



Indians to Trade in Select US Stocks

For Prelims: NSE International Exchange (NSE IFSC), International Financial Services Authority (IFSCA), National Stock Exchange, GIFT City, Liberalized Remittance Scheme, Reserve Bank of India.

For Mains: National Stock Exchange and its benefits, Mobilization of Resources, Important Institutions, Capital Market.

Why in News?

Recently, investors in India have been **allowed to trade in select US stocks** through the **NSE International Exchange (NSE IFSC)**.

- Currently, **Indian investors buy US stocks through designated online brokers** who have permission from Indian and US regulators to offer such services.

What does this Mean?

- This means **domestic investors can purchase US stocks** like Amazon, Alphabet, Tesla, etc.
 - A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation.
- However, the offering will be **in the form of unsponsored depository receipts**.
 - For example, **one share of Tesla will be equivalent to 100 NSE IFSC receipts**.
- The [International Financial Services Authority \(IFSCA\)](#) has already given the approval for the plan.

PYQ

In the context of Indian news in recent times, what is MCX-SX? (2009)

- (a) A kind of supercomputer
- (b) Title of Moon Impact Probe
- (c) Stock exchange
- (d) Nuclear-powered submarine

Ans: (c)

What is this Exchange?

- NSE IFSC (NSE International Exchange) incorporated on **29th November 2016**, is a **fully-owned subsidiary of [National Stock Exchange of India Limited \(NSE\)](#)**.
- Stock exchanges operating in the [Gujarat International Finance Tech City \(GIFT\) city](#) are

permitted to offer trading in securities in any currency other than the Indian rupee.

- Accordingly, **NSE IFSC** which launched trading on **5th June 2017**, offers USD denominated trading in various products.
- **NSE IFSC offers** trading in various products including index derivatives, stock derivatives, currency derivatives, commodity derivatives and debt securities.

PYQ

Consider the following statements: (2010)

In India, taxes on transactions in Stock Exchanges and Futures Markets are

1. levied by the Union
2. collected by the States

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

What is an NSE IFSC Receipt?

- It is a negotiable financial instrument in the nature of an unsponsored '**depository receipt**', which means it is a derivative product and investors can directly trade in the stocks without having to do so through registered online brokers.
- Just like shares are purchased domestically, **shares can be bought in the US** and issue receipts against them, which will be known as **NSE IFSC Receipts**.

What is the Advantage?

- The business model offered by NSE IFSC will **not only provide an additional investment opportunity** to the Indian investors but also **make the entire process of investment easy and keep it at a low cost**.
- When compared to the **underlying shares traded in US marketplaces**, investors will be able to **trade in fractional quantity value**.
- Investors will be **able to hold the depository receipts in their own GIFT City demat accounts** and will be eligible for corporate action benefits on the underlying stock.
 - A Demat Account or Dematerialised Account provides the facility of holding shares and securities in an electronic format.
 - **Corporate actions** are benefits given by a company to its investors. These may be either monetary benefits like dividend, interest or non-monetary benefits like bonus, rights, etc.

Who can invest?

- **Person resident outside India, [Non-resident Indians](#) and Individual resident in India** who is eligible under **FEMA (Foreign Exchange Management Act)** to invest funds offshore, to the extent allowed in the **[Liberalized Remittance Scheme of Reserve Bank of India](#)**.
 - The main objective for which FEMA was introduced in India was to **facilitate external trade and payments**
 - Under the LRS framework, the **RBI permits the resident individuals** to remit up to **USD2,50,000 per financial year** for any permitted current or capital account transaction.

- However, **US and Canadian residents are not allowed** to invest through this instrument.

What are the Potential Risks for an Investor?

- Investing in NSE IFSC Receipts carries risks. Some of the significant risks are as follows:
 - General price and volatility risk, Risk of illiquidity, Underlying Share risk, Risk of Cancellation and Termination of the NSE IFSC Receipt, Tax risks, Other risks such as **force majeure**, changes in law, settlement, trading, etc.

PYQ

With reference to India, consider the following statements:

1. Retail investors through demat account can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in primary market.
2. The 'Negotiated Dealing System-Order Matching' is a government securities trading platform of the Reserve Bank of India.
3. The 'Central Depository Services Ltd.' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 2 and 3 only

Ans: (b)

Source: IE

PDF Refernece URL: <https://www.drishtias.com/printpdf/indians-to-trade-in-select-us-stocks>