will play a vital role in encouraging retail investment in the stock market by allowing tax exemption on long-term capital gains on the sale of listed shares. The individuals who fall in the 10% and 20% tax brackets will gain from low short-term capital gain tax (5% and 10%, respectively, against the current 15%). This will have a long-term positive impact on equity market volumes and depth. The changes in personal tax slabs will augment the disposable income by about Rs. 15,000 crore in the hand of 30 million individual taxpayers, boosting savings and investments.

Further the unit-linked insurance plans in their new avatar have become more attractive. The proposal of having a separate sub-limit for a tax deduction of Rs. 50,000 on life and health insurance premium in the DTC will also boost insurance penetration levels. Further, ban on entry loads on mutual funds and their listing on stock exchanges has served the dual purpose of increasing affordability and enhancing reach. Indian stock exchanges have over 200,000 terminals spread over 1,500 towns with a network of at least 17,000 brokers and 74,000 subbrokers —a reach which no single entity can aspire to build. Enhancing use of stock exchange in the distribution of financial products will expand the reach and increase ease of buying and selling, encouraging higher retail participation.

Internet based trading has helped significantly to simplify the processes involved in carrying out

transactions, to save time and reduce cost. The proposal to allow mobile trading is an equally important development. We have seen the success of online trading in India. Its share of trading on the National Stock Exchange (NSE) rose by 10 times to 20% in less than a decade. With the number of Internet subscribers at 81 million being merely 13% of mobile subscriber base of 629 million, mobile trading has immense growth potential and will help in reducing transaction cost and expanding reach. With the financial services firm upgrading its system to provide mobile trading facility, smart phones becoming increasingly affordable and 3G providing the required network capability, the vast pool of mobile users in the country can be tapped. Such leveraging of technology will lead to widening of the investor base in a cost-efficient manner.

Other regulatory moves, such as requirement of minimum 25% public shareholding in non-public sector units (PSU) listed companies and the proposal to enhance the investment limit of retail investors from Rs. 1 lakh to Rs. 2 lakh for a public issue are all driven by the same objective. Recently completed PSU issues were subscribed by 170,000-190,000 retail investors. With many more PSU offers on the cards, disinvestment alone has immense potential to change the retail landscape.

What needs to be examined is whether all the above regulatory efforts will result in lower intermediation costs, lower taxes, higher returns and easy access which can really unlock the latent retail potential and give a push to retail participation in Indian equities.

With collaborated effort on the part of the regulators, government and intermediaries, India could well see the retail investor as a stable source of demand and liquidity in the equity markets. Such a progress will provide adequate stability and resilience to the Indian markets against uncertain foreign flows and also boost household’s net worth and drive the government’s inclusive growth and financial inclusion agenda.

Aarthi Ramakrishnan
Head of Capital Markets, Centrum Capital Ltd.

Ms. Aarthi Ramakrishnan is a Gold medalist in Business & Financial Laws from National Law School of India and an M.B.A from IIM – Calcutta. As Head of Capital Markets, Ms. Ramakrishnan focuses on developing innovative strategies for investment banking teams and will have the overall responsibility for the Equity Capital Market, CSG origination and closure activities. The Capital markets Investments business is an important growth market for Centrum Group and Ms. Ramakrishnan ensures Centrum growth strategies are on track.

Ms. Aarthi Ramakrishnan has formerly worked with leading investment banks such as Merrill Lynch, HSBC and Credit Suisse.

LOOKING BEYOND THE COST OF INTERMEDIATION...

Vikrant Gugnani
Executive Director - Reliance Money
& CEO - International Businesses

It is often deliberated at various panels that the cost of intermediation in emerging economies (relative to the developed world) is on the higher side. And it is because of this that the access to financial products and services gets limited to a smaller segment of the society.

There are various factors that affect the cost of intermediation and it is important to throw some light on these factors. Also, to keep the focus limited onto a section of the huge and diverse market, I have considered the Indian broking industry here for my discussion.

There is little doubt that one of the major challenges for the Indian financial sector is to streamline the gamut of processes required to have access to financial products and services, the materialization of which 'will' lead to lower costs and 'could' lead to greater participation. However, the achievement of lower costs, akin to the developed world, would require time and additional financial resources due to the basic fact that India is still emerging and the US or Europe or Japan has emerged into a developed world and thus the comparison is between a 'will be developed' and an 'is developed'.

Nonetheless, notably, the process of cost reduction has been an on-going process across emerging economies including India, with some economies having cost structures closer to the developed world. In fact, from the broking point of view, over the past 5 years, while the total trading costs (including impact of trade execution on a stock price) in the US (0.6%), Europe (0.6%) or Japan (0.8%) have remained largely constant, emerging markets trading cost have halved from about 1.8-2% to the current 1-1.1%. Within this average, India is amongst the lower percentile with total trading costs in the range of 0.8-1%. It is important to note that factors like market capitalization of listed companies and the extent of volatility are also important factors which impact trading costs.

There are few other differences in developed economies like the US and emerging economies like India, which leads to higher costs in the latter. Some of these are:

Reach with and without technology:

It is imperative in a country like India that a brokerage house has a large nationwide footprint to cater to the financial needs of the 1.2 billion people that are spread across the length and breadth of the country. The presence of the brick-and-mortar model of the brokerage industry is also supported by the lack of awareness among a large section of the society with respect to technology (leading to off-line trades) and financial products/services due to low literacy rate of 60%. Contrast this with the US with a mere 0.3 billion population, tech savvy (on-line) with 99% literacy rate and relatively high awareness of various financial products/services. This, thus, entails a higher cost structure to educate, propagate and eventually sell a financial product/service even as the business volumes could take years to achieve optimum scale. Note that the difference between India and the US is more about absolute numbers than about percentages, which magnifies the challenges and costs.

Investor Mix:

This also has a telling impact on the total cost of trade, be it the market impact cost or the brokerage costs. On the one hand, the developed world stockmarkets generally have a larger proportion (65-85%) of the volumes being contributed by institutions, who not only have greater bargaining power in terms of brokerage costs by virtue of the volumes they generate but also the market impact costs are lesser on account of the large volumes traded and the depth provided by those markets aided by the sophisticated technological innovations. On the other hand, retail investors dominate (50-70%) in emerging economy stockmarkets which explains the relatively higher trading costs.

Moral responsibility and regulatory restrictions:

Seemingly, a hic-cup in the acceptance of financial products/services in countries like India had been the slow evolution of market practices followed by providers of financial products/services and also the weak market policies by regulators who overlook these products/services providers, thus affecting investors' confidence. This had hampered the growth of the industry as volumes refused to come by in an uncertain backdrop, resulting in the costs being borne by a lower revenue base. This scenario is, however, undergoing a sea-change for the better with greater responsibility of the financial service providers and important

restrictions/policies being framed by the regulators. In contrast, the developed world's systems/regulations having evolved much faster over the past few decades to take care of many possible adverse eventualities, thus inspiring confidence amongst investors.

Cumbersome processes owing to regulatory compulsions:

While I may have argued that systems and regulations have evolved for the better over the past few years in India, at the same time it is important to realize that the processes involved should not deter consumers from exploring a financial product/service. Thus, factors like lengthy documentation processes, multiple-window clearance, etc. for accessing a financial product/service should be discouraged, which currently seem to be a part of regulatory compulsions. Needless to say that the developed world leads emerging economies by example on this front too.

In conclusion, while it would be appropriate to assume that the cost of intermediation in emerging economies (relative to the developed world) is on the higher side, it would be improper to assume that it is 'solely' because of higher costs that access to financial products/services is restricted to a smaller segment of the society.

Vikrant Gugnani
Executive Director - Reliance Money & CEO - International Businesses

Mvikrant Gugnani, 40, is the Executive Director of Reliance Money – the broking and distribution of financial products & services brand of Reliance Capital.

Branded as 'Reliance Money', the various companies under the brand, offer Equity and Derivatives trading, Commodity trading, Insurance broking, distribution of Mutual Funds, Life & General Insurance, IPOs and Gold products through its 5,000 outlets across India.

Vikrant has also set up and currently oversees the Wealth Management as well as the Investment Banking businesses for Reliance Capital.

A Chartered Accountant & a commerce graduate from Delhi University, Vikrant has over 19 years of extensive experience in the financial industry and has worked in various countries with global firms like Citibank and S. B. Billimoria & Co (now Deloitte Haskins).

Prior to his current assignment, he was the CEO of Reliance Capital Asset Management (RCAM) Limited in India. Under his leadership, the company saw its asset under management surge from USD 3 billion to USD 22 billion and its net profit increase from USD 3 million to USD 28 million. RCAM, today, is the largest asset management company in India.

In January 2009, Asia Asset Management (an Asian Pensions & Investments Journal) awarded Vikrant as CEO of the year (2008) for India. Vikrant has also been listed by the Asian Investor magazine as one of the “25 most influential people in asset management in Asia” in May 2009.

In addition to his existing profile, Vikrant Gugnani is the CEO, International Businesses, of Reliance Capital Ltd - one of India's largest financial services companies with over 20 million customers. In his current role, Vikrant leads international business strategy across all lines of Reliance Capital businesses. He has successfully established a global footprint for Reliance Capital in asset management in Singapore and Malaysia and wealth management in UAE.

Vikrant is passionate about traveling and playing golf.

COST OF TRADING IN STOCK EXCHANGES: A PERSPECTIVE

Nirmal Mohanty*
Vice President, NSE

I Introduction

In India, capital markets have been playing an increasingly important role, determining the pace and pattern of economic growth and the stock exchanges are a vital institution of the capital markets. As an important intermediary in the capital market, a stock exchange provides an organized marketplace for transparent price discovery, where trading members (brokers) use a trading platform, typically an electronic one, to trade in securities such as equities or bonds either on behalf of their clients or on their own account. When a party trades with another on a stock exchange, he not only pays or receives the price (at the time of trading) of the securities he buys or sells, but also incurs certain additional costs. These additional costs are called costs of trading. Costs of trading in an exchange have an important bearing on the efficiency of the capital market and hence, call for a critical examination.

