



## From the Desk of **Milan Ganatra**

### *Greetings!*

*As we herald in 2011 we hope that all of you had an opportunity to enjoy the festivities of the season and hopefully the New Year has begun well for all of you. We also would like to wish to you and your families the very best for the coming year!!*

*Given the outlook for 2011 and as you all look forward to a year of growth and further penetration and gain of market share, we believe technology will continue to play an important part to enhance efficiencies and productivity of your growing workforce and meet the advancing needs of the clients and users. As we also grow and complete our increasingly frequent global implementations, we at Milessoft, endeavor to bring you all new features which are a judicious mix of our expert knowledge, global experience and cutting-edge technology innovations. Recent events at a large Multinational Bank further highlights the need for the good systems and controls to help manage the business and control risks.*

*During the last Quarter we were pleased to be a Technology Partner at the CNBC Financial Advisor Awards 2010. This was an event we have been associated with over the last 2 years and also one in which many of you and your organizations have participated. In the first Quarter of 2011 we look forward to meeting many of you at the CNBC-TV18 - CRISIL Mutual Fund Awards, where also we are a Technology Partner. We are excited with the initial response and rollout of our comprehensive MF product Fund Ware.*

*Look forward to your continuing feedback on our communications and newsletter which would be extremely valuable as we continue to increase our focus on this and enhancing our process.*

*Milan Ganatra*

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## Investor protection at the forefront in 2010

The regulatory landscape has changed dramatically for the investment management business in the past year and a half, and the interesting thing is that there are more changes under way. The new rules have a long-term impact on all areas of the investment business, be it mutual funds, insurance, or portfolio management. Changes are coming in the pension fund management business as well. Let's have a look at what has transpired in the recent past and what's likely to happen in the coming year.

From August 2009, Securities and Exchange Board of India (SEBI) abolished entry load on mutual funds, which changed the dynamics of the fund industry. As per the prevailing system, mutual funds would charge 2.25 percent from the unit holder's initial investment in an equity fund or 0.5 percent in a debt fund as entry load, which would be passed on to the distributor as his commission. SEBI's rationale for the move was "to empower the investors in deciding the commission paid to distributors in accordance with the level of service received, to bring about more transparency in payment of commissions and to incentivize long term investment." SEBI was also worried that distributors were encouraging investors to "churn" their portfolios to earn higher commissions. As a result of this regulation, the distributor now has to disclose the fee he earns from the investor, and justify his value addition. As a result of this change, distributors didn't have adequate incentive to sell mutual funds, and mutual fund sales slowed down.

In earlier years, SEBI had disallowed mutual funds from amortising initial issue expenses, which were being spent on advertising new fund offers for both open-end and closed-end funds. It had also clamped down on asset management companies from launching new schemes if these schemes were similar to an existing scheme from the same fund house. Before the abolition of load, SEBI had introduced direct sales by fund companies to investors, but this model didn't take off.

Today, mutual funds and distributors have come to terms with the new realities, and some distributors are able to charge advisory fees from clients, while many of them survive on trail commissions.

SEBI also allowed consolidation and merger of mutual fund schemes in October 2010. The reason for this regulation is that SEBI believes that there are too many mutual fund schemes in India, which confuse the investor. In the go-go years of the Indian mutual fund industry from 2005, mutual fund schemes proliferated as this was the only way to attract new money into mutual funds. Distributors were earning higher fees by selling new funds, and the unscrupulous ones were advising their clients to move from one new fund to another. The prevailing regulation from 2003 viewed a merger of schemes as changes in the fundamental attributes of the related schemes, and the fund house had to send all the relevant information to unit holders and give them an option to exit from the schemes without any exit load. As per the new regulation, SEBI will no longer view a merger or consolidation as change in the fundamental attribute of the surviving scheme if these fundamental attributes do not change. Mutual funds have to demonstrate that the circumstances merit the merger, and the interest of the unit holders of the surviving scheme should not be adversely affected. Fewer schemes will surely make it easier for investors to buy mutual funds as there will not be any confusion.

There were some other changes as well. In November 2009, SEBI allowed the trading of mutual funds on the stock exchange platform. Since the stock exchange network reaches 1,500 towns and cities through 200,000 terminals, the retail investor's access to mutual funds stands improved further. A year later, it permitted mutual funds to be transacted through clearing members of registered stock exchanges.

