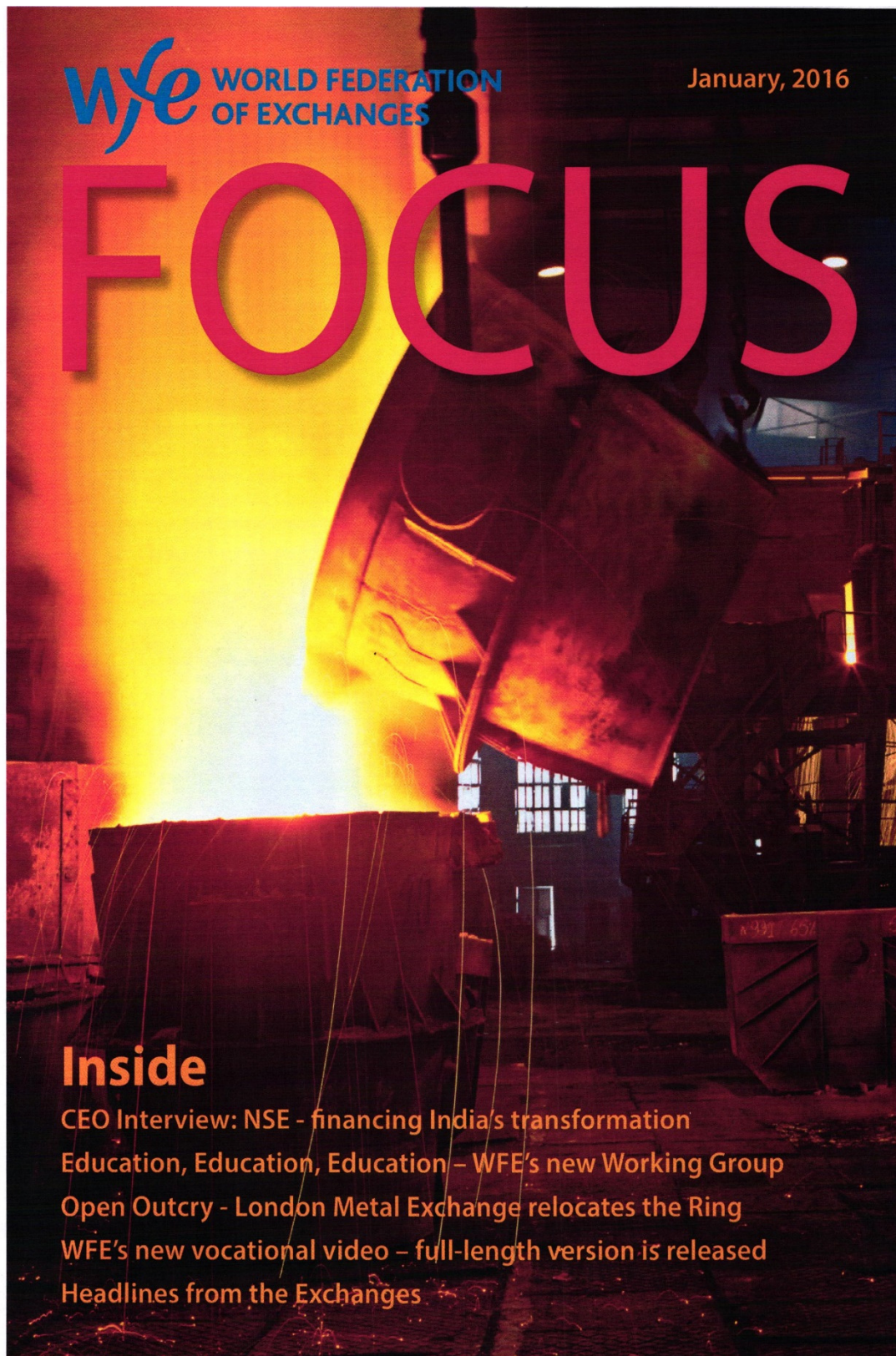


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INTERVIEW: NSE India

Interview with Chitra Ramkrishna, CEO



NSE is set to continue playing a leading role in financing the transformation of India's fast-growing economy, says CEO Chitra Ramkrishna.

