

Finance SEZs can halt rupee trading exodus: Finance ministry

By Mayur Shetty, TNN | 23 Feb, 2015, 10.44AM IST

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MUMBAI: The [finance ministry](#) has cited the exodus of rupee and [nifty](#) trading outside Indian shores as the key reason behind pursuing finance special economic zones (SEZs). A report put out by the ministry said that more than Rs 2 lakh crore of yearly revenues are being generated outside India on account of trading in rupee derivatives — a revenue which can potentially be brought onshore.

Last week, the ministry published a report putting forth a concept note for setting up finance SEZs in India and has sought feedback. The report said that global activity on rupee derivatives is around \$70 billion per day; and assuming a grand total revenue stream of 0.15% per order, the daily revenue amounts to Rs 1,334 crore which includes revenues from both legs of the order. "A substantial part of this trading can be captured by Indian firms, if appropriate regulatory and tax regime exists," the report said.

The report, which is prepared by the National Institute of Public Finance and Policy, says that setting up a finance [SEZ](#) would require changes to existing laws on foreign investment and taxation, creating a legal system for enforceability of contracts within the SEZ and having rupee convertibility within the SEZ.

The laws that require amendment will include those that cap cross-border investment, amendments to Foreign Exchange Management Act. There is also a need to have provisions for arbitration proceedings and a strong international style district court with jurisdiction over the SEZ.

According to the report, the matter has assumed urgency because of 'hollowing out' of key financial markets in India. "The problems of Indian capital controls, financial regulation and taxation have led to a flight of trading in the rupee and nifty out of the country. Roughly half of the global trading in the rupee and in the nifty is now taking place outside India, at locations such as Singapore, Dubai, [London](#), etc," the report said. The report has cited the example of Gujarat International Finance Tec-City as a finance SEZ.

The Percy Mistry committee had made recommendations for Mumbai as an [International Finance Centre](#). The report, however, states that the Percy Mistry report articulates what the long-run aspiration for India should be. "At present, no city in India can compete in this global market owing to problems of capital account restrictions, financial regulation, taxation and urban governance," the report said while making a case for a finance SEZ.

Since the rupee is not convertible, offshore trading in rupee happens by way of derivatives. In other words, foreign investors place bets on rupee movements in [Singapore](#) or the UK and settle the transaction in dollars, although the currency risk is that of the rupee. These bets impact the spot exchange rate as most of the players are multinational banks which can arbitrage between India and overseas. The central bank too has cited the growing non-deliverable market as one of the triggers for rupee volatility.



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