In April 2010, SEBI launched a campaign to bring unit linked insurance products (ULIPs) under its ambit. The market regulator sent letters to 14 life insurance companies to not sell ULIPs without its approval, saying that ULIPs were similar to mutual funds and, hence, fell under its jurisdiction. ULIPs were governed by the insurance industry regulator Insurance Regulatory and Development Authority (IRDA). Subsequently, a turf war emerged between SEBI and IRDA on the governance of ULIPs, which went on to the courts with the government finally stepping in. The finance ministry said that IRDA would continue to govern ULIPs.

While IRDA was battling with SEBI, it was also working on cleaning up the ULIP. The incentive structure in ULIPs was generous, and insurance agents would make as much as 35 percent of first year premium as commission in some cases. IRDA made ULIPs more investor-friendly and transparent. Among other changes, it capped commissions to agents, increased the minimum term of a policy from three years to five years and stipulated a minimum life cover to 10 times of the sum insured. Earlier, the surrender value of a ULIP could go as high as 100 percent was capped at 12.5 percent in the first year, and even this would go down every year. Later in the year, IRDA made the guidelines on universal life products (ULPs) stricter. The new guidelines require insurers to offer a guaranteed return if the policy terms do not entitle the insured to receive a bonus. Also, under the new guidelines, ULPs have to be called "variable insurance policies" and fall under traditional insurance plans. The guidelines also stipulate that ULPs provide only mortality cover and no other contingency.

In October 2010, SEBI also brought change in the portfolio management scheme business. It had been receiving complaints from clients relating to fees and charges being levied by portfolio managers. After a scrutiny of the complaints, SEBI found that the fees and charges payable by the client and their computation were not always taking place as per the portfolio manager-client agreement. So in order to bring about greater uniformity, clarity and transparency on fees and charges, it introduced new regulations. It told portfolio managers to compute profit/performance on the basis of high water mark principle over the life of the investment. Thus, the portfolio manager can charge performance based fee only on increase in portfolio value in excess of the previously achieved high water mark.

High water mark is applicable for discretionary and non-discretionary services but not for advisory services. It also restricted the client's liability to not exceed his investment with the portfolio manager. Moreover, portfolio managers have to add an annexure containing details of levy of all applicable charges on a sample portfolio of Rs.10 lakh over a period of one year. The fees and charges shall be shown for 3 scenarios: when the portfolio value increases by 20 percent, decreases by 20 percent or remains unchanged. The rules are in place for new clients from November 1, 2010 while for existing clients the new rules will be implemented from January 1, 2011.

SEBI also modified the monthly report format that portfolio managers send their clients to make it more investor-friendly. It also mandated that the first single lump-sum investment amount received as funds or securities from clients should not be less than Rs 5 lakh. This rule is to prevent portfolio managers from accepting an initial amount lower than Rs 5 lakh on the basis of the client's commitment that Rs 5 lakh would be brought soon. Portfolio managers must also disclose the performance of portfolios grouped by investment category for the past three years as per the prescribed format, and

that the disclosure document is given to all clients along with the account opening form at least two days in advance of signing of the agreement. In order to ensure that the clients have access to updated information about the portfolio manager, portfolio managers shall place the latest disclosure document on their website, wherever possible. SEBI has also disallowed portfolio managers from organising investment portfolios as “schemes” like mutual fund schemes.

The third regulator Pension Fund Regulatory and Development Authority (PFRDA) is struggling to fix the problem of attracting adequate voluntary subscribers to the “New Pension Scheme”. The regulator has put distributors, who run ‘points-of-presence’, on notice for non-performance and de-register them if they fail to take measures to improve sales. The 40 points-of-sale, mostly banks, receive Rs 40 for every new pension account they open. According to PFRDA, 90 percent of them have failed to perform.

The original intention of the NPS was to keep costs low but that has not worked as the distributor is not interested in creating awareness for the product. In December 2010, PFRDA increased incentives to distributors from Rs 50 to Rs 150 for each subscriber. Meanwhile a committee under ex-SEBI chairman G N Bajpai is looking at overhauling the NPS structure.

While many of these changes may impact the investment management business adversely over the short-term, there is no denying that the intention of India’s regulators is to protect the investor. For the manufacturer of financial products or services, the task at hand is to communicate the merits and benefits of each of these products to the investor and ensure that the investor entrusts them with their savings and investments.

## Stock exchanges in spotlight

The year 2010 saw a lot of action on the stock exchanges front with a battle between MCX Stock Exchange and Securities and Exchange Board of India (SEBI), and the Bimal Jalan Committee report which recommended severe restrictions on stock exchanges.