Prior to 1992, India's financial markets were a closed brokers' club, crying out for reform and modernisation. NSE stepped into that gap.

From the start NSE was on-line, demutualised and a truly national exchange. It assured equal access to all investors nationwide and provided a fair, efficient and transparent securities market based on electronic trading while at the same time the establishment of the National Securities Clearing Corporation Ltd. (NSCCL) radically reduced settlement periods...

What is it about NSE – its products, its clients, its listed companies and its market - that make it stand out from other exchanges?

One of the key distinguishing features of NSE is the sheer liquidity of products traded. The low impact cost of trading on the NSE gives a good measure of the depth of that liquidity. For instance, impact cost for the Nifty 50 securities, representing 65% of the market, is just 0.05% - one of the lowest anywhere in the world.

Another unique aspect of NSE is the geographic reach and diversity of its client base. The latter includes domestic institutions, foreign investors, sophisticated traders of derivatives and retail investors. NSE members are present in 36 states, 600 districts, 3,250 cities and the exchange has 34,000 branches across India. More than 19 million retail investors are registered with the NSE.

"Technology will also continue to be the backbone of our business offering..."

Technology will also continue to be the backbone of our business offering. Disruptive technologies, such as cloud-based analytics and in memory databases, are being deployed in areas like back-testing of algorithms, monitoring of customer activities and ultra-low latency transaction processing. These, along with other new technologies, will continue to be a key factor shaping our products.

NSE is engaging actively with the global regulatory standard setter IOSCO, as is the Indian markets regulator SEBI.

Developments in corporate governance norms is another evolving area where NSE is playing a highly proactive role. This is a key area - many foreign investors in India expect Indian companies to observe best practice in this regard.

There has been a phenomenal increase in volumes, listings and in derivatives trading on the NSE in recent years. How do you see that progressing in the next 5 to 10 years, given robust growth forecasts for the Indian economy?

India is likely to be one of the most attractive destinations for international investment among emerging economies in the next five years. The IMF forecasts economic growth here to average an annual 7.5% over the next 5 years. This will definitely attract foreign investment.

Another factor which augurs well for the Indian securities markets is that pension funds have started investing in equities. Not only does this broaden the kinds of institutions involved in the markets but it also means that retail investors are indirectly participating via pension funds.

Regulatory innovations should also ease access to India's markets. A new Foreign Portfolio Investors (FPI) regulation introduced in 2014 harmonises the various routes available to international portfolio investors. This will ease access to the Indian capital markets by merging the existing FII and QFI regulations into a single FPI window which provides easier access and simplified regulatory requirements.

The new regulations will also streamline as well as shorten the registration process.

“Real estate is set to be another driving force for the Indian market...”

Real estate is set to be another driving force for the Indian market, with a trillion dollars in investment expected in the next few years. Regulations for infrastructure investment trusts and REITS are already in place. A few changes to the taxation framework could cause a take-off in these asset classes.

How big a role does NSE play in financing the modernisation of India’s infrastructure and the wider economy? What are you working on to address real economy issues? (SME finance, securitization, alternative listing markets).

In India, corporate bonds never really had a chance to become part of the household sector’s investment portfolios. The share of private placements in corporate bonds is rising and is preferred by corporations to public placements of their bonds, so this constrains disclosure.

To combat this trend, NSE started a separate debt trading platform in May 2013, with almost 400 securities listed for retail and institutional investors. A robust infrastructure for clearing and settlement also exists. Currently we are working with Indian industry to make this platform more active.

“NSE’s SME platform ‘EMERGE’ facilitates equity capital raising for SMEs.”

Micro, Small and Medium Enterprises (MSMEs) are major catalysts in the development of the economy, as they constitute a major part of industrial activity. NSE’s SME platform ‘EMERGE’ facilitates equity capital raising for SMEs. We are also keen to ensure only high-quality SMEs list on NSE’s equity platform. Some of our new initiatives, such as permitting the listing of SMEs without an IPO gives an exit route for initial investors and gives the company much-needed visibility.

What has been your most successful product of recent years? What do you have in the pipeline that is going to change people’s lives?

Our most recent is an interest rate future, which was launched in 2014. The average daily volume at NSE is Rs.25 billion (US \$378 million).

NSE’s CPSE ETF - based on the Nifty CPSE index – has helped the Indian government disinvest Rs.30 billion (US \$454 million) from selected CPSE (Central Public Sector Enterprises). In recent times, exchange traded funds (ETFs) have gained wider acceptance as financial instruments whose unique advantages over mutual funds have caught the eye of many investors.

The offer-for-sale platform route has become popular for companies selling off a promoter holding. The time for a share sale via an FPO (follow-on public offer) typically take two to four months, but one day for an OFS. As many as 17 public sector enterprises have raised capital through the sale of shares via the OFS route. So far, 67 companies have used the OFS route to raise capital of over US \$10 billion.

Currency derivatives introduced in 2008 have been useful for various participants, including corporates, importers and exporters. Average daily turnover is now Rs.170 billion (US \$2.6 billion).

“New product launches are expected in the Fixed Income space...”

New product launches are expected in the Fixed Income space – NSE is working with regulators to offer corporate bond repos on the exchange and also derivatives on more benchmarks. Both these should provide a boost to corporate bond issuance and trading as well as more products with which to hedge interest rate risk.

What has been your experience of international collaboration? What have been the highlights?

NSE has collaborated with leading international exchanges, helping the Nifty 50 to become a global index brand. NSE also has cross-listing agreements with some leading exchanges like CME Group, London Stock Exchange and a licensing pact with Singapore’s SGX.

Indian investors can also gain exposure to the US and the European economy via derivative contracts on S&P500, DJIA and FTSE 100 which can be traded in Indian hours and settled in Rupees so there is no currency risk.

Viewing the current economic, market and regulatory landscape around the world – is there anything that causes you particular concerns?

I think a lot of concerted effort is taking place at present which will help to improve the economic situation around the world. Forecasts point to growth strengthening over 2016-17 to around 3.8% as a rebound in activity in a number of currently distressed economies leads to a recovery in global growth in 2016.

“Economic growth here is projected to remain robust at around 7.5 % in the near term ...”

Specifically with regard to India, there are no systemic risks and activity is picking up. Economic growth here is projected to remain robust at around 7.5 % in the near term, so confidence is strong.

Has your exchange been active on sustainability issues? Are you planning new initiatives in this space?

Yes, we are active and we never perceive sustainability as a cost. NSE is doing its bit and in its own way. Given the fact that the entire economic system is technology driven, electric power plays an important role. Therefore, energy conservation has always been key. To promote green energy we established a 6.25-MW capacity windmill-based power plant. This facility is now generating green power in Maharashtra, India. This marks the first time globally perhaps that an exchange has undertaken such an initiative.

“...We never perceive sustainability as a cost.”

We have many other projects underway, including a thermal energy storage system, a green data centre, a solar power plant and a rainwater-harvesting system etc...As good practice, we often give visitors and others tree plantation certificates. We hope small steps like this can actually make a difference.

As a major Emerging Market exchange – what concerns do you have that regulation in the major developed blocs – i.e. US and EU – will have an impact in your own backyard?

There is no doubt that markets are interlinked to some extent today. But the Indian market is well regulated and supervised by SEBI. As you have seen over the past few years, the Indian economy has been fairly well-insulated from the impact of the global meltdown. Price discovery here is based on our own fundamentals.

Has any book, article, speech or event significantly affected how you view the world in recent years? If yes, can you tell us more?

Mahatma Gandhi is one who has influenced me a lot. There are of course many other greats whose lives and works are also interesting.

What do you do to distress – do you have a favourite holiday destination or a serious pastime to help you unwind?

Often I listen to music, particularly Indian classical instruments.