Why are costs of trading an important parameter to monitor and control? In a globalized world, capital moves not only in response to competing monetary policies, but also to competing securities markets. Inefficient financial systems are therefore likely to be increasingly penalized. Besides, high trading costs of securities distort the allocation of investible resources to securities vis-à-vis other assets. It also increases the cost of capital. By making it more expensive to exit, trading costs add to the liquidity risk and induce investors to ask for higher risk premium, implying a higher cost of capital. The aim of this paper is to critically examine the sources of the costs of trading

*** Views expressed in this paper are personal.**

on an exchange in the Indian context, analyze the trends and identify and discuss the emerging issues.

II Composition of trading costs in India

Investors/ traders incur trading costs that can be broadly classified into three main categories: (i) user charges, (ii) statutory levies and (iii) impact costs.

User charges

An investor/trader is required to pay user charges in return for the facility to use the infrastructure of three separate entities: brokers, stock exchanges and depository service providers; the charges made by these entities are brokerage fees, exchange transaction charges and depository charges respectively. The exchange transaction fee also includes the costs of clearing and settlement, undertaken by the clearing corporations. The depositories provide depository services to investors through depository participants (DPs). They do not charge the investors directly but charge their DPs, who are free to have their own fee structure for their clients. It may be noted that each of these three entities-brokers, exchanges and DPs-are for-profit entities and what they charge to the clients includes an element of profit. Bulk of the user charges is of ad valorem nature; that is, they are applied on transaction values.

Statutory levies

Transactions on exchanges attract four different types of statutory levies; they are: Securities Transaction Tax (STT), Service tax on brokerage, Stamp duty and SEBI turnover fees. STT and service tax on brokerages are revenues of the Central Government, while stamp duty is collected by respective state governments. SEBI turnover fees flow into SEBI General Fund. SEBI's budget is financed by this Fund. The base for all these levies is transaction value, except for service tax on brokerage, which is applied on the brokerage fees charged by the brokers. It may also be noted that all the levies are uniform across the country, except stamp duties, which are payable as per the rates prescribed by the state in which a transaction takes place.[1]

Impact cost

Impact cost is an indicator of liquidity of a market. It arises because of the absence of perfect liquidity in the markets in the real world. The less liquid a market, the higher is the impact cost. The concept of 'impact cost' can be explained with an example. If someone buys a share of a company for Rs 100 and sell a share of the same company simultaneously, she may get Rs 99, losing one rupee in the process, which is called the impact cost of transaction. For sophisticated investors, who trade in large quantities, it is a matter of high significance. In any given market, impact costs vary over time and across securities. To make 'impact cost' comparable

[1] Securities Transaction Tax (STT), Stamp duty and SEBI turnover fees vary across asset classes.

across countries and over time, it is defined in terms of a given basket of stocks and a predefined order size.

III Relative contribution of different cost components

Costs of trading vary depending on a number of factors such as type of trade (delivery based or not), kind of security being traded (equity or debt or derivatives), type of investor (retail vs institutional), size of transaction, location of the broker and so on. To arrive at any estimate of total trading costs, one would necessarily have to make assumptions on these factors. Based on a certain set of assumptions, we have estimated the costs of trading securities valued at Rs 100,000 at NSE (See Table 1).[2]

Table-1: Transaction cost for trading in securities market (Average brokerage@10bps)

Value of Trade	Rs. 1,00,000		
	Cost (Rs.)	Percent of Total Cost	Basis Points of Traded Value
User charges	**123.25**	**38**	**12.325**
of which:			
Brokerage (at the rate of 10 bps)	100.00	31	10.0
Exchange Transaction Charges	3.25	1	0.3
DP charges	20.00	6	2.0
Statutory levies	**145.50**	**44**	**14.5**
of which:			
Securities Transaction Tax (STT)	125.00	38	12.5
Service tax on brokerage (@10.3 %)	10.30	3	1.0
Stamp duty	10.00	3	1.0
SEBI turnover fee	0.10	0	0
Impact Cost	**60.00**	**18**	**6**
Total	**328.65**	**100**	**32.82**

Source: NSE staff estimate

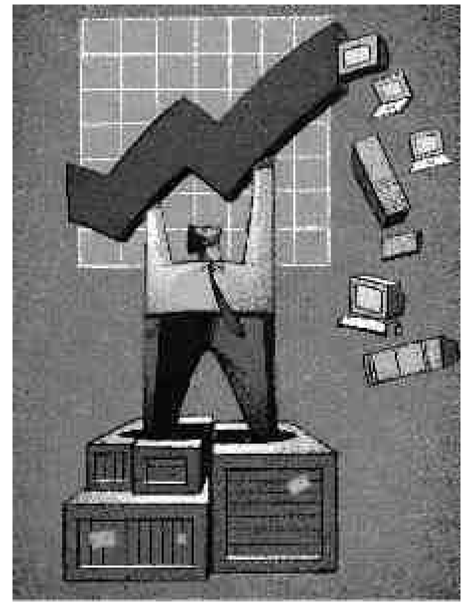
In a separate exercise (Table 2), we retained all assumptions of Table 1, but changed the assumption on brokerage rate from 10 bps to 20 bps. It can be seen that both the total cost of trading as well as the contribution of individual cost sources in Table 2 differ from those in Table 1. This gives a sense of how the overall trading costs and the relative contribution of their components can vary from case to case. For example, the contribution of statutory levies fell from 44 percent in one case (Table 1) to 35 percent in another (Table 2). The point to note is that such variations from case to case (depending on brokerage charged, type of trade, size of trade etc) are normal to expect.

[2] The assumptions include: (a) brokerage fees are 10 bps, (b) it is a delivery based equity transaction, (c) the transaction is made in Maharashtra, (d) the exchange transaction fee is at the highest possible rate and (e) the stock is a large cap stock.

Table-2: Transaction cost for trading in securities market (Average brokerage@20bps)

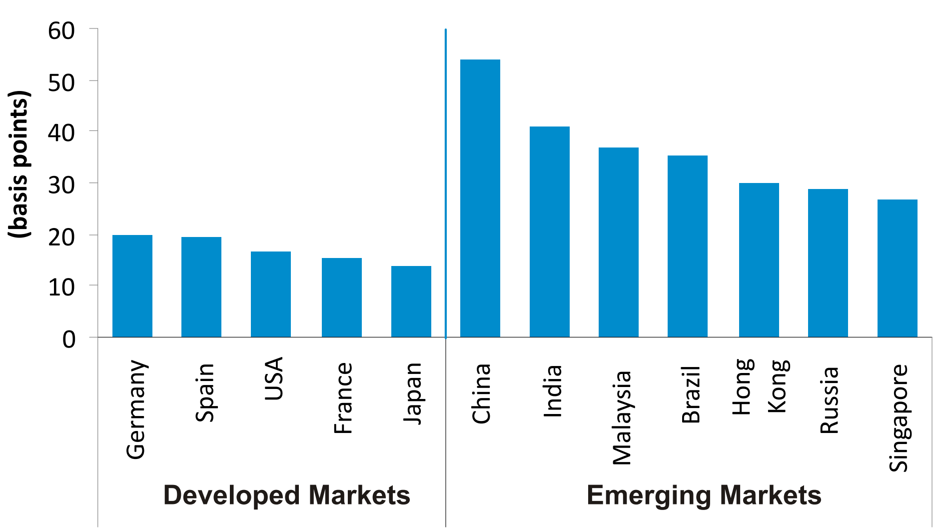
Value of Trade	Rs. 1,00,000		
	Cost (Rs.)	Percent of Total Cost	Basis Points of Traded Value
User charges	**223.25**	**51**	**22.325**
of which:			
Average Brokerage **(at the rate of 20 bps)**	200.00	45	20.0
Exchange Transaction Charges **(at highest slab base rate)**	3.25	1	0.3
DP charges	20.00	5	2.0
Statutory levies of which:	**155.80**	**35**	**15.5**
Securities Transaction Tax (STT)	125.00	28	12.5
Service tax on brokerage (@10.3%)	20.60	5	2.0
Stamp duty	10.00	2	1.0
SEBI turnover fee	0.10	0	0
Impact Cost	**60.00**	**14**	**6**
Total	**439**	**100**	**43.82**

Source: NSE staff estimate



Where does India stand vis-à-vis other countries? Standard and Poor's Global Stock Markets Factbook provide some interesting cross country data. To compare trading costs over time and across countries, Standard and Poor's makes a single estimate (based on average) for a given country in a given year. It may be seen from Chart 1 that the emerging markets typically have a higher overall cost of trading than the developed markets. Even when compared to other emerging markets, India's cost of trading (41 basis points in 2009) appears to be at the higher end. What is rather instructive is that India's achievements in cutting down trading costs over the years has been more impressive than in most other countries, as we will see in the latter part of the paper.

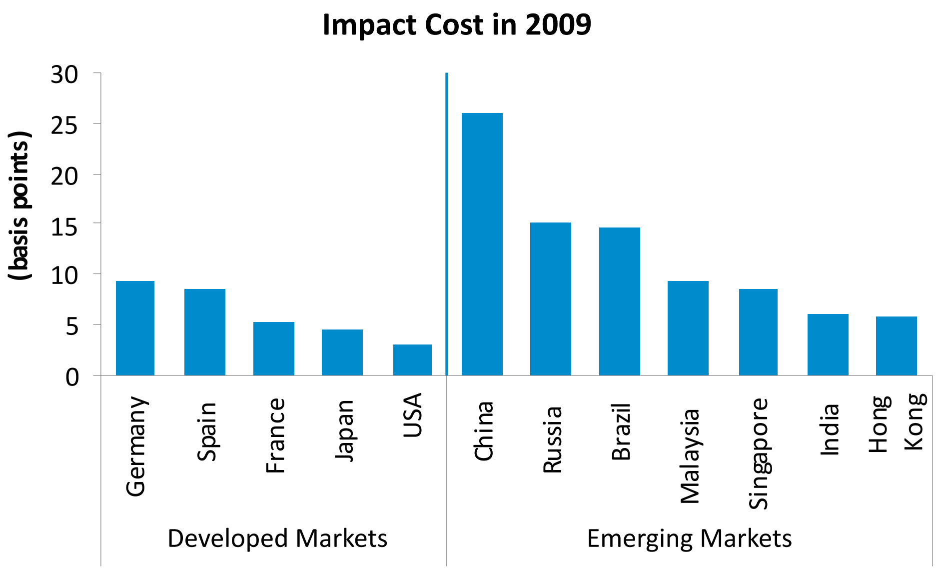
Chart-1: Overall trading cost of select countries in 2009



Source: Standard and Poor's, "Global Stock Markets Factbook 2010"

One factor that is worth noting however is that while the total trading costs in India is at the higher end compared to other emerging markets, the 'impact cost' is among the lowest (see Chart 2).