In September 2010, SEBI rejected the application of MCX Stock Exchange (MCX-SX) to run bourses trading various products, including stocks and equity derivatives. The reason cited was that it wasn’t in “the interest of trade and public interest to allow the application”. The application was rejected on the grounds that MCX-SX had violated Securities Contracts (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006, under which promoters are restricted to a 5 percent stake. Two of the promoters of MCX-SX, the Multi-Commodity Exchange of India and Financial Technologies, both of which held 5 percent each by way of equity, owned warrants amounting to 60 percent of the economic interest, taking up the aggregate economic interest to 70 percent. These warrants were convertible into equity shares after six months from the date of allotment but did not carry any voting rights. Meanwhile, MCX-SX started advertising in newspapers to create public awareness on its side of the story and accusing SEBI of wrongdoing. In November, MCX-SX filed a writ petition in the Bombay High Court challenging SEBI’s rejection, and the court will decide on the fate of the new exchange.

The other major news was on the Bimal Jalan Committee report on market infrastructure institutions, which was commissioned by SEBI, has caused a flutter among market participants and investors. The report has recommended strict rules that will put controls on ownership, governance, distribution of profits and salaries to exchange officials. The committee is also against the public listing of stock

exchanges. SEBI put up the report in November 2010 and had asked for comments from the public till December 31, 2010.

The recommendations of the Bimal Jalan Committee report conflict with those laid out in the Kania Committee Report, which was accepted by SEBI and the Parliament. The Jalan committee recommends that stock exchanges are a public utility and should generate only “reasonable” profits, which is defined as something over government securities’ return. It recommends a fixed cap on the maximum return that can be earned on its net worth and also on the distribution to shareholders. Now, the Kania committee, set up in 2002, had amended the securities laws to enable corporatisation and demutualisation of stock exchanges and also given a special tax exempt dispensation to various entities. It had also mandated 22 not-for-profit exchanges to become for-profit entities. As a result of this, exchanges like BSE and NSE had attracted many investors, including foreign institutional investors, who have put Rs 10,000 crore of investments. The Kania report recommended that a demutualised stock exchange could list its shares on itself or on any other stock exchange. The Jalan report is not in favour of a public listing and says: “An MII should not become a vehicle for attracting speculative investments. Further, MIIs being public institutions, any downward movement in their share prices may lead to a loss of credibility and this may be detrimental to the market as a whole.” If the Jalan committee recommendations are accepted and exchanges can’t go public, the existing investors will not have an exit, while their investments will earn little more than government securities. The truth is that a public listing brings about transparency and responsibility.

The Jalan committee report recommends a ceiling of 5 percent of equity ownership by one entity and allows only public financial institutions and banking companies with a net worth of at least Rs 1,000 crore to invest up to 24 percent. In most other countries, there are no such restrictions on ownership of stock exchanges as long as disclosure standards are met to ensure fitness of such shareholders. If the economic interest in an exchange is limited to 5 percent for an entity, there is little reason why any company should promote it. The Jalan committee is also of the opinion that SEBI should discourage competition, and it should have the discretion to limit the number of MIIs operating in the market, in the interest of the market and in public interest, which may make the exchange space an oligopoly, which will be against investors’ interests.

The Jalan report suggests that the remuneration of top management of stock exchanges should be a fixed sum without any variable component linked to the financial performance of the stock exchange, which will dissuade competent managers to work there. It has also pegged the minimum net worth of a clearing corporation at Rs 300 crore, which is very high. Also, a stock exchange cannot own more than 24 percent in a depository, which is not necessary. Also, clearing corporations and depositories are included in MIIs and as per the report, they should not own other class of MIIs.

Many of the Bimal Jalan committee recommendations are regressive, but the committee has also recommended that there can be a review by another committee after five years keeping in mind new technological developments, structural changes in financial markets, outlook for capital flows and global integration. However, if the current report is accepted, we may see oligopolies of stock exchanges, less transparency and even governance issues. The salary cap will ensure that exchanges will not be able to employ smart people who work on a performance-based reward system, which will be detrimental to investors. If the market exists to serve the investor community, we need competition and effective regulation.

## Now, instant payments on mobile!

The National Payment Corporation of India, a government body, rolled out an instant interbank mobile payment service (IMPS), which will enable retail customers to enjoy funds transfer round the clock. It is envisaged that over time customers will be able to make micro payments like auto/taxi fare or for a quick snack through the mobile. The seven banks that have enabled IMPS are State Bank of India, Bank of India, and Union Bank of India, ICICI Bank, HDFC Bank, Axis Bank and YES Bank. Before the introduction of IMPS, the transfer of money through mobile phones was possible only if both the sender and the receiver held accounts with the same bank. The new platform enables users to transfer money between accounts of different banks.

