

Headline: NSE promoting ETF for Indian investor

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Cover Story

Interview

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NSE Promoting ETF for Indian Investor

Series of incentive schemes have been implemented by NSE for enhancing ETF liquidity

■ After the government allowed a portion of incremental flows of EPFO into equities through the ETF route, almost ₹60,000 crore has flown into such funds. Do you see ETFs gaining momentum among retail investors?

As on September 30, 2017, the equity ETF AUM accounted for 9 per cent of total equity mutual fund AUM. It was only 4 per cent of total equity mutual fund AUM as on March 31, 2016. In addition to equity ETFs, asset management companies in India have also launched ETFs on G-Secs. Another trend which we are seeing is focused on smart beta ETFs, which have done very well internationally. We believe that ETFs in India will gain momentum in the coming years.

■ Are ETFs popular with retail investors?

Retail participation in ETFs is increasing. Retail accounts for 64 per cent of total daily trading volume of ETFs. A few financial advisors are advising monthly SIPs in ETFs also, which is a good sign for the industry. Increasing product awareness is going to play an important role in further increasing retail participation in ETFs.

■ Going by global experience, how do you see ETFs growing in India?

Globally, ETF is more than a \$4 trillion industry. In terms of AUM, USA is largest followed by Europe and Asia. India is still at a nascent stage as compared to global peers. Even in

Asia, we are smaller than Japan, Hong Kong, Korea, Taiwan etc. However, there is potential to make Indian ETF industry big in the next few years. All the stakeholders need to collaborate to make it a successful product category.

■ Even though a lot of money has gone into these schemes, liquidity is still a concern. Is NSE planning to do anything to improve the liquidity in these funds?

Most of the increase in AUMs of ETFs in the recent past has been on account of EPFO, which, essentially, is a long-term investment. That may not directly add to the liquidity.

NSE has been constantly endeavouring to promote ETFs for Indian investors. While Securities Transaction Tax (STT) has been reduced significantly for ETFs, liquidity providers, which are Authorised Participants (APs) appointed by AMCs, still face high STT for their transactions as they have to constantly provide buy/sell quotes throughout the day. NSE has been working with the government to reduce STT for AP transactions so as to enable them to quote with tight spreads which would help build further liquidity.

NSE has also implemented series of incentive schemes for enhancing ETF liquidity by providing discounts on transaction charges to trading members who invest in ETFs. NSE also incentivised trading members to bring more of their clients to ETFs. ■



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