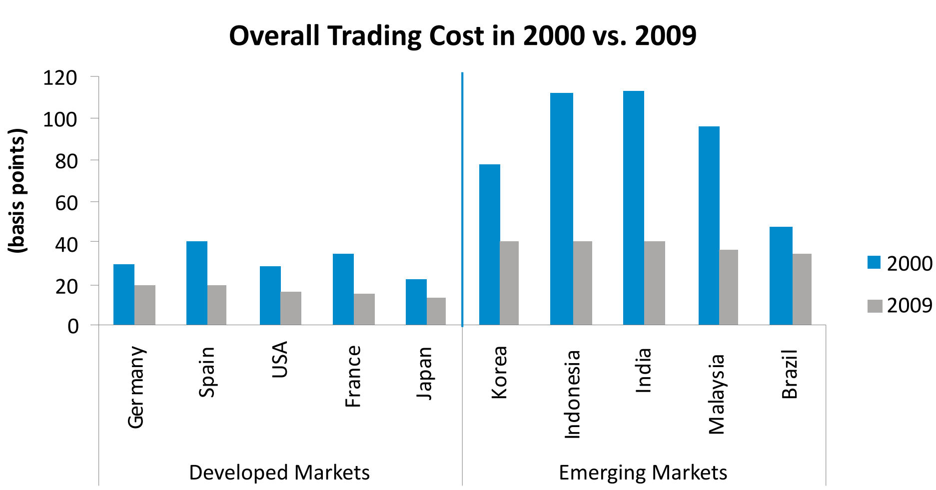
Chart-2: Impact cost of select countries in 2009



Source: Standard and Poor's, "Global Stock Markets Factbook 2010"

IV Trends in trading costs

According to S & P estimates, there has been a declining trend in the total trading costs globally over the past few years and India has been no exception (see Chart 3). The point to note however is that India's trading costs are still higher than some major emerging markets and much higher than the developed markets.



Source: Standard and Poor's, "Global Stock Markets Factbook 2010"

We observed in Table 1 and Table 2 that the exchange transaction charge, which an exchange charges for the various services that it provides, is less than 1 percent of the total costs of trading. For executing a trade of Rs 1 lakh, the exchange transaction charge is only Rs 3.25 and this Rs 3.25 covers the costs of a range of services including provision of a trading platform, surveillance, clearing and settlement, redress of investor grievance and so on. As exchange transaction charge is an insignificant part of total trading costs, even if the exchange transaction fee falls to zero-which is inconceivable-total trading cost would reduce only marginally.

Exchange transaction charge is not only low but also declining. At NSE, for example, it has seen a secular decline over the years primarily because NSE has been able to handle an enormously fast-growing trading volume through adoption of world class technology, vast reach and superior processes. Resultant gains in cost efficiency are passed on steadily to the members. For example, in the cash market segment, the exchange transaction charges have fallen from about Rs 10 per transaction value of Rs 1 lakh over a decade ago to Rs 3.25 now. This amounts to a fall of about 68 percent. In real terms, the fall is even sharper.

Brokerage fee is still a fairly significant part of trading costs, although the current brokerage fees are significantly lower than what prevailed in the early 1990s. Until mid-1990s, which saw the emergence of demutualized exchanges, there was hardly any competitive pressure in the brokerage industry. As exchanges were constituted as 'closed clubs' run by brokers, the number of brokers was low and competition among them limited. As the demutualized exchanges appeared on the exchange landscape, the entry barrier for the brokers was lowered, since brokers could be recruited from any part of the country, so long as they complied with a transparent set of eligibility criteria. As a result, competition among brokers intensified, which led to a substantial fall in the brokerage fees--from over 2 percent of the traded value a decade and half ago to 10-20 basis points now.

Similarly, the DP charges fell sharply over the years due to rising competition among the depository participants, whose number grew from 28 in 1997 to 758 in 2010. The current DP charges are about 2-3 basis points of traded value and are applicable only for sellers as compared to 4-5 basis points (applicable to both sellers and buyers) some 10 years ago. This has also been possible partly due to the cut in fees charged by the depositories to the DPs.

Overall, in case of all three sets of market infrastructure service providers that we discussed, it would be fair to say that user charges have been driven down because of competition. The economies of scale and ever improving technology have further contributed to the cost reduction.

As in the case of user charges, impact costs in India have fallen over the years--from 18.4 basis points in 2003 to 6.1 basis points in 2009. India's current impact cost (5-6 basis points for large cap stocks) is among the lowest in the emerging markets and is lower than several developed countries, such as Australia (7.9 bps), Germany (9.4 bps) and Singapore (8.6bps). (Source: S & P Factbook, 2010). One of the key contributors to this improved liquidity is the persistent up-gradation of technology by the stock exchanges.

In sharp contrast to the trends in user charges and impact costs, the STT--which constitutes bulk of the statutory levies--have shown a general rising trend, with a small exception (see Table 4). It may be noted that the STT burden for the same level of transactions has risen for all categories over the years except in the case of sale of options, where the change in tax base from notional value to premium has meant a sharp decline in STT burden.

Table 4. Changes in Security Transaction Tax Rates (percent)

	Oct-04	Jun-05	Jun-06	Jun-08
Delivery based transactions in equity	0.0750	0.1000	0.1250	0.1250
Non-delivery based transactions in equity	0.0150	0.0200	0.0250	0.0250
Derivaties:				
Sale of option	0.0100	0.0133	0.0170	0.0170$
Sale of option, where option is exercised	...	...	...	0.1250
Sale of futures	0.0100	0.0133	0.0170	0.0170

$: The tax base was changed from notional value to premium, while the rate was left unchanged.

Note: 1. STT is payable by

- both buyer and seller for delivery-based transactions in equity,
- seller alone in case of non-delivery based transactions in equity, sale of options and sale of future and
- buyers alone in cases where options are exercised.

2. Prior to June 2008, no STT was levied when an option was exercised.

3. Current tax base for STT is:

- Volume weighted average price times quantity for delivery and non-delivery based transactions in equity
- Option premium for sale of option
- Settlement price for sale of option when option is exercised
- Price at which future is traded for sale of future.

Further, following the budget announcement in 2008, there was a change in the Income Tax regime relating to the treatment of STT; in cases where income from securities transactions is treated as business income, STT began to be treated like any other deductible expenditure against business income rather than a rebate against tax liability, which was the case earlier. The effect of this change can be explained with an example. Assume that a company which has an income of Rs 100 has paid Rs 10 as STT. At 30 per cent corporate tax, in the earlier case, Rs 10 was deducted from 30 and the income tax outgo was Rs 20, resulting in a total tax liability of Rs 30. Now, according to the revised criteria, STT of Rs 10 will be deducted from the income of Rs 100 and the net income of Rs 90 will be taxed at 30 per cent, resulting in an income tax outgo of Rs 27. The total tax burden in the current scenarios is Rs 37 as compared to Rs 27 earlier. Thus, the transition of STT from being an offset against tax payable to a deductible expenditure has raised the overall tax burden and hence the cost of trading, significantly.

Similarly, service tax (on brokerage) has been raised from 5 percent of brokerage fees in mid-1990s to 10.3 percent now; but its impact has been offset in varying degrees depending on the decline in brokerage fees. In any case, the share of service tax on brokerage in total trading costs is relatively very small (see Table 1) and so is the share of stamp duties.

V High securities transaction tax—a matter of concern?

Securities transaction taxes were rationalized to some extent in 2008, but it continues to be very high (0.125 percent) in case of delivery based transactions in equity and upon exercise of

options. Now, why is a tax rate of 0.125 percent considered high; are not the other tax rates higher, whether in India or abroad? Compared to most tax rates, 0.125 percent might seem low; however, because the tax base is gross transaction value, rather than net income from a trade, 12.5 basis points in practice is very high. Clearly, to address India's still (relatively) high trading costs, it is necessary to review the tax regime (governing the securities transactions), particularly the STT. But is there any economic rationale for such a move?

To answer this question, it would be useful to know why STT was introduced. In 2004, to simplify the tax regime on financial market transactions, STT (considered a clean, efficient and easy to administer instrument) was introduced, while the tax on long-term capital gains was abolished and the short-term capital gains reduced from 33 percent to 10 percent[4 5]. As we observed, the STT rates have generally been raised progressively over the years, probably because of the ease in collection of a tax whose base has been rising rapidly over the years.

There are, however, two reasons why the STT regime in India needs to be reviewed. First, the revenue received by the Government from this source has been negligible-in the range of 0.1-0.2 percent of GDP. Predictably, the STT revenue rises or falls with financial market activity; in 2007, for example, when the market had boomed, the STT revenue peaked at 0.19 percent of GDP. Even so, it is unlikely that it can ever generate much higher revenue as percent of GDP. It is useful to note that France, Germany, Japan and Italy, which eliminated their stock market transaction taxes in the last two decades collected at most 0.2 percent of their GDP.