Using IMPS is easy. Customers need to register with their banks, which will issue them a unique seven digit mobile money identifier (MMID) and mobile banking personal identification number (MPIN). Irrespective of whether their mobile is low-end or high-end, customers can download and activate the mobile banking application. To initiate a mobile payment, a sender only has to key in the beneficiary's mobile number, the beneficiary's MMID, the amount to be sent and the MPIN. The sender will get SMS confirmation for the money sent.

The Reserve Bank of India has permitted banks to offer mobile banking service to their customers, subject to a daily limit of Rs 50,000 for both funds transfer and transactions involving purchase of goods or services for end-to-end encrypted transactions. Transactions of up to Rs 1,000 can be facilitated by banks without end-to-end encryption. Banks are offering IMPS free to customers up to March 31, 2011, but even after that the fee is likely to be small. Customers will only have to bear the mobile service provider's charges.

**Source: Hindu Business Line, Business Standard**

## SEBI doubles retail limit for IPOs to Rs 2 lakh; tightens other norms

In October, the Securities and Exchange Board of India has doubled the investment limit for retail investors in an initial share sale offer to Rs 2 lakh. Thus, all investors applying for shares up to Rs 2 lakh will be considered as retail investors. As a result of this change, merchant bankers and registrars will have to deal with fewer applications because investors will not apply under multiple names of family members and relatives to get more shares.

The existing limit of Rs 1 lakh for IPOs was in place since 2005, and it needed to be revised. The market regulator had released a discussion paper in August 2010 and had invited comments on this proposal from the public till September 3. Approximately 75 percent of applications in the retail individual investor category typically came in the size of Rs 80,000 to Rs 1 lakh band, as per a SEBI study. SEBI has maintained the 35 percent quota reserved for retail investors. In case of the few IPOs that came after the doubling of the limit, the retail participation did increase. Over 55 percent of the shares applied came in the maximum category of Rs 2 lakh in the MOIL IPO. In issues like Shipping Corporation of India and Punjab & Sind Bank, around half of the shares applied were in this category.

Along with the change in IPO limit, SEBI brought some new regulations. It mandated insurance companies coming out with IPOs to disclose the risk factors specific to life insurance entities and provide a glossary of terms and disclosures specific to the sector. It also accorded the status of qualified institutional buyers (QIBs) to insurance funds set up by the Department of Posts, such as Postal Life Insurance Fund and Rural Postal Life Insurance Fund to deepen the market. SEBI also said that all listed companies will have to mention a fixed date for dividend payment and credit of bonus shares. Promoters who had subscribed to warrants of their companies but failed to exercise these are not eligible for any kind of preferential issue for one year. The one-year period would commence from the date of expiry of the currency or cancellation of the warrants. SEBI also notified the framework for rights issue of Indian Depository Receipts (IDRs) and the disclosure requirement would more or less be in line with the reduced requirement applicable for domestic rights issue.

**Source: Economic Times, Business Standard**

## Retail investors rediscover IPOs

The December quarter was very good for IPOs. In October 2010, The Rs 15,000-crore Coal India issue, India's largest IPO ever, turned out to be a great success in terms of subscription as well as listing gains. The issue was subscribed 15.2 times receiving subscriptions worth Rs 2.54 lakh crore. Retail investors, who were allotted shares at a 5 percent discount to the issue price of Rs 245, applied for 1.6 million shares, and the retail portion was subscribed 2.28 times. With the share closing at over Rs 340 on the day of listing, the gains were impressive.

Besides Coal India, there were a few other PSU companies raising money in the primary market. Power Grid Corporation's Rs 7,400-crore follow-on offering was subscribed 14.84 times with retail subscriptions of 3.81 times. MOIL's Rs 1,200-crore IPO was subscribed a massive 56 times, and the retail portion was subscribed a whopping 32.35 times. The Punjab & Sind Bank Rs 471-crore IPO was subscribed 50.75 times, with retail subscriptions of 43.5 times.

Generally, the pricing of IPOs was not as stiff as it used to be in the past, and with the 5 percent discount in the PSU offerings, there was enough money left on the table for investors. Overall, the primary market garnered Rs 71,000 crore in 2010 from 70 issues with total subscriptions of Rs 7.06 lakh crore according to a report by brokerage firm SMC Capital. The retail portions of all IPOs were subscribed 6.88 times in 2010, compared with just 1.47 times in previous year.

**Source: Hindu Business Line, Times of India, Business Standard. Capital Market**

## FII's take to smart order routing

Foreign institutional investors (FIIs) are increasingly availing of the smart order routing (SOR) facility, which helps them get the best price for their transactions across exchanges in the country. Some large foreign brokers say that SOR has resulted in a six-basis-point average saving, as compared to trading without SOR.

