

A Newsletter of Finance Lab

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trading members on the debt segment of the stock exchange. Insurance companies, provident funds and pension funds will be permitted to trade directly in the debt segment with necessary approvals. We hope that these measures will help establish a reasonably liquid secondary debt market. There is some good news for SME segment too. Small and medium enterprises, including start-up companies, will be permitted to list on the SME exchange without any obligation to make an initial public offer (IPO). There are certain tax benefits for the structured finance markets. Any Securitization trust, set up as a special purpose vehicle to securitise assets, will be exempt from

The Finance Minister has promised, in his budget speech, to strengthen Indian capital market regulator by making necessary amendments to the SEBI Act. The amendments will also include simplification of various rules under the present act. For example, it is mentioned that SEBI will simplify the procedures and prescribe uniform registration and other norms for entry of foreign portfolio investors. Similarly, it is suggested that SEBI will converge the different KYC norms and adopt a risk-based approach to KYC to make it easier for foreign investors to invest in India. The Finance Minister has also simplified the distinction between foreign direct investment (FDI) and foreign institutional investment (FII) following international practice. There are a few other prescriptions in the budget targeting flow of foreign capital (e.g., FII's ability to participate in the exchange traded currency derivative segment, permission to use investment in corporate bonds and Government securities as collaterals to meet their margin requirements). There are enabling provisions in the budget to develop the debt market. Banks and primary dealers will act as proprietary

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Is this fear valid that such taxes would witness flight of capital from Indian bourses to bourses of other
not fled from London- it

buy a contract for which he has only to deposit U 1480 as margin (we assume for simplicity a margin rate of 5%). If the Gold M futures increase by 0.5%, then the trader cashes in U 148 (0.5% of U 29600), this is 10% of his cash investment. At a rate of 0.01%, the CTT would amount to U 3, roughly 2% of the speculative profit.

How did the commodities futures markets in India react to the budget announcement of CTT? Table 2 shows short-term announcement effect of CTT in two commodities- Crude Oil and Gold Mini. The futures contracts of MCX are used for these two commodities. Returns are calculated around the budget day (i.e., 28 February) in 2012 and 2013. Data for 2012 are used to show market reaction without CTT effect. One day return indicates return for one day after budget and similarly weekly return denotes 5-day cumulative return after the budget day. Results show that unlike apprehensions of many traders, the short-term reaction of the market has been mixed. It may be noted that short-term market reactions to budget announcements should be used with caution as these contain lot of sentiments.

Table 2: Short-term Returns

Source: Bloomberg

Impact on Volatility

Higher transaction costs are usually found to decrease trading volume- an indicator of market liquidity. The theoretical relationship between an STT and short-term price volatility is ambiguous. In general, if an STT reduces trading volume, it may decrease liquidity or, equivalently, may increase the price impact of trades, which will tend to heighten price volatility. However, the net effect of an STT on volatility depends on market microstructure and the composition of trading²

CSGL Accounts

CSGL accounts are a demat form of holding government securities with the RBI, to the credit of the holder in the Subsidiary General Ledger account (SGL) maintained in t

Trading Platform Composition of CSGL Transactions (%)

Year	NDS Trades	NDS-OM
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There has been a change in the volume of large value transactions being undertaken by GAH account holders during 2012-13. Deals of value greater than U50 crore which constituted for an average of 3.40% of CSGL transactions till 2011-12, have accounted for around 6.3% of the total CSGL deals undertaken during 2012-13. Similarly, the percent share of high value deals of U100 crore and above has increased to 2.61% during this period compared to an average of around 1.4% between 2007-08 and 2011-12. There has also been a gradual increase in the high value constituent deals being undertaken on the NDS-OM trading platform

**Share of Large Value Transactions in Total CSGL Volume:
%**

Year	Deals >= 50 crore			Deals >= 100 crore		
	NDS	NDS-OM	Total CSGL	NDS	NDS-OM	Total CSGL
2007-08	41.93	-	2.86	30.30	-	1.15
2008-09	48.22	-	3.04	39.99	-	1.67
2009-10						

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Tests for Location: $\mu_0=0$				
Test	Statistic		p Value	
Student's t	t	5.762902	Pr > t	<.0001
Sign	M	371	Pr >= M	<.0001
Signed Rank	S	3079025	Pr >= S	<.0001

In order to understand the price efficiency of various categories of securities, we divided the entire security basket into 5 broad categories Highly Liquid (more than 50 trades in a particular day), Moderately Liquid (more than 30 trades in a particular day), Liquid (more than 20 trades in a particular day), Semi-Liquid (more than 8 trades in a particular day) and Illiquid (remaining trades). We found that in case of securities classified as illiquid and semi-liquid, the price difference (NDS-OM WAP over NDS WAP) is negative while for other securities it is either zero or positive. Hence the price realization in NDS-OM system is better as it provides better bid-ask spread and finer tick movements vis-a-vis OTC negotiated deals. It is also observed that NDS-OM system has helped to reduce price variations in securities to a large extent as bond traders can view the market online and decide to trade.

Descriptive Statistics of Price Difference in NDSOM and NDS platforms					
Parameters	HIGH LIQUID	ILLIQUID	LIQUID	MOD LIQUID	SEMI LIQUID
Mean	0.0153	-0.0042	0.0097	0.0014	-0.0052
Median	0.0050	0.0000	0.0001	0.0026	-0.0001
Standard Deviation	0.1345	0.2108	0.1449	0.1594	0.1620
Minimum	-2.9247	-2.8567	-0.8555	-1.5677	-2.5675

(brokerages). There is also a need for Foreign Institutional Investors to be given access to the NDS-OM Web to be able to take advantage of the direct trading in this market. The web-based trading module is an important initiative to develop a more diversified investor base for government securities and in future encourage the holding of government securities by retail investors and thus contribute to the further development of the government securities market in India.

References

- 1) Golaka C Nath: Liquidity Cost in Indian Government Securities Market, Rahshitra January 2006, CCIL
- 2)