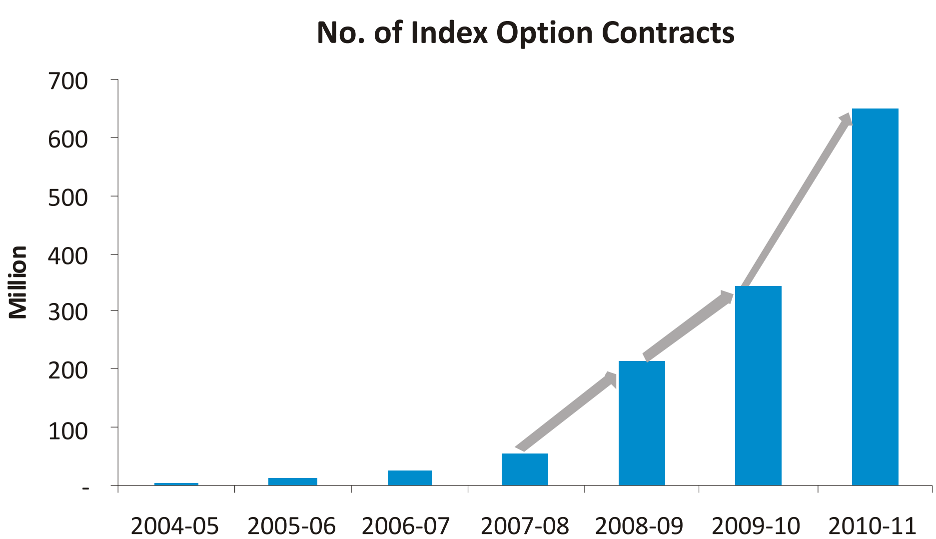
Second, would it then be possible to raise revenue from this source by raising the tax rate? It is difficult to answer this question, as it would depend on a large number of factors. It is however useful to note that given the ever increasing integration of the world financial markets, it is possible that relatively high STTs could drive out financial activity to other countries. Also, a hike in STT rates discourages trading volumes in any given country. This can be explained with an example. If STT is X % of the value of a security, for a person to make profit out of trading, the security price must increase by at least 2X percent, because the trader has to both enter and exit to make profit. In case of situations, where STT is applicable either on buyers or on sellers, the security price needs to rise by more than X percent for the trade to be profitable. In either case, as STT rises, the chances of a trade being profitable reduce and traders are discouraged to trade. While this is true of other components of trading costs as well, our focus is on STT, because we have seen that it is primarily the STT which has been putting upward pressure on total trading costs. Besides, traders are particularly sensitive to statutory levies than other

[4] Capital gains taxes were considered difficult to administer.
[5] Short term capital gains tax rate has since been raised to 15 percent.

trading cost components, such as brokerage, exchange transaction fee and DP charges, where choices are available. It is for this reason that high STTs can and do affect trading volumes; lower trading volumes in turn reduce liquidity and slow price discovery.

In India, there is strong evidence that trading volumes in securities markets are highly sensitive to the tax regime. Index options, which were introduced in June 2001 remained unattractive because of high tax burden till June 2008. In June 2008, when the STT tax burden on option contracts was reduced by changing the tax base from notional value of option contract to option premium, trading volumes immediately picked up (Chart 4) and today India is among the top few countries in the index option trading. This underscores the impact that turnover taxes can have on the build-up of liquidity and usage of financial instruments.

Chart 4: Number of Index Option Contracts in India



Source: SEBI Bulletin, April 2011.

VI.Summary and conclusion

In this paper, we have seen that in line with the global trend, the cost of trading in Indian exchanges has declined over the years. Yet, trading costs in India remain relatively high compared to other countries. Because trading occurs on the exchange platform, there is a perception that the exchange as the intermediary in trading transactions is responsible for this. A decomposition of total trading costs debunks this myth, as exchanges account for a miniscule part of total trading costs. Further, an analysis of the trends of various components of trading costs shows that while the user charges (that is, charges made by brokers, exchanges and DPs) and impact costs have declined, the statutory levies, particularly the STT rate has risen. While there is no need for complacency for the market infrastructure service providers to further reduce the trading costs, there appears to be a case for review of the STT regime, as there are concerns that it may be raising businesses' cost of capital and impairing the development and competitiveness of domestic financial markets, given increased cross border mobility of capital. At the same time, the objective of revenue collection is not found to be well served by STT, although it is often cited as the rationale for its imposition.

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Mr. Nirmal Mohanty is Vice President NSE: Views expressed in this paper are personal

Indian Economy – An Update

Box1. Key Facts

- Continued tightening of monetary policy and further escalation in global oil prices are the key downside risks to growth in 2011-12.
- Inflation remains the most influencing factor affecting business confidence in most of the surveys in the economy.
- The moderation in the rate of growth of manufacturing sector reflected by IIP data for March 2011, though on the expected lines as envisaged by FICCI's Manufacturing Survey of Q-4 continues to be a cause of concern.
- The IMF World Economic Outlook, April 2011continues with the earlier forecasts on global growth estimated at 4.4 per cent for 2011 and 4.5 per cent for 2012. It also expects a 36 % rise in global crude oil prices in 2011.
- Survey of Professional Forecasters Q4'2011, Reserve Bank of India expects downward revision in overall GDP growth rate on account of moderation in agriculture and industrial sector with upward revisions in inflation forecasts.
- Given the evolving situation, we expect GDP growth in 2011-12 to be in the range of 8 to 8.5 percent.

Rising food and energy prices and sluggish economic recovery continues to be the worst nightmares for most of the economies. The Business Confidence Survey and Manufacturing Survey conducted by FICCI for the latest quarters confirmed the India Inc. worries on account of rising inflation and tightening of interest rates on the investment scenario in the country. FICCI in various consultations with RBI before the announcement of the new Credit Policy (announced on May 3rd 2011) had shared the views of the industry about increase in cost of capital in the last quarter and significant moderation in expectation of growth in the sector due to tight monetary measures. Both IMF and ADB have also projected a moderation in the growth prospects for the Indian economy to 8.2 per cent on account of base effects and further policy tightening.

The general expectation from the much awaited Monetary Policy was further hike in the policy rates in the range of 25 bps. However, going a huge step ahead RBI hiked the policy rate by 50 bps clearly indicating inflation targeting being the top priority of the Central Bank. Though RBIs stance was accepted by some economists, financial markets found it harsh making the interest rate sensitive stocks dip amidst the fear of slower growth and loss of corporate earnings. The rise in lending rates in less than two weeks shows the limited choice with the banks as response function to the RBI move. Further, the hike in savings rate to 4% will push the sector as the banks will find it difficult to strike the balance between customers and lenders to bear the additional cost of funds.

While FICCI appreciates the RBI's concerns over the evolving inflation trajectory, the role of the government is more vital, therefore, expects the latter to share a greater burden in inflation management. Unless the government introduces significant compression on the fiscal side, RBI would remain constrained and be forced to resort to such monetary tightening in its bid to tackle inflationary expectations.

Commenting on the 50 basis points increase in both the repo rate and the reverse repo rate, Dr. Rajiv Kumar, Secretary General, FICCI said "This is certainly a very hawkish monetary stand and one which would make the investment

environment even more difficult. We are afraid that with growth slowing down, as now admitted by the RBI, employment targets will not be achieved and this could generate greater social pressure." A continued reliance on monetary policy instruments for tackling inflation is bound to have an adverse impact on the industrial sector as it will weaken the investment momentum.

Inflation

The global commodity prices and domestic demand supply gap in several commodities have exerted upward pressures on inflation in the last months. Despite the repeated increase in key policy rates (Nine times since March

2010), inflation continues to be much above the comfort level of RBI. With the recent increase in fuel prices by the State-oil companies, the impact could be reflected in terms of further escalation in the numbers of WPI due to rise in transportation costs.

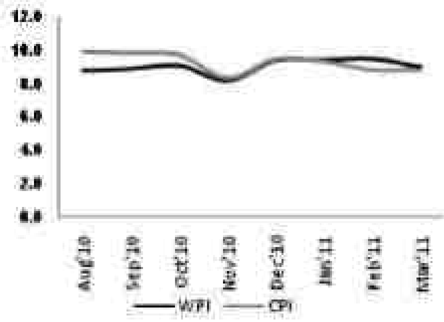
Exhibit1 reveals the trend in WPI & CPI based inflation. The gap between the two indices have narrowed down in the past few months however, yet remaining elevated and indicating the generalization of price pressures.

Thus, the outlook on inflation does not rule the possibility in the upward revision of a new normal/acceptable level of inflation for RBI. As admitted by RBI in its monetary policy stance, inflation in the future would depend largely on

a) Geo-political uncertainties in MENA region

b) How the impact of higher crude prices is passed through

Exhibit-1: Trend in Inflation



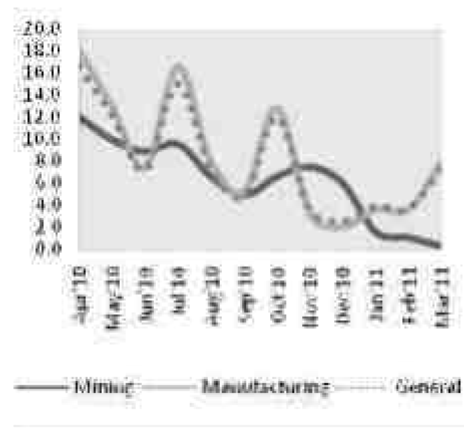
c) Rainfall expectations from the south-west monsoon

d) The transmission effects of monetary policy in the next few months reflected in CPI.

Performance of IIP

The Index of Industrial Production (IIP) grew by 7.3 percent in the month of March 2011 as

Exhibit2: IIP YoY growth



compared to 3.7% in February 2011. Though the rise in IIP performance came as a surprise, the experts remain skewed about the sustainability of the momentum. One of the major concerns is the declining trend in the mining sector. As per Use-based classification, the Sectoral growth rates in March 2011 over March 2010 are 4.3% in Basic goods, 12.9% in Capital goods and 5.4% in Intermediate goods. The Consumer durables and Consumer non-durables have recorded growth of 12.3% and 5.7% respectively, with the overall growth in Consumer goods being 7.7%. Nonetheless, there are some positive aspects of IIP result. The growth has been more broad-based now as compared to last year when the growth was primarily driven by two or three sectors only.