In August, SEBI approved the launch of SOR to every class of investors, which was accepted after long discussions and disagreements between BSE and NSE. SOR is expected to change the way equities are traded. According to the SEBI circular, SOR allows brokers' trading engines to systematically choose the execution destination (the exchange) based on factors like price, cost, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. In an SOR system, trading engines automatically pick the best price across exchanges at a given moment, and hence, can save costs.

Also, SOR is a key ingredient for having an active market for algorithm-based trading. Besides the possibility of making money for themselves, these program or algo traders also act as important sources of liquidity. SOR is a standard feature in markets globally, and is popular with both retail and institutional investors.

Meanwhile, in December, SEBI said that stockbrokers were expected to communicate all possible risks, rights, responsibilities and liabilities of using smart order routing, modifying its August circular on smart order routing. SEBI said the broker was expected to sign a new broker-client agreement for new clients, while an addendum would serve the purpose for existing clients. The regulator also added that the choice of orders should be left to clients and stock exchanges should ensure that they provide all options for order entry. After the required approvals, stock exchanges are also expected to permit approved brokers to offer this facility through all their servers across India.

**Source: Economic Times, Hindu Business Line, Moneycontrol.com, Business Standard**

## Private sector telcos launch 3G services

While PSU telecom companies Mahanagar Telecom Nigam and Bharat Sanchar Nigam launched their 3G services in late 2008 and 2009, private sector telcos were not allowed to enter the space till the auctions took place, which happened only in May 2010. In November 2010, Tata Docomo became the first private sector player to launch 3G services in nine telecom circles across the country. Having a partner like Docomo, the global leader in 3G services, was advantageous for Tata. In December, Reliance Communications launched 3G services. Other players like Bharti Airtel and Vodafone are expected to launch the services soon.

Besides data transfer at ultra-high speeds, 3G services enable richer communications through video calls, video SMSs, video streaming, mobile television, etc. However, due to a government directive, video services have been unavailable from December 14. The telecom ministry will soon be issuing guidelines to address security concerns over 3G video calls once interception facilities are available to security agencies.

3G services bring the added feature of mobility to fast internet across devices like laptops, mobiles and tablets. The cost of Reliance's 3G USB stick device is Rs 2,599 for 7.2 Mbps and Rs 4,499 for 21.6 Mbps and tariff plans start as low as Rs 100 for 100 MB in a month. Meanwhile, mobile companies are firming up alliances to offer 3G roaming to their customers in circles where they do not have presence.

**Source: Hindustan Times, The Hindu Business Line**

## SEBI explores UID for stock market transactions

The Securities and Exchange Board of India has begun evaluating the feasibility of using the unique identification (UID) number for all securities market transactions. According to newspaper reports, the finance ministry had asked SEBI's views on making the UID mandatory for market deals. It was also reported that Nandan Nilekani, the head of the UID project, met top SEBI officials and other capital market experts to explain how the number could be relevant in market transactions. The Unique Identification Authority of India plans to issue over 600 million UIDs over five years.

Stock market transactions currently use the permanent account number (PAN) and using UID will be a paradigm shift. Despite the requirement of PAN, there are still enough instances of benaami/fraudulent transactions on stock markets. Also, there are cases of the same person having multiple PANs. The UID may be of help as each person will have only one UID thanks to biometrics technology that it uses. Moreover, SEBI's making UID mandatory will help give the UID project a fillip and make the number more acceptable. However it must be noted that, SEBI's earlier attempt at enforcing identification for investors – the Market Participant Identification Number' (MAPIN) scheme in 2005 – which included capturing investors' fingerprints did not take off.

**Source: Livemint, Business Standard, Money Life**

## Currency options take off

The National Stock Exchange and the United Stock Exchange received approval from the Securities and Exchange Board of India and the Reserve Bank of India for introducing exchange-traded currency options on the dollar-rupee spot rate. Both exchanges began trading in currency options in October on the USD-INR, providing an alternative for investors to hedge against forex fluctuations. A currency option is a contract that allows the buyer the right but not the obligation to buy a currency at a pre-determined price, either on or before a fixed future date. Like all other options, there is no obligation on the part of the buyer to exercise the option.

On the first day of trading – October 29 – over 3 lakh contracts (\$300 million) were traded during the day with an open interest of about 95,000 contracts (\$95 million) on NSE. There was active participation from across all major centres of the country, the exchange said. The size of the contract is \$1,000, and the premium is quoted in rupees. The final settlement price is the Reserve Bank Reference Rate on the date of expiry of the contracts. Experts say opening up of options in currency adds to the breadth and depth of the Indian forex market. These options will help exporters and importers in exchange risk management.

