

## **CHAIRMAN'S SPEECH**

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### **BSE Annual General Meeting, 24<sup>th</sup> June, 2016.**

Ladies and Gentlemen: A very good morning to all of you.

It gives me great pleasure to welcome you all to the Eleventh Annual General Meeting of the shareholders of BSE.

Today marks my first AGM as the Chairman of the Board of Directors of BSE. At the outset I would like to thank and acknowledge my predecessor and former Chairman - Shri S. Ramadorai, under whose able leadership and guidance BSE was able to strengthen its pre-eminent position in the Indian financial market, - for his enormous contribution to the stature of this organization.

The year 2016 started on a sad note, with the sudden demise of Shri S. H. Kapadia, former Chief Justice of

India and Public Interest Director in BSE - a towering personality who brought enormous talent and experience to the Exchange. Dr. Sanjiv Misra, Public Interest Director retired earlier this year as Public Interest Director after finishing two terms and I would like to use this opportunity to acknowledge his valuable contribution.

I am pleased to report that BSE continues to make good progress in its endeavour to become the preferred avenue for capital formation in India, while maintaining its position as the most compliant Stock Exchange in the country. About ten years ago, BSE began a journey of transformation by demutualizing the Exchange and thereafter separating the ownership and management arms of the Exchange by inducting a professional management team. As we look back on this decade of transformation, we see an Exchange that has grown in terms of its product offerings, greatly improved its

processes, enhanced its technological capabilities and has instilled a culture of professionalism.

The corporate governance framework at BSE has been appreciated by our international shareholders, including international exchanges like Deutsche Bourse and Singapore Exchange, foreign banks and foreign funds, as well as domestic shareholders that include all 21 Public Sector Banks in India, private sector banks, other institutional investors, as well as brokers and retail investors. Over the years, many of our shareholders have collaborated with us on technology efforts and product development. This year marks another milestone in the history of this 140+ year institution with the launch of a commemorative postal stamp by the Government to recognize BSE's essential contribution in capital formation in India. During the past decade BSE has emerged as an institution that strives to promote financial inclusion, entrepreneurship, investment and wealth creation by channelizing financial resources. We

continue to strive to connect India and the world in a market that works across time zones and asset classes.

## **1. Future Growth Strategy**

In the coming years we aim to have a growth rate exceeding that of the Indian economy. For this we will continue to pursue a four pronged strategy.

### **I. We will continue to lead the Indian capital market in terms of 'Product Innovation'**

Leveraging our expertise in product innovation, we intend to target investors' needs through the development of new products such as new indices and index-based products for domestic and international investors as well as other new products and services, subject to regulatory approvals. Over the last fiscal year, Asia Index Pvt. Ltd., a JV between S&P Dow Jones Indices and BSE, launched 27 new indices. These included eight Broad Market indices, ten Sectoral Indices, eight Strategy Indices and one Thematic index.

At BSE, some of the new product launches included Overnight Investment in Mutual Funds on StarMF platform that allows the smallest investor or a corporate or a trust to invest even on an overnight basis in liquid funds from anywhere in India. BSE also signed a Memorandum of Understanding with India Bullion and Jewellers Association (IBJA) to jointly setup a Gold Spot Exchange, the first of its kind in India for trading in gold and in subsequent phase also in other precious metals.

For creating a level playing field, an Algorithm Trading Test Laboratory on Cloud Platform was established in partnership with Symphony Fintech Solutions Pvt. Limited and Amazon Web Services. This will enable all market participants to test their trading algorithms in equity, equity derivatives and currency derivatives segments free of cost.

With a view to make continuous improvements to our surveillance framework, a few measure like Price Reasonability Check for Equity Derivatives and Currency Options segment, Reversal Trade Prevention Check (RTPC) to prevent potential cases of trade reversal taking place on BSE's trading platform, and a Trade Annulment Framework in compliance with the SEBI guidelines were introduced during the year.