Liquidity position & Financial Markets

During 2010-11, the Reserve Bank articulated a net liquidity level of ±1 per cent of net demand and time liabilities (NDTL) of banks as ideal for effective monetary transmission. However, over time as credit growth gathered pace, banks started facing a tight liquidity situation. This is also the period when liquidity injection by the central bank under the LAF / Repo window increased and on occasions crossed the Rs. 1 lakh crore mark (Oct.'10-Dec.'10).

As the liquidity situation tightened, banks were forced to increase the card rates. However, the increase in card rates, which started in July 2010, picked up pace with hikes being particularly aggressive from December 2010 onwards. This move has helped bank garner more deposits in the last quarter of 2010-11. Thus, the accelerated deposit growth coupled with slower credit growth in the Q4 of 2010-11 narrowed the divergence thereby easing out the liquidity conditions reflected by decline in the LAF injection by RBI.

Exhibit3: Liquidity Position

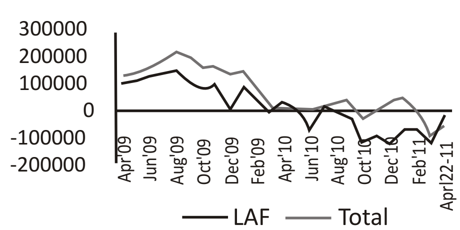


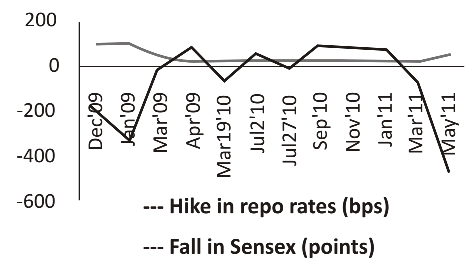
Table1: Key Indicators of Financial markets

	Dec'10	Jan'11	Feb'11	Mar'11
Call Rate* (%)	6.67	6.54	6.69	7.15
Market Repo Rate (Non-LAF) (%)	6.27	6.21	6.45	6.56
G-Sec 10-year yield(%)	8.03	8.15	8.12	8.00
Exchange Rate (INR/US $)	45.16	45.39	45.44	44.99
CNX Nifty **	5971	5783	5401	5538
BSE Sensex **	19228	19289	18037	18457

*: Average of daily weighted call money rates

**: Average of daily closing indices

Exhibit 4: Sensex's Reaction to Policy Rate



Balance of Payments

Annual figures for 2010-11 show that exports have touched an all time high of US$ 246 billion and mark a robust growth of 37.5 percent over US$ 179 billion achieved in 2009-10. India's strong export performance in the year 2010-11 was fuelled by sectors such as engineering products, oil, gems and jewellery, textiles and pharmaceuticals. Imports too registered a strong growth of 21.2 percent in 2010-11 and touched US$ 350.3 billion. With total exports and imports at these levels, India's total trade

Table 2: External Sector Performance

BoP (US $ Billion)	2009-10	2010-11		
		Q1 -PR	Q2-PR	Q3-P
Exports	182.2	55.3	51.8	66.0
Imports	300.6	88.0	89.6	97.5
Trade Balance (1-2)	**-118.4**	**-32.8**	**-37.8**	**-31.6**
Current Account Balance	**-38.4**	**-12.5**	**-16.8**	**-9.7**
Net Capital Account	53.4	16.6	21.3	14.9
Overall Balance	**13.4**	**3.7**	**3.3**	**4.0**
Forex Reserves (as on April 22, 2011)				309.7

PR: Partially Revised; P: Provisional

deficit in 2010-11 stood at US$ 104 billion. Further, these numbers translate into a total trade figure of almost US$ 600 billion, which is about half the size of India's GDP of US$ 1.2 trillion. The CAD which was 3.1% in Apr-Dec 2010 is estimated to moderate around 2.5%.

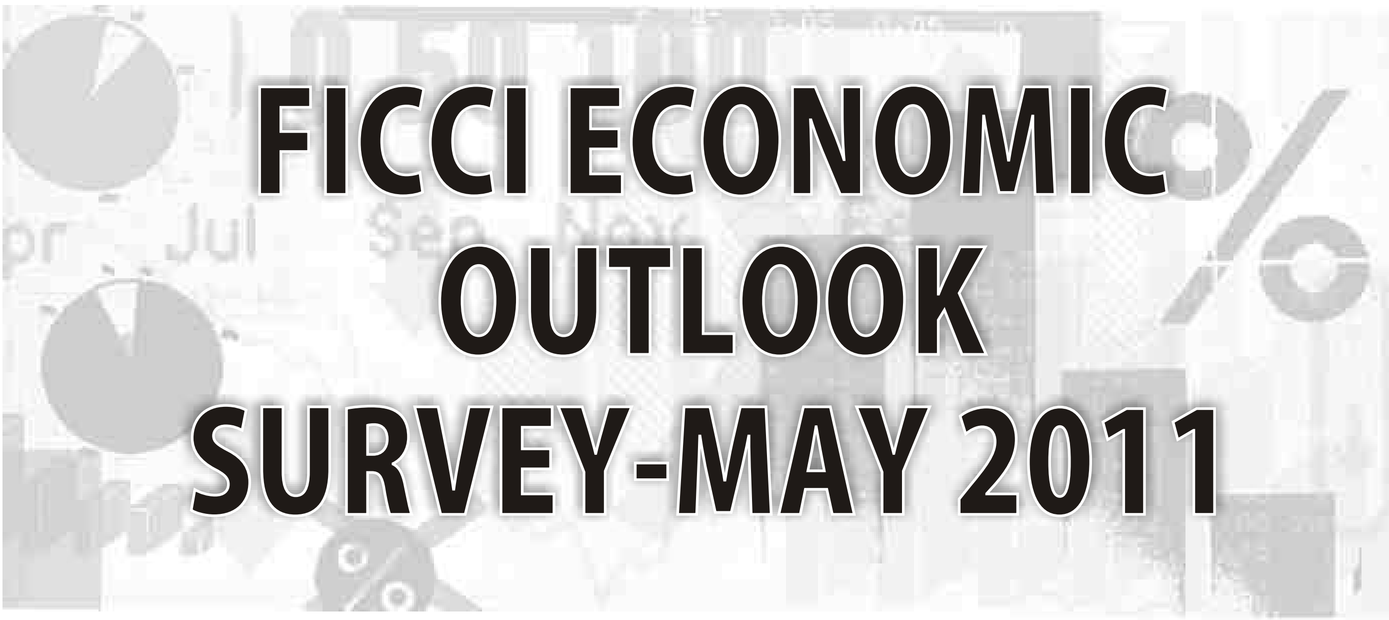
Though financing of the current account, may not be a problem as capital flows are likely to improve; the composition and volatility of capital flows could have implications for external sector vulnerability. India's forex reserves have crossed US$ 300 billion mark recently. Nevertheless, this large holding of forex reserves has attracted a lot of attention and several options suggested on how to optimally utilize these reserves. In this context it is interesting to note that the country's Chief Economic Advisor, Dr. Kaushik Basu, has once again brought the focus back on the question of India having its own Sovereign Wealth Fund. Speaking at a recent seminar, Dr. Basu mentioned that it is time that India needs to seriously look at the issue of whether to set up a Sovereign Wealth Fund.

Future Outlook

FICCI based on its recent Economic Outlook Survey for May

2011 have summarized the prospects for the economy as under:

- Though the inflationary pressures are expected to persist in the near term, it is likely to moderate to the around 7% by the end of fiscal year. Majority of the economists said that the RBI should stop its current anti-inflationary rate hikes when the inflation moderates to around 7%- 7.5%.
- There is a mixed opinion amongst economists on considering a 'new normal' for inflation, most of them agreed to a 6% level as the new normal; while few economists consider 7% mark considering the changing trend of inflation as well as the structural demand - supply mismatches.
- FDI inflow to India during the fiscal year 2011-12 will remain subdued. However, economists are optimistic that fuller recovery in the mature economies, together with Indian Government's action on easing barriers and improving the ease of doing business could increase FDI inflows in the future.



FICCI ECONOMIC OUTLOOK SURVEY-MAY 2011

About the Survey

The sixth round of FICCI's Economic Outlook Survey was conducted during May 2, 2011 to May 26, 2011. As part of the survey, a structured questionnaire was drawn up and sent to key economists with a view to gauge their perception and views on topical economic issues as well as to seek their outlook for key macro-economic variables. 12 economists of repute participated in the survey. These economists largely come from the banking and financial sector. The sample also includes economists from industry and research institutions.

The economists were asked to provide **their forecast for key macro economic variables for the year 2010-11 and 2011-12** as well as for **Quarter 1 (Apr-June) of 2011-12.**

In addition to these, FICCI sought the views of economists on three topical issues-**the inflation rate around which the central bank should take a pause with regard to tightening of key policy rates; considering a 'new normal' range of 6 to 7 percent for inflation and dip in FDI inflow to India.**

The feedback received from the participating economists was aggregated and analyzed. The results obtained are presented in the following pages.

The findings of the survey represents the views of the leading economists and do not reflect the views of FICCI.