**Source: Economic Times, SEBI**

## **Bourses can now shift to European-style options trade**

SEBI in consultation with stock exchanges, decided to provide flexibility to stock exchanges to offer either European style or American style stock options in October. After opting for a particular style of exercise, a stock exchange shall offer option contracts of the same style on all eligible stocks. Since the 2001 circular, stock options were only available in the American style, which can be exercised during any time of the contract's tenure. On the other hand, index options follow the European style, and a buyer can exercise the contract only on the expiry day. Since the American style option can be exercised any time during the tenure, the option writer (seller) faces more uncertainty, which will be eliminated in the European stock options. In European options, the seller is sure that the money he got from writing options is there with him till the expiry day. In American style options, there are times when the option is exercised but the seller gets to know only the next morning.

All other contract specifications, including risk management framework applicable for American style stock options, shall apply to European style stock options. SEBI said stock exchanges interested in introducing European style stock options should put in place proper systems and procedures for smooth introduction of these options, and make necessary amendments to the relevant bye-laws, rules and regulations. They are expected to notify all categories of market participants, and also disseminate the information on their websites, at least one month in advance of implementing the switchover in the exercise style. Stock options are not very popular in India as a dearth of writers keeps premiums high. With European style options, things could change for the better.

**Source: SEBI, Economic Times**

## **Financial Technologies starts multi-asset bourse in Mauritius**

In October, Financial Technologies launched Global Board of Trade (GBOT), which offers commodity and currency derivatives products on a state-of-the-art electronic exchange platform, regulated by the Financial Services Commission (FSC) of Mauritius.

The products that are traded include gold and silver futures as well as Mauritian rupee-dollar, South African rand-dollar, euro-dollar, British pound-dollar and Japanese yen-dollar. GBOT is the first international multi-asset class exchange based out of Mauritius. The exchange was launched by Navinchandra Ramgoolam, the prime minister of Mauritius, who said GBOT adds depth to the Mauritian domestic financial markets.

Financial Technologies, which has run into trouble with the regulator on the MCX Stock Exchange, operates several exchanges abroad such as Dubai Gold & Commodities Exchange, Singapore Mercantile Exchange, Bahrain Financial Exchange and Bourse Africa in Botswana, besides five exchanges in India.

**Source: Financial Times, Business Standard**

## Ace Commodity Exchange launched

Ace Derivatives and Commodity Exchange was transformed from being a regional exchange to a national multi-commodities futures trading platform. The exchange, anchored by Kotak group, plans to trade precious metals, energy, base metals, oils and oilseeds, pulses, spices and sugar.

Started as the Ahmedabad Commodity Exchange in 1954, the Kotak group successfully obtained approval in August from the commodity markets regulator, the Forward Markets Commission, for a complete transformation in the exchange platform. At the time of its launch in the new avatar in October, the exchange had 175 registered members and 60 members from the original regional exchange. At present, the exchange trades oils and oilseeds, pulses and sugar.

Besides Kotak, other investors in Ace include Haryana State Cooperative Supply & Marketing Federation (HAFED), which owns 15 percent stake, and Bank of Baroda, Corporation Bank and Union Bank. HAFED has 15 percent stake in the exchange and plans to hedge risk on the platform on behalf of its members. As an anchor investor, the Kotak group will have to divest its equity from 51 percent to 26 percent to comply with FMC norms.

**Source: Economic Times, Business Standard**

## IT Spending in Financial Services: A Global Perspective

Global information technology spending by financial services institutions has reached US\$357.4 billion in 2010, an increase of 2.9% over 2009. This figure is substantially higher than the 2.5% decline in growth experienced in 2009. Although 2010 will be challenging, global spending on IT products and services should grow to US\$393.5 billion by 2012, a 4.9% CAGR from 2010 to 2012.

In a new report, *IT Spending in Financial Services: A Global Perspective*, Celent analyzes IT spending trends across different industry verticals (banking, insurance, and securities and investments) and different regions (North America, Europe, the Asia-Pacific region, Latin America, and Africa). The prime focus of the report is to compare and contrast the direction of IT spending trends among financial services institutions.

European and North American financial institutions currently spend an almost equal amount on IT. Firms in Europe and North America account for 36% and 33.1%, respectively, of the global IT investments by financial services institutions. Firms in Asia-Pacific account for 25.2%, and Latin America and Africa account for the remaining 5.7%.

