Our Views

With a Great Party, You Need Great Dancers Too!

The International Financial Services Centre (IFSC) has already established itself as a robust financial hub with an excellent regulatory framework, world-class infrastructure, proactive regulator, and key trading platforms such as exchanges and clearing corporations. However, the next step is to focus on increasing the level of financial activity to unlock its full potential. This very issue was discussed at a recently held primary markets conference at the IFSC.

The Role of Government and Regulators in Market Development

Building a thriving financial market and regulatory framework requires significant support from the government and regulators initially. Historically, special policies and incentives have played a crucial role in market growth. For instance, when SEBI was established in 1992, the Indian capital market was valued at ₹1 lakh crore. Over 32 years, it has grown by 400 times. Similarly, for the IFSC to emerge as a global financial hub, innovative schemes and policies from the government are essential.

One example is the issuance of foreign currency bonds. A better tax regime, such as reduced withholding tax, has already helped attract bond issuers to the IFSC, leading to a notable growth in the bond market. Moving forward, IFSC should aim to attract foreign companies to issue bonds through its framework. This would enable global companies to use the IFSC platform to raise capital, mirroring the vision of "Make in India" but for global financial services.

Suggestions from the Primary Markets Conference

At the conference, several key suggestions were discussed to increase activity and make the IFSC more attractive for investors and issuers.

1. **Attracting Investors**

   - **Incentivizing Domestic Investors**:
     To increase participation, domestic investors must be incentivized. Two strategies were proposed:

     – **Increasing the foreign currency investment limit for mutual funds**: By raising this limit, mutual funds can access a larger pool of investable money. This would encourage them to establish platforms and schemes based out of the IFSC. The current limit, set many years ago, needs to be revisited.

     – **Expanding LRS (Liberalized Remittance Scheme) limits for IFSC**: Allowing individuals to diversify a portion of their assets into different currencies through the IFSC would increase fund flows significantly.

Together, these measures would enhance the flow of funds into the IFSC and make it a more attractive destination for investors.

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2. Encouraging Issuers

- **Dual Listing Framework**: Dual listing at the IFSC should be allowed. This would encourage companies to use the IFSC as a secondary listing market, increasing its appeal to global issuers.
- **Private Trading of Unlisted/To-Be-Listed Companies**: A mechanism for private trading in unlisted securities could be a game changer. With significant non-founder capital entering businesses before IPOs, a formal trading platform for such securities would create a new market segment.

Learning from Global Models

Globally, platforms for unlisted securities have proven to be highly successful. For example:

- **NASDAQ Private Markets**: Established in 2014, this platform allows private companies to trade shares before going public. It has facilitated over $30 billion in transactions for 477 private companies, serving 59,000 shareholders. Initially limited to accredited investors, it has since expanded access to include knowledgeable employees and other qualified individuals.
- **Facebook Pre-IPO Trading**: Facebook traded on private platforms like this from 2008 until its IPO in 2012, demonstrating how private trading can create liquidity and valuation opportunities for early investors.

A similar model at the IFSC could be transformative. Though the IFSC's current mandate is limited to listed companies, a mechanism could be introduced to allow trading in shares of companies planning to list within the next three years. This would provide liquidity to early investors and employees while paving the way for public listings.

Conclusion

The IFSC has laid a strong foundation with its excellent regulatory framework and infrastructure. However, to achieve its goal of becoming a world-class financial hub, it must attract more domestic and global investors while enabling innovative financial mechanisms. By implementing the proposed measures—such as incentivizing investors, expanding trading opportunities, and learning from global success stories—the IFSC can elevate itself as a premier destination for financial services on the global stage.

The groundwork has been laid; it's time to bring in the dancers to make this a truly great party.

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