Executive Summary

Annual Forecasts of GDP at Factor Cost for 2010-11

- GDP growth . 8.6 percent
- Agriculture and allied activities growth . 5.4 percent
- Industry growth . 8.1 percent
- Services growth . 9.6 percent

Annual Forecasts for 2011-12

- GDP growth . 8.0 percent
- Agriculture and allied activities growth . 3.7 percent
- Industry growth . 8.0 percent
- Services growth . 9.2 percent
- Fiscal Deficit . 5 percent of GDP
- WPI Inflation rate (end march 2011) .6.7 percent
- IIP . 7.9 percent
- Trade Balance . (-) 7.7 percent
- Current Account Deficit . (-) 2.8 percent of GDP
- USD/ INR exchange rate (end March 2012) . Rs. 43.7 /USD

Quarterly Forecasts for Q4 of 2010-11 and Q1 of 2011-12

- GDP growth . 8.2 percent (Q4, 2010-11), 8.1 percent (Q1, 2011-12)
- Agriculture and allied activities growth . 5.8 percent (Q4, 2010-11), 4.0 percent (Q1, 2011-12)
- Industry growth . 5.3 percent (Q4, 2010-11), 6.5 percent (Q1, 2011-12)
- Services growth .10.1 percent (Q4, 2010-11), 9.3 percent (Q1, 2011-12)
- Prime Lending Rate . 9.3 percent (Q1, 2011-12)
- WPI inflation rate . 9.1 percent (Q1, 2011-12)

- IIP . 6.8 percent (Q1, 2011-12)
- Trade Balance- (-) 8.6 percent (Q1, 2011-12)
- USD / INR exchange rate . Rs. 45 / USD (Q1, 2011-12)

Economists¡- views on...

- **The inflation rate around which the central bank should take a pause with regard to tightening of key policy rates**
  - ❖ Majority of the economists said that the RBI should stop its current anti- inflationary rate hikes when the inflation moderates to around 7 percent to 7.5 percent. They expect that the RBI will further increase the repo rate by another 50-75 bps in this rate hike cycle.
  - ❖ The survey participants feel that inflation may further accelerate over the first half of the fiscal year because of the expected increase in diesel/ LPG / kerosene and also the supply side mismatches in some commodities like vegetables, fruits, pulses, milk and eggs.
  - ❖ The economists estimate that though the inflationary pressures are expected to persist in the near term, it is likely to moderate to the around 7 percent by the end of fiscal year 2011-12 because of
    - o Expected stability in the international crude oil price as the overreaction in oil prices to the problems in the Middle . East is calming down
    - o Likely downward movement in the international commodity prices
    - o Expected measures to be taken by the domestic government to improve supply side bottle necks

- o Possible lagged impact of the successive policy rate hikes coming in to play and impinging on demand side pressure of the inflation

❖ Some of the economists strongly suggested that RBI should target only non- food inflation and not the food inflation. They recommended that a pure monetary approach to manage the inflation arising of supply side rigidities is a wrong approach and it is the duty of the government to make the effort to bring down the food inflation

- **Considering a ¡®new normal¡¯ range of 6 to 7 percent for inflation**

❖ Though there was a mixed reaction amongst economists on considering a ¡®new normal¡¯ for inflation, majority of the economists agreed that Indian economy has to accept a new normal. While most of them agreed to a 6 percent level as the new normal, few economists said it could be even a 7 percent mark considering the changing trend of inflation as well as the structural demand . supply mismatches.

❖ Few of the economists opposed the consideration of a new normal level for WPI inflation because, setting a higher normal level will only prevent a push for structural reforms that are urgently needed to reduce the general level of inflation and also will exacerbate inflationary expectations

❖ They further suggested that government may continue to bring down the current inflation by debottlenecking the agriculture sector by taking urgent steps to increase productivity and improving supply side management of food products. Also to tame the inflation in the manufactured products, steps must be taken to augment supplies of industrial inputs via greater investments in these sectors

- **Recent dip in FDI inflow and outlook for FDI inflows in 2011-12**

❖ Survey captured following reasons for the dip in FDI inflows to India during 2010-11:

oGeneral slowdown in the international market: Re-emergence of sovereign debt related issues in the Euro zone, weak recovery of the US economy and problems in Japan led to uncertainties in the global market

oExpected slowdown in the domestic market: India’s macroeconomic stability coupled with the large potential of market was a big lead in attracting the FDI flows. However, RBI has echoed that growth may have to slowdown in order to tame the high inflation. This could have prompted the investors to wait and watch how the domestic situation spans out

oEmergence of other competent economies: India received a good FDI inflow during 2009-10, soon after the global melt down, as the country was seen as the brightest destination amongst the emerging markets. However, as the world economy recovers, funds are moving to other competent emerging economies as well, posing a reduction in FDI flow to India.

oGovernance issues: Respondents feel that the factors that might have affected investors sentiments in the recent past could be the environment and land sensitive policies and spate of corruption scandals

oRegulatory uncertainties: Foreign investors planning to enter the retail space as well as banking in India or increasing their stake in insurance ventures have been awaiting the required policy changes for over a decade. This have vitiated the investment climate in the country

❖ Against this back drop most of the surveyed economist expect that the FDI inflow to India during the fiscal year 2011-12 will remain subdued. However, economists are optimistic that fuller recovery in the mature economies, together with Indian Government's action on easing barriers and improving the ease of doing business could increase FDI inflows in the future.

Banking Sector

Payment through cheques are now costlier

RBI in April allowed banks to levy higher service charges for their clearing, especially of high-value and outstation cheques. As per a RBI circular coming into effect from April 1, 2011, banks would be free to fix service charges on speed clearing of cheques of value above Rs 1,00,000. However, speed clearing of cheques with value up to Rs 1,00,000 would continue to remain exempt of any service charges.

RBI asks NBFCs not to contribute capital to, or invest in, partnership firms

The RBI in April asked non-banking finance companies (NBFCs) to desist from contributing capital to any partnership firm or be a partner in partnership firms. In the case of existing partnerships, NBFCs should seek early retirement from the partnership firms, the central bank said in a notification to all NBFCs.

This directive comes in the backdrop of the RBI coming across some NBFCs having large investments in, or contributed capital to, partnership firms.

No online payment for forex trade: RBI to credit card firms

Amid introduction of illegal online forex trade by certain companies, the Reserve Bank has asked credit card issuing companies to not permit payments for such transactions. The regulations under Foreign Exchange Management Act (FEMA), 1999, do not permit resident Indians to trade in foreign exchange in domestic or overseas markets. The RBI's instruction comes in the wake of introduction of overseas foreign exchange trading on a number of Internet and electronic trading portals, luring the residents with offers of guaranteed high returns based on such forex trading. The apex bank said it has also observed that accounts are being opened in the name of individuals or proprietary concerns at different bank branches for collecting the margin and investment money. Any resident Indian collecting or remitting such payments outside India is liable to be proceeded against with, for contravention of FEMA and violation of regulations relating to Know Your Customer (KYC) norms and Anti Money Laundering (AML) standards, the circular added.

RBI asks banks to create special buffer

The RBI has asked banks to create special buffers to be used by banks for making specific provisions for bad loans during system-wide downturns. The RBI wants the cushion - called the "counter-cyclical provisioning buffer" - to be set up out of any surplus available after complying with the stipulated 70% provision of coverage ratio (PCR) of the gross non-performing assets as of September 2010. The surplus provisions under PCR should be segregated into an account, computation of which may be undertaken as per the format prescribed by the RBI, the notification said.

RBI brings fresh norms to help banks manage risks

The RBI in April came out with fresh norms for tightening the risk management of banks, asking them to scale up to the Basel-II norms - the third stage of international banking norms. The Advanced Management Approach (AMA) norms, released by RBI, will guide banks to measure operational risk, maintain solvency and migrate to the next stage of the capital adequacy requirements. The AMA guidelines, which deal with computation of capital charge for managing operational risks, are likely to be implemented from April 1,

2014. To meet the Basel-II norms for risk management, RBI had already put in place the Basic Indicator Approach and the Alternative Standardised Approach. RBI had advised the banks to assess their preparedness with reference to the guidelines. The banks have also been told to approach RBI whenever they are ready to go for a preliminary assessment of their risk management system.

RBI ups FII cap on infra bonds by $20bn

The RBI in April allowed foreign institutional investors (FIIs) to invest in infrastructure bonds with a maximum limit of $25 billion, including in those issued by unlisted companies. Earlier, on March 31, Sebi, too, had allowed FIIs to invest in these bonds and had given them a limited trading window within which these entities were allowed to trade these bonds among themselves. The move by the central bank is expected to pave the way for foreign funds to be invested in the country's infrastructure sector that is estimated to need over $500 billion over the next few years. In this year's budget, the finance minister had proposed to raise FII investment limit in infra bonds issued by corporates.

Norms eased on foreign investors' share pledge

In order to encourage foreign direct investment in the country, the RBI in May relaxed the norms to allow overseas investors to raise funds by pledging shares of Indian companies to banks without its permission. Earlier, such transactions required the permission of RBI. However, such transactions will have to be within the framework of the FDI policy. The escrow account, however, would be maintained in Indian rupees and it should be non-interest bearing.

RBI raises m-wallet limit to Rs. 50,000

Relaxing the norms for making payments using mobile phones, known as m-wallet, the Reserve Bank in May decided to increase the limit of money-loading to Rs. 50,000 from the existing limit of Rs. 5,000.Those using other Semi-Closed System Payment Instruments, were already enjoying the upper limit of money value of Rs. 50,000.

RBI tells banks to tighten norms

RBI wants banks to tighten due diligence when lending to microfinance institutions (MFIs) to ensure they follow rules that became effective from April 1, 2011. MFIs, which extend micro-loans to the poor, are likely to find borrowing tougher. Banks will now have to make compliance certificates mandatory, track MFIs' business performance and may even demand higher collateral by way of personal guarantees.

RBI proposes norms on primary dealers' authorisation policy

The RBI in May set pre-conditions for entities wanting to apply for primary dealership licence by proposing they should have a minimum turnover of 15 percent of total revenue in government securities business in the year prior to its application. The RBI also wants such applicants to have a minimum turnover of 15 percent in gilts on behalf of mid-segment investors like provident funds, urban cooperative banks, regional rural banks.

RBI unveils MSF norms for liquidity to banks

In line with the annual credit policy announcement in May, RBI has unveiled the guidelines for the Marginal Standing Facility (MSF) to help banks tide over short-term liquidity problems. As per the guidelines, a bank can borrow up to 1 per cent of their total deposits from the RBI under the MSF at a rate which is 100 basis points higher than the short-term lending (repo) rate. The repo rate, which was increased by 50 basis points in the latest review, stands at 7.25 per cent. As such, the rate charged under the MSF would be 8.25 per cent.

