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NSE OR BSE, WHICH HAS BETTER MODEL TO BUY US STOCKS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Last week saw a flurry of announcements from both the National Stock Exchange (NSE) and BSE-owned entities in GIFT City, Gujarat about making available international stocks for Indian residents.

NSE owns NSE- IFSC while BSE owns India-INX, both of which operate in GIFT City IFSC. However, both have chosen radically different models in allowing resident Indians to invest in foreign stocks. NSE has created unsecured depository receipts in GIFT City, while BSE-owned India INX is simply acting as an intermediary platform (rather than an exchange). Investors in India INX transfer money straight from India to the US or other foreign countries without it ever touching the IFSC itself.

What are the two models?

The NSE IFSC has created unsecured depository receipts for eight large US companies in the IFSC and announced plans to create these receipts for 50 of the largest US companies eventually. An unsecured depository receipt is created by a market maker who buys the underlying shares in the US and issues the receipt against them. Hence custody of the receipts is held in GIFT City and Indian investors transfer money to GIFT City to trade in them.

This can offer a certain level of regulatory comfort to Indians unfamiliar with foreign brokers or foreign regulators. On the flip side, there are costs and charges involved such as the costs needed to create the receipts in question, to open and maintain demat accounts in IFSC, and the spreads that market makers will make. In addition, there is a limited universe available, just 50 stocks of large US companies.

BSE-owned India INX on the other hand has a tie-up with Interactive Brokers, a US broker. Its clients get to access the entire universe of stocks and ETFs listed in the US and other markets, rather than just the top 50.

According to India INX, it will not levy any charges on customers who come directly to it and it has negotiated favourable forex transfer rates for its customers. It has also tied up with 75 brokers to allow access to their customers . This mode is similar to what fintechs such as Stockal, Vested Finance, Globalise, and Winesta are pursuing. India INX, in this case, is simply acting as a go-between and not as an exchange.

While both models allow ‘fractional investing’, meaning that you can buy less than one share of a company, the models are different. The NSE depository receipts trade in certain specific ratios and this brings down the ticket size for each share.

For example, for an Apple share, the ticket size would fall from $166.23 to $6.64 (at the time of writing) given the ratio of 1:25. In the BSE model also, fractional buying is possible without any ratios. For instance, you can buy fractions of shares for even a few dollars. NRIs can trade in both the NSE and BSE models and they may not be subject to LRS (liberalized remittance scheme) restrictions that govern resident Indians on derivatives and intra-day trades.

Which is better?

This depends on the needs of each investor. In the NSE model, your money does not directly leave India’s shores and your trades happen in GIFT city. GIFT city is legally considered a separate jurisdiction but it is ultimately subject to India’s Constitution and Parliament. The receipts are issued against shares held in the US, but this, in a sense, happens at the back end. If you do not want to invest in products beyond the top US stocks, the NSE model may be sufficient for you.

The BSE model is more suited towards someone who wants the entire gamut of the US stock market, including Exchange Traded Funds (ETFs). In the BSE model, you also get access to the liquidity in the underlying market (say the US stock market) and don’t have to rely on market makers. However, you do end up transferring money outside India and run the risks of problems in the destination country where you are investing.

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