In other major developments, BSE and CMIE, have joined hands to launch the world's first high-frequency data on unemployment and Consumer Sentiments Indices in India. This is the first instance of non-governmental organisations coming together and taking leadership in producing an unemployment measure for any country in the world. BSE and IFC, who is a member of the World Bank Group, have collaborated to develop India's

first Corporate Governance Scorecard. This will enable companies to assess their corporate governance performance against nationally or internationally-benchmarked practices.

## **II. Expand our cross-border reach through alliances**

In cooperation with the BRICS Exchanges Alliance, the S&P BSE SENSEX has been listed for the trading of derivatives on the leading stock exchanges in Brazil, Russia, Hong Kong and South Africa. Benchmark Indices of those countries' stock exchanges have also been listed on BSE. This enhances the international dimension of BSE and simultaneously gives local investors greater access and exposure to key international markets. Futures and options based on S&P BSE SENSEX are also listed and traded on Eurex and Dubai Gold and Commodities Exchange (DGCX).

BSE has entered into a Memorandum of Understanding (MOU) with Taipei Stock Exchange (TPEX). The agreement is designed to further the development of securities markets in Taiwan and India, encourage the sharing of information, and foster new opportunities for the Exchanges and their respective issuers.

Last month, BSE and the Korea Exchange (KRX) signed an MOU to conduct joint research in different areas including derivatives markets and to support each other in the development of new products and cooperate in Information Technology. We believe that the enhanced ease of trading and access that results from such ventures will strengthen our ability to attract cross-border investors and issuers to BSE.

Clearstream and ICCL (BSE's clearing subsidiary) have collaborated on triparty margin collateral management with ICCL linking to Clearstream's Global Liquidity Hub. Clearing members/custodians can now use their holdings

in AAA rated foreign sovereign securities as collateral to trade on BSE.

### **III. Pursue Diversification**

We will continue to actively evaluate products and asset classes outside our traditional areas of focus in order to diversify our revenue sources. By doing so, we seek to continue to attract market participants and issuers and capture the significant revenue potential that comes with a broader product line, particularly in derivative products. These initiatives have yielded good results as evidenced by the rise of our market share in currency derivatives from 33.86% in fiscal year 2015 to 36.45% in FY 2015-16. Similarly during the year our market share in interest rate derivatives increased from 8.85% in FY 2014-15 to 17.19%.

We are also pleased to inform you that BSE has been granted approval from RBI as a "Receiving Office" for

primary issuance of Sovereign Gold Bonds. Investors will be able to invest in Sovereign Gold Bonds from the next tranche onwards through BSE broker members. Earlier this month, BSE commenced trading of the first tranche of Sovereign Gold Bonds on its platform.

Over the coming year, we intend to focus on new initiatives such as cross-currency contracts, interest rate futures contracts across the yield curve, interest rate options, increasing FPI participation and the extension of market timings for currency derivatives. BSE also proposes to introduce commodity derivatives on its platform to give investors one single platform to invest across asset classes subject to regulatory approval. This measure is expected to significantly bring down the cost of trading, collateral and compliance for members trading in the Commodities Exchange space.

The Exchange is also working on establishing an International Exchange Infrastructure in Gujarat International Finance Tec-City (GIFT).

#### **IV. Establish best-in-class infrastructure**

BSE, in its continuing quest to be the fastest Stock Exchange in the world, has introduced a new order confirmation message from the gateway in its trading system. Any request entering the gateway will immediately get a response with the new order confirmation message. This response will be provided in 6 microseconds, thus making BSE the fastest trading system in the world. Algorithmic traders will also benefit from this new message system due to the early decision-making ability it enables.

BSE is also the first Exchange in the country to implement PTP (Precision Time Protocol), which provides for time synchronization across all its servers with nanosecond

accuracy. Many functional improvements including tick-by-tick order data, multi legged orders, straddle strategy for currency derivatives and equity derivatives have also been rolled out for BSE members.