RBI revises treasury-bill schedule

The RBI in May revised the schedule for issuance of treasury bills in the first half of the current financial year. The government would borrow Rs. 11,000 crore a week till June, 2011, against Rs. 7000 Crore planned earlier. The schedule was modified to meet the immediate requirements of the government on account of temporary mismatches in the cash position due to release of large refunds by the Central Board of Direct Taxes, RBI said.

RBI allows firms to fair value OTC forex derivatives

The gave more time to corporates trading in over-the-counter (OTC)

foreign exchange derivatives to move to new accounting standards by allowing them to fair value their products on reporting dates. The RBI added the eligibility criteria for users of cost reduction structures for unlisted companies have been amended to a minimum net worth of Rs 200 crore from Rs 100 crore. The companies should follow principle of prudence which requires recognition of expected losses, non-recognition of unrelaised gains, the guidelines said.

RBI tightens provisioning norms for bad loans

The RBI has increased the provisioning norms for certain categories of non-performing assets and restructured loans. Under the new revised norms, loans classified as sub-standard would attract a provision of 15 per cent, against the current 10 per cent. For unsecured loans classified as sub-standard assets, an additional 10 per cent provision would have to be made over the current 15 per cent. Thus, the total provisioning for sub-standard unsecured loans would now be 25 per cent, against 20 per cent mandated earlier. The provision for the secured portion of advances, which have been in the doubtful category for up to one year, was raised to 25 per cent from the current 20 per cent. Restructured loans classified under the standard category would need a provision of two per cent in the first two years from the date of restructuring.

RBI stops second LAF on reporting Fridays

The RBI in May said the second liquidity adjustment facility (LAF) will be discontinued on reporting Fridays effective 20 May. The move follows the introduction of the marginal standing facility and the modified operating procedure of monetary policy, RBI said in a release.

RBI ups priority cap on housing loan

The RBI in May raised the maximum limit of housing loans that will qualify as a priority sector loan from Rs 20 lakh to Rs 25 lakh. RBI said all loans sanctioned on April 1, 2011 or later will qualify under the enhanced limit. Under the changed rules, loans up to Rs 25 lakh, irrespective of location, to individuals for purchase and construction of dwelling unit per family, excluding loans granted by banks to their own employees, will be eligible for classification under priority sector.

Bank directors must furnish info on regulatory strictures: RBI

In an effort to improve due diligence, the RBI in May asked banks to seek information from their directors on any adverse strictures passed by financial sector regulators against them. The banking regulator has

partially modified the format of 'Declaration and Undertaking' prescribed for the purpose of conducting due diligence to determine the 'fit and proper' status of directors. Banks should get information whether the director at any time come to the adverse notice of a regulator such as the Securities and Exchange Board of India and the Insurance and Regulatory Development Authority.

RBI eases CDS norms, gives banks 5 months to comply

The RBI has relaxed the eligibility norms for using credit default swaps (CDS) on corporate bonds. The move is aimed at ensuring wider participation from banks. The capital adequacy requirement for banks has been reduced from 12 per cent to 11 per cent and the requirement of core capital has been brought down from 8 per cent to 7 per cent. CDS acts as insurance for lenders in case a borrower defaults on a loan. The buyer of the cover against the loan makes regular premium payments to a counterparty, which assumes the risk in case of a default. RBI in May released the final guidelines after accommodating various suggestions and recommendations from market players. The eligibility norms would be applicable from October 24,2011

RBI bars banks from giving loans against IDRs

RBI in May asked banks not to extend loans against Indian depository receipts (IDRs) issued by foreign companies. "It has been decided that no bank should grant any loan/advance for subscription to IDRs. Further, no bank should grant any loan/advance against security/collateral of IDRs issued in India," the RBI said in a notification. However, banks are allowed to provide loans against shares and debentures.

Capital Market

SEBI allows FIIs to invest in unlisted infra bonds

Paving the way for big-ticket investments by foreign investors, capital market regulator SEBI in April allowed foreign institutional investors (FIIs) to invest in unlisted bonds issued by companies in the infrastructure sector. The minimum tenor of the investment in listed corporate bonds would be 5 years. Taking a cue from finance minister Pranab Mukherjee's Budget proposal, SEBI has also hiked the FII limit for investment in bonds issued by infrastructure companies to $25 billion from $5 billion. This would increase the total limit available to foreign institutional investors (FIIs) for investment in corporate bonds to $40 billion.

SEBI set to regulate private equity

Private equity funds, hitherto unregulated, are set to come under SEBI regulations. The market regulator has already started work on regulating private equity players and guidelines would be issued shortly, economic affairs secretary R Gopalan said. He said the regulations would be on the lines of venture capital funds, which are also regulated by the Securities & Exchange Board of India.

The venture capital regulation requires mandatory registration with SEBI and enjoys the status of a qualified institutional buyer. The proposed regulations from SEBI come at a time when internationally, there are concerns over private pools of capital such as private equity.

SEBI makes ASBA compulsory for non-retail investors

SEBI has made ASBA (Applications Supported by Blocked Amount) facility mandatory for all non-retail investors (HNIs and institutional investors) investing in public and rights issues. In a circular, SEBI said, disclosures shall be made in this regard in the offer document such as in issue procedure section as part of payment instructions. Under ASBA facility, money would be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalised, or the issue is withdrawn/failed. The circular also said that syndicate and sub-syndicate members belonging to the cities of Mumbai, Chennai, Kolkata, Delhi, Ahmedabad, Rajkot, Jaipur, Bangalore, Hyderabad, Pune, Baroda and Surat are allowed to obtain and upload ASBA forms.

Debt schemes of MFs under SEBI scanner

The SEBI has asked fund houses to furnish data on all debt-oriented schemes launched in April-December 2008 as the capital market regulator suspects that many may not have adhered to proper accounting norms, said three persons with direct knowledge of the matter. SEBI has directed fund houses to furnish details of the types of instruments bought or sold, the names of the issuers of such instruments, the total amount

SEBI to tighten KYC norm for FIIs

SEBI in May said that it plans to further tighten the so-called know-your-client rules for foreigners investing in Asia's third-largest equity market. The KYC has to be made more stringent, Mr. U. K. Sinha, Chairman, SEBI, said in an interview with Bloomberg UTV. Foreign Institutional Investors have an obligation to inform about the end investor.

SEBI warns bourses on money from Iran, North Korea

Fearing possible black money flow and terror financing risks from Iran and North Korea into the Indian stock market, SEBI has asked bourses to be cautious in dealings with funds and entities from those countries. SEBI has sent to the bourses a global caution notice against the two countries from FATF (Financial Action Task Force), an inter-governmental body that makes policies to combat money laundering and terror funding, in this regard. The SEBI advisory to stock exchanges, who work as front-line regulators for Indian market, follows a similar warning from RBI to banks and financial institutions in March. The FATF warning was issued on February 25, 2011.

SEBI to tighten system of market surveillance

The SEBI has proposed to put in place a business intelligence gathering mechanism with the aim to enhance surveillance and protect investors interests. The regulator plans to put in place a Data Warehousing and Business Intelligence System (DWBIS) to increase effectiveness of its surveillance mechanism at a cost of about Rs 18 crore this fiscal. DWBIS is expected to generate reports that will better serve SEBI to identify, detect and investigate aberrations and market abuses that undermine market integrity.

Meanwhile, prodding mutual funds (MFs) to act as the conscience-keeper of listed firms, SEBI has asked them to inform investors on an urgent basis about their support or opposition to various business decisions of the companies. SEBI is of the view that the fear of a possible

opposition by institutional investors like mutual funds being made public would force the companies to follow best corporate governance practises in their businesses.

SEBI eases rules for brokers

SEBI has allowed brokers an uninterrupted access to their clients' accounts by seeking one-time authorisation, reversing its earlier direction of such a requirement every year. SEBI has agreed to drop the requirement of stock brokers seeking 'running account authorisation' from their clients at least once a year which was made mandatory in December 2009 after repeated requests from brokerages in this regard.

SEBI asks MFs to give investors option to hold units in demat account

Market regulator SEBI in May asked mutual fund (MF) houses to provide investors the option to hold their units under open-ended schemes in demat account, which would help manage their portfolio better. The regulator has asked the MF units to ensure that such option is provided to the investors in both existing and new schemes from October 1, 2011.

SEBI agrees to keep its surplus funds in government accounts

SEBI has agreed to keep its surplus funds in the government accounts, as against the current practice of holding it with itself for which the regulator has faced flak from the apex auditor CAG. While some market experts termed the development as SEBI giving up on its financial autonomy, others said that the move was part of various financial regulators being asked by the government to merge their funds into the government account.

SEBI gives nod to SME exchanges

Market regulator SEBI in May allowed the country's two premier exchanges, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), to start bourses on which only small and medium enterprises (SMEs) will be listed and traded. Both the exchanges said that they have been working towards starting SME bourses and would soon launch their own exchange. The platform also fits well with the government's objective of taking all types of financial services to the masses.

SEBI widens net for fake IPO bidding probe

SEBI has decided to conduct a detailed probe on a number of IPOs and would seek relevant data and information about them from bourses, merchant bankers and other entities. Market regulator SEBI (Securities and Exchange Board of India) has begun a probe into possible use of fake bids for artificially pushing up the subscription levels in numerous IPOs (initial public offers) over past few years, with a modus-operandi similar to that in Vaswani Industries case After halting Vaswani Industries' listing earlier this month on suspicion of irregularities in its IPO bidding, the market watchdog last week ordered a detailed probe into the matter, which would be completed by the next month. However, SEBI has now received complaints of many IPOs in past 2-3 years, alleging that promoters roped in some 'operators' to inflate the IPO subscription level with fake bids, which they withdrew at a later stage or cashed in on the first day of listing.

Insurance Sector

Online Insurance: Cleaning the web

With a spate of insurance companies launching online products to reduce cost and insurance web aggregators (IWAs) offering information to customers, the IRDA, has come come out with new draft guidelines to regulate the aggregators.