Among all regions, the fastest growth will be seen in financial services institutions in Asia-Pacific, with IT spending increasing at 5.1% in 2010 and a CAGR of 6.2% from 2010 to 2012. Growth will continue to rise in this region, and total spending in Asia-Pacific is expected to reach US\$101.7 billion in 2012. Latin

America and Africa are expected to grow at a relatively modest rate (3%). Spending in this region will grow to US\$20.4 billion in 2010.

**Source: bobs guide, Money Science**

## Smart IT spending: Insights from European banks

A small number of European banks get more business value from information technology—including faster, more flexible support of business objectives—than do their peers, and at a far lower cost. How? Our research found that this select group combines superior IT management with a tight focus on using IT to help improve business performance.

We surveyed 37 retail and wholesale banks to understand how they manage technology and to identify the IT-management practices of the top performers. In the course of the effort, more than 70 variables of management practice—ranging from the management of data centers and application portfolios to IT governance models and outsourcing contract provisions—were examined. We collected quantitative and qualitative data on the banks' IT spending and on their staffing levels for internal personnel and contractors.

The survey found that IT spending varied widely—from 10 to 30 percent of operating costs, or 4 to 18 percent of operating income.

**Source: The Mckinsey.**

## Banks' Risk IT Spending to See Modest Growth Bank

As the credit crisis continues with no end in sight, banks have been forced to adopt a cautious and thrifty approach to spending. And experts agree that IT spending will come under greater scrutiny, even around risk-related technology.

"Global risk technology spending growth will be more modest," predicts David Howard-Jones, a partner with New York-based Oliver Wyman's strategic IT and operations practice. "It will be around 6 percent instead of the 8 and 10 percent that we saw in recent years."

However, there will be global regions outside the U.S. that will see healthy spending on risk technology, he adds. While the U.S. will see the lowest growth in risk tech spending by banks, at around 2 percent, Howard-Jones says, the Asia/Pacific will see spending growth in excess of 15 percent. "This is partly due to the fact that many institutions there still need fundamental risk technology," he explains.

But cost cutting doesn't necessarily mean banks will completely stop spending, Howard-Jones adds; they'll just spend smartly. "You'll see more cost review programs," he says. "Risk technology dollars will be spent more wisely."

## Silver Lining

Dan Schutzer, executive director of the New York-based Financial Services Technology Consortium (FSTC), says that's actually the silver lining to the credit crisis. "In this kind of environment, people make hard decisions and become innovative — as long as the ideas are for concrete projects," Schutzer comments. "If IT takes a proactive leadership role and explores other opportunities, it can gain more efficiency for the bank."

According to David Rogers, global product marketing manager, risk, with SAS in Cary, N.C., banks will only spend what they have to. "It's important to remember that a lot of their investments in Basel systems are just now coming online," he explains. "Our research shows there's a certain amount of regulatory fatigue in the spending banks needed to undertake for [risk-related] initiatives."

Rogers points to the recent news from New York-based Citi (\$1.8 billion in assets) that it will slash its IT budget. "[Banks] are constantly looking at IT issues. ... It's not just about the IT budget, but looking at how they can reorganize and improve processes and use information better. You want to make the systems fit into the overall needs of the organization."

Source: Banktech.com

## The Year That Was: Technologies galore, but affordability remains a question

The year 2010 dished out quite a few treats for technophiles. It was a leapfrog year particularly for mobile phone subscribers who got regular upgraded hardware (improved mobile handsets) as well as pipeline (bandwidth). We finally saw the awesome performance of third generation (3G) technology as well as the emergence of Google's Android operating system (OS) as the main competitor to Apple's iPhone OS, and the internet search giant's entry in the mobile handset market with Nexus One. On the home pitch, LCD televisions gained popularity, although the euphoria over 3D LCD or LED TVs may be dying due to lack of corresponding content.

### Mobile moves

Numerous handsets were launched with newer and more features and the smartphone emerged as the standard device among youth and professionals. Three big companies launched new OS. While Microsoft launched Windows Phone 7, Samsung came out with its Bada OS. Nokia decided to stick to its old and trusted partner and launched Symbian 3. Although Google had launched its Android OS in 2009, it took a new step with the launch of the Nexus One handset in January 2010.

On the OS front, while there are very few handsets that run on Win7, the acceptance of Android by mobile manufacturers saw the launch of many more handsets based on the OS. Today, the Android is neck and neck with Apple's iPhone OS4 in the smartphone segment. For some reason, there's a reluctance by Apple to launch newer handsets in India and this would prove be an advantage for Android.