## **2. Financial Performance**

Regarding financial performance, I would like to briefly highlight the following:

- a. The total income of the Exchange during FY 2015-16 was ₹ 658.27 Crore, reflecting an increase of ₹ 33.52 Crore (5.4%) over the previous year.
- b. The total expenses for the year were higher by ₹ 92.82 Crore (26.3%) at ₹ 445.9 Crore.
- c. During the year, the expenses were higher mainly due to payments and provision towards the Core Settlement Guarantee Fund amounting

to ₹ 94.63 Crore in accordance with SEBI Regulations and Circulars.

- d. The profit for the year, after taking into account the provision made for the Core Guarantee Fund, was therefore lower by 38% at ₹ 96.74 Crore as opposed to ₹ 155.53 Crore the previous year

### **3. Other Significant Developments**

#### **Board and Management Changes**

Since the last AGM we have strengthened our Board by adding some eminent individuals. They are:

- i. Shri S. Ravi. He brings with him a rich banking experience having served on the Board of various banks. He is a Fellow Member of the Institute of Chartered Accountants of India (ICAI).
- ii. Shri Sumit Bose, a retired IAS officer. He was earlier a Member of the Expenditure Management

Commission, prior to which he served as the Union Finance Secretary.

- iii. Justice (Retd) Shri Vikramjit Sen. He is an eminent jurist and retired as a Judge of the Supreme Court of India. I am personally familiar with the extraordinary legacy he left behind as the Chief Justice of the Karnataka High Court.

### **BSE Listing**

SEBI has granted approval to BSE's application for listing of its equity shares in the month of March 2016. BSE has, thereafter, engaged Edelweiss Financial Services Ltd. to act as Merchant Banker for the purpose of documentation and statutory approvals. Legal Counsels and Underwriters too have also been appointed. As you are aware, BSE has proposed an OFS Scheme to enable tendering of its equity shares in BSE's IPO through OFS for your approval in this meeting today. Your approval to the proposed OFS scheme would pave the way for

accepting shareholder consents for tendering their equity shares in BSE's IPO through OFS and enable BSE to take subsequent steps required for filing its draft offer document leading to listing of its equity shares.

#### **4. Public Events**

During the course of the year, BSE was witness to several high-profile visits from dignitaries and delegations representing government, industry and other sectors from India and abroad. The list of visiting dignitaries includes:

1. Shri Ravi Shankar Prasad, Union Minister of Communications and Information Technology
2. His Highness Sheikh Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi
3. Shri Suresh Prabhu, Union Minister of Railways
4. Shri Piyush Goyal, Union Minister of State for Power, Coal, New & Renewable Energy

5. Gen. (Dr.) V.K. Singh (Retd.) Union Minister of State for External Affairs
6. Shri Jayant Sinha, Union Minister of State for Finance
7. Shri Devendra Fadnavis, Chief Minister of Maharashtra
8. Shri Sudhir Mungantiwar, Minister of Finance, Planning, and Forest Departments, Government of Maharashtra

## **5. Concluding remarks**

Ladies and gentlemen, as I conclude my remarks, I would like to remind you once again that we continue to operate in a difficult global economic climate. However, amidst this challenging backdrop, India has continued to outperform other economies and we hope to see the Indian growth story continue well into the future. This would be reflected in superior corporate performance and a positive outlook for equity investors going forward, which augurs well for all your company too.

Finally, on behalf of the BSE board, I would like to thank the Govt. of India, SEBI, RBI, the Govt. of Maharashtra, other State governments and various governmental and statutory agencies for their continued support and guidance.

I would also like to place on record our sincere gratitude to shareholders, Board of Directors, strategic partners, customers and investors for their continued support of this institution.

I would also like to compliment and thank the employees of BSE for their unwavering dedication and efforts towards meeting the objectives of the Exchange.

Thank You.