The new guidelines are aimed to bring in uniformity in display of prices and key features of the insurance products by the websites, to protect the interests of the customers and also to rationalise the approach adopted by insurers and brokers in dealing with various websites that offer price comparisons and display the key features of products.

Voice trailing to avoid mis-selling

To prevent mis-selling, insurance regulator IRDA has made it mandatory for insurers to record as well as preserve all calls made by their corporate agents or brokers to prospective customers. The new guidelines will be effective from October 1 this year.

According to the guidelines, every insurer needs to prepare and file with IRDA a 'standardised script' for presentation of benefits, features and disclosures under each of the products proposed to be sold. This script must be approved by the regulator before it could be sold by any means of solicitation other than in person.

Significantly, the guidelines also put a ceiling on the sale of unit linked insurance plans through the telephonic mode. "Insurers shall not solicit ULIPs of non-single premium type for annualised premiums exceeding Rs 50,000, and Rs 1 lakh for single premium over telephonic mode. No variable insurance product shall be solicited or sold over distance marketing mode", the guidelines said.

IRDA increases premium rates for third-party motor insurance

The IRDA in April raised the premium rates for third-party motor insurance policies by 10-65 per cent across different categories of vehicles and ownerships. While third-party premiums for personal cars and two-wheelers were raised by 10 per cent, new premiums for commercial vehicles would be higher by 65 per cent. The new rates are effective from April 1. Third-party motor premiums for commercial vehicles rose for the first time in four years. Third-party motor premiums in India are regulated by Tariff Advisory Committee, a constitutional body under Irda. The regulator also specified third-party motor premiums would be revised annually, based on inflation and claim experience.

IRDA relaxes accounting norms for insurers

Insurance regulator, IRDA, relaxed accounting norms for insurance companies to take care of higher liability arising out of enhanced outgo towards gratuity for their employees. The regulator allowed the insurance and reinsurance companies to amortise (pay off in regular intervals) the additional liability on account of gratuity over a period of five years starting from financial year 2010-11.

Insurance authority will continue to regulate pension schemes

The IRDA will continue to regulate pension schemes offered by insurance companies, said IRDA Chairman J. Harinarayan. The statement assumes significance in the wake of reports that the Pension Fund Regulatory and Development Authority (PFRDA) has been making efforts to bring pension schemes of insurance companies under its fold.

IRDA to change rules for pension plans

Under the revised guidelines, the 4.5% guaranteed return portion in a pension scheme may no longer be mandatory. India's IRDA is set to change rules for pension plans that account for about 30% of the life insurance industry's business, a top official said. This may help the industry recoup business volumes that have dropped sharply after the regulator imposed stringent guidelines late last year.

IRDA issues insurance demat norms

Insurance buyers will soon be able to open demat or 'e-insurance' accounts for their contracts which will allow them to hold policies in electronic form. Having an e-insurance account will reduce hassles for buyers as it does away with the need to provide age and address proof every time a policy is bought. It will also save insurers crores in printing and dispatching policies.

The move will bring in benefits similar to the efficiency gains in the capital markets after Sebi introduced dematerialization of equities. Dematerialization in capital markets speeded up transactions, dramatically reduced transaction costs and completely eliminated fraudulent transactions.

Fraud-detection in health, general insurance to be more stringent

The health and general insurance segments could be largely 'fraud-free' soon, thanks to an initiative of the IRDA. Taking cue from the practices in Europe and the US, the Authority is now working on developing a 'predictive statistical model' to prevent frauds in the general insurance industry. The predictive model to be developed for fraud detection would rest on statistical analysis. "Indicators such as average incidence of heart attacks in a particular group/community, claim origination in relation to size of hospital from where it is originating, and abnormality in claims," will be considered, the IRDA official explained.

Theme: "India Insurance Turning 10, Going on 20"

11th April, 2011 – Federation House, New Delhi

About the Conference

With the onset of new decade of the century and successful completion of a decade's operation for Insurance Industry post liberalization, it is time to envision the Industry's future in coming decade. While growth potential is huge, challenges too exist. Real test lies in the ability to identify the challenges, address these effectively through policy reforms and suitable business processes thus paving way for converting potential into reality. The 14th Annual Insurance Conference which is being organized under the aegis of FICCI's Insurance & Pensions Committee chaired by chaired by Mr. Sandeep Bakshi, CEO & Mg. Director, ICICI Prudential life insurance Co. Ltd., would provide a platform for Industry stakeholders to work out a road map for the industry, to help unleash true potential of the Indian Insurance sector.

With this conference as a platform, we hope to lay the foundation for:

- The evolving distribution world
- The operating model of the future
- Regulatory / policy support required over the decade

The main objectives of the conference:

- Obtain regulatory updates from the Government and Regulator
- Interact with the policy makers & practitioners on the key issues and challenges faced by the industry
- Understand various business strategies and models
- Researched Presentation on Insurance sector by the Key consultancy organization
- Network with the best in the industry

Target Audience

The Conference participants would include representatives from:·

- Life Insurance industry
- Non-Life Insurance industry
- Banking and Financial Services Sector
- Micro Financial Institutions (MFIs)
- Non Banking Finance Companies (NBFCs)
- Insurance Brokers
- Insurance Agents
- Third Party Adminstrators
- International Insurance Companies foraying into India
- Policy makers and Regulators
- Technology Providers
- Consultants and Analysts

- Corporates
- Educational Institutes

Eminent Speakers:

- Mr. Sandeep Bakhshi, Chairman, FICCI's Insurance and Pensions Committee and Mg. Director & CEO, ICICI Prudential Life Insurance Co. Ltd.
- Mr. Alpesh Shah, Partner & Director, BCG India
- Mr. M. Ramadoss, Chairman and Managing Director, The New India Assurance Co. Ltd.
- Mr. J. Hari Narayan, Chairman, Insurance Regulatory and Development Authority (IRDA)
- Dr. Rajiv Kumar, Director General, FICCI
- Mr. S. B. Mathur, Secretary General, Life Insurance Council
- Mr. Pranay Mehrotra, Principal, BCG India
- Mr. M N Rao, Managing Director & CEO, SBI Life Insurance Co. Ltd.
- Mr. John Holden, Chief Executive Officer, Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- Mr. Ritesh Kumar, Managing Director & CEO, HDFC ERGO General Insurance Co. Ltd.
- Mr. Sanjiv Bajaj, Managing Director, Bajaj Capital
- Mr. Shashi Kant Sharma, Secretary, Deptt. Of Financial Services, Ministry of Finance, Govt. of India
- Dr. Rajiv Kumar, Director General, FICCI
- Mr. Sandeep Bakhshi, Chairman, FICCI's Insurance and Pensions Committee and Mg. Director & CEO, ICICI Prudential Life Insurance Co. Ltd.
- Mr. Neeraj Aggarwal, Partner and Director, BCG India
- Mr. G. Srinivasan, Chairman and Managing Director, United India Insurance Co. Ltd.
- Mr. Amitabh Chaudhry, Mg. Director & CEO, HDFC Standard Life Insurance Co. Ltd.
- Mr. Jayant Dua, Mg. Director, Birla Sun Life Insurance Co. Ltd.
- Mr. N.K. Prasad, President & CEO, Computer Age Management Services Pvt. Ltd. (CAMS) et al.

FICCI - CCI, Conference on "Regulation of Combinations"

21st of April, 2011 at FICCI, Federation House, New Delhi

FICCI in association with the Competition Commission of India organized a Conference on "Regulation of Combinations" on 21st April, 2011 to discuss, evaluate and seek industry's feedback on the Draft Merger Regulations so that these could be considered before the date of implementation of these Regulations i.e. June 1, 2011.

The Inaugural Address at the Conference was made by Shri Murli Deora, Hon'ble Minister for Corporate Affairs. The Keynote Address and Introductory Address was made by Shri D K Mittal, Secretary, Ministry of Corporate Affairs and Shri Dhanendra Kumar, Chairman, Competition Commission of India respectively. The Welcome Address was made by Shri Sidharth Birla, Chairman, FICCI Corporate Law Committee. Other eminent panellists included Ms. Vijaya Sampath, Co Chair, FICCI Corporate Law Committee and Group General Counsel and Company Secretary, Bharti Enterprises Ltd., Mr. William E.Kovacic, Commissioner, Federal Trade Commission, Dr. R. Shyam Khemani, MiCRA/Former Advisor Competition Policy, World Bank Group, Washington DC, Mr. Anand Pathak, Chairman, FICCI Task Force on Competition Law and Mr. Shardul Shroff, Managing Partner, Amarchand & Mangaldas & Suresh A Shroff & Co.

The merger control provisions notified by the Ministry of Corporate Affairs with relaxation to thresholds, and the draft merger regulations which had been released by the Competition Commission of India allayed the concerns of the industry, but only to a certain extent. Thus, some of the key issues discussed at the Conference were as follows:

- The listing of exempt transactions in Schedule I of the draft regulations which cast an obligation on parties to notify the

Commission though these transactions are not likely to cause appreciable adverse effect on competition in India.

- Since the merger control is set to be effective from June 1, 2011, the absence of transitional provision in draft regulations may lead to unintended consequences especially for transactions where significant action has been undertaken.

- The need to define the 'triggering event' for notifying the Commission, more so as the significant fees are non-refundable.

- In case of acquisitions overseas, requirements should get triggered only when each party has presence in India; otherwise third jurisdiction transactions having no impact in India also get covered. This provision could have an unintended adverse effect.

- Although Government's move of raising the threshold for a group company to 50% is a welcome step, concerns remain over the 210-day period, which is statutorily available to the Commission to review, even though we take positively the endeavour of CCI to do so in 180 days.

This Conference gave an excellent platform to the Industry to voice their concerns on the Draft Merger Regulations. The renowned speakers also expressed that India needs a merger regime to protect legitimate interests and these consultations would go a long way in making the new regime workable. The participants included corporates, legal experts, academicians and media et al.

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