During 2010, Indian mobile brands started gaining more acceptance among customers. According to a report by International Data Corporation, Micromax, with a 6% market share is now the third largest GSM mobile phone vendor in India after Nokia and Samsung. The growing popularity and acceptance of Indian mobile brands may be the death knell for so-called Chinese mobile phone models, which are finding lesser buyers every passing day.

### **MNP, 3G is here**

Even after fighting a tough war, not a single mobile service provider could grab the pan-India license for the 3G services. The pan-India auction amount touched Rs16,750 crore (\$3.7 billion), up 379% over the base price of Rs3,500 crore.

Bharti Airtel, the country's largest telecom player managed to win 3G licenses in 13 out of the 22 circles. Reliance Communication (RCom), the second largest player, also successfully bid for 13 out of the 22 circles, but with a predominantly 'B' and 'C' circle footprint, in addition to Delhi, Mumbai and Kolkata.

As the year ends, there are four players offering 3G services to subscribers—Mahanagar Telephone Nigam (MTNL), Bharat Sanchar Nigam (BSNL), RCom and Tata DoCoMo. But, two weeks ago, the Department of Telecom (DoT) asked the two private operators to shut their 3G services as security agencies were not able to snoop into data flowing through the networks. Both RCom and Tata DoCoMo immediately stopped video-calling services on their 3G network. Now, these concerns raised by security agencies could prove to be a deterrent for 3G services.

As Moneylife had predicted, there was a delay in launching mobile number portability (MNP). Nevertheless, it was finally launched in Haryana earlier this month and it will be rolled out across the country over the next month or two.

Mukesh Ambani, who had to leave the telecom business for his younger brother, has made a comeback into the sector in style. Infotel Broadband Services, which emerged as the only company to win a pan-India broadband license, was bought by Mr Ambani for Rs4,800 crore. Mukesh Ambani's re-entry into telecom is significant in many ways and has the potential to change the broadband game altogether.

According to Jon S von Tetzchner, co-founder, Opera Software, only 28.7% of the world's population uses the Internet. "Though the maximum internet usage is clocked in Asia, internet penetration in comparison to the rest of the world is a low 21.5%. This shows that about 80% of the population falls in the growth potential category," he said. Next year will be important for the 3G as well as broadband space.

### **Mobile commerce**

Last month, the National Payments Corporation of India (NPCI) launched its much-awaited interbank mobile payment service (IMPS), which has the potential to change the payments scenario in the country. According to bankers, this system could revolutionise the retail payments process and even overtake the number of payment transactions carried out through cards and the internet.

IMPS is restricted to interbank transactions, but can be used by anyone and from anywhere to make payments. One could pay the grocery bill to the shop owner through the mobile phone, provided both parties are registered IMPS users with their respective banks. Similarly, one could pay the fare to a taxi driver directly through IMPS.

Dewang Neralla, director, atom Technologies and co-founder, Financial Technologies, said, "Mobile phone transactions are ubiquitous, have multi-purpose functionality with low adoption hurdles, are highly interactive and provide security as well."

The penetration of electronic transactions remains strikingly low in India compared to the US and South Korea. Today, only 3% of the transactions in the country are done electronically, whereas in the US electronic transactions account for almost 52% of the total traffic.

"Even if we can achieve 20%, it will mean a huge jump. The sheer size of our economy and consumption power is very large. The moment we get organised retail onto the electronic payments bandwagon, transaction volumes will be phenomenal," Mr Neralla said.

The coming year will definitely see the emergence of mobile commerce and payments as an option to card-based transactions. Who knows, over the next few years it may well replace the complete plastic card payment system, altogether.

### **Emergence of Tab**

This year also saw emergence of some functional and good looking tablets like iPad from Apple and Samsung Tab. These tabs are nothing but the combination of computing device like netbook and mobile handset. While its screen size (about 7-inches) is larger than mobile, it is often smaller than netbook (about 10-inches), in order to make it handy. Here again, the apathy of Apple is clear as such its iPads are not easily available in India at competitive rates. However, Samsung is taking efforts to grab the opportunity and making sure that its Tab at least get enough eyeballs through media campaigns. However, I think, there should be more competition in tabs in order to give some real benefit to consumers.

### **Consumer electronics**

During the year, there was more hype built around 3D technology for television and high-definition (HD) transmission for direct-to-home (DTH) platforms. As we tune into the New Year, it's clear that both 3D and HD have failed to live up to expectations, mainly due to a lack of content. According to media reports, Sony Corp had said that the new 3D TV sales failed to live up to industry expectations.

The higher price may have also played a