

The GIFT Nifty: Landmark India-Singapore Deal

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Summary

In a landmark decision reached between the Singapore Exchange (SGX) and the National Stock Exchange of India (NSE), derivative contracts, with a notional value of about US\$7.5 billion (S\$10.1 billion), hitherto traded in Singapore, have begun trading in India from 3 July 2023. The SGX Nifty has been rebranded as the GIFT Nifty and all dollar-denominated contracts of Nifty futures will now trade in the NSE International Exchange located in the GIFT City Special Economic Zone in Gandhinagar, Gujarat.

In the spirit of the inaugural India-Singapore Ministerial Round Table held in September 2022, heralding renewed economic cooperation between the two countries, the Singapore Exchange (SGX) and the National Stock Exchange of India (NSE) have reached a landmark decision in futures trading. In the decision effective from 3 July 2023, the popular SGX Nifty has been re-branded as the GIFT Nifty, and all derivative contracts worth US\$7.5 billion (S\$10.1 billion), earlier traded in Singapore, have shifted to India. This is a new identity given to SGX Nifty as all open positions in SGX have been shifted to the NSE International Exchange. Trading of futures and options will be held in the GIFT City and SGX will take care of clearing. This is a major watershed as, the SGX Nifty, which has serviced international investors and represented more than half of the offshore open interest in the Indian equity index for 22 years, has now moved to the GIFT City as the GIFT Nifty. The NSE-SGX connect will help Indian markets to increase their reach among global investors, especially those who are not directly engaged with Indian capital markets.

The SGX Dollar that denominated contracts of Nifty futures will now trade in the NSE International Exchange, located in the Special Economic Zone (SEZ), and works under the regulatory framework of the International Financial Services Center Authority. Meanwhile, the SGX Nifty has been suspended for trading and will eventually be delisted from SGX. The GIFT Nifty will be accessible for 21 hours and will overlap the trading hours of Asia, Europe and United States. It will be open in two sessions – the first from 6.30am to 3.40pm and the second session from 4.30pm to 2.45am the next morning. The SGX Nifty futures contracts were earlier indicative of how Nifty would open on any given day. It was used by traders early in the morning before the opening of Nifty trading hours at 9.15am. The shift to the GIFT Nifty will set the prices in the morning for India and will be advantageous for non-resident players due to tax exemption. The GIFT Nifty figures can be checked at <https://www.nseix.com/>. This facility will benefit investors as the NSE International Exchange operates from an SEZ; as such, investors will get waivers for the securities transaction tax, commodity transactions tax, dividend distribution tax and capital gain tax.

For traders, it provides convenience, as migration from one stock exchange to another will not involve any significant change. However, retail traders will not be able to trade in the GIFT Nifty contracts. Leveraged trades are not allowed for individuals under the Liberalised Remittance Scheme route. Indian brokers and subsidiaries can sign up funds through non-residents as clients, high net-worth Individuals and family-owned offices or they can take up proprietary as well as client-based trades. Besides the GIFT Nifty 50, the NSE International Exchange will also offer products such as the GIFT Nifty Bank, GIFT Nifty financial services and GIFT Nifty information technology derivative contracts for the present. There are plans to gradually roll out more indices in the future.

Nifty derivative contracts were the second-biggest contributors to SGX's equity-derivative volumes after the SGX FTSE China A50 Index futures in the fiscal year 2022, and helped expand the bourse's revenue from higher average fees and volumes. These contracts used to be a major contributor to SGX's revenue from higher average fees and volumes. SGX and Nifty will now split costs and revenue equally. With the shifting of derivative contracts due to the SGX-Nifty tie-up, Indian bourses revenue is also expected to rise in the current financial year. Increased trading will also enhance the liquidity pool of the NSE International Exchange as all orders from Singapore will be routed through this platform while local brokers from IFSC would also be trading.

This move fully settles a five-year-old feud between the NSE and SGX over the latter's plan to introduce single-stock futures trading on shares of some of India's largest companies as India sought to develop its equity market. The dispute was resolved amicably after a brief legal battle.

The GIFT City is the new financial hub in Gujarat, which the government intends to develop as a competitor of other global financial centres. It is expected to expand its area by another 2,300 acres, due to increased demand as most of the area within the GIFT City has been allocated. The GIFT City has a multi-service SEZ which houses the country's first International Financial Services Centre (IFSC) that provides companies with easier access to global financial markets and caters to the requirements of international financial services. It also has a domestic tariff area. Other initiatives such as sponsored and unsponsored depository receipt of Indian stocks are underway to ensure that global markets engage directly with Indian capital markets through the international exchanges in the GIFT IFSC. The GIFT City is expected to deepen India's integration with the global financial sector and further strengthen India's growing recognition in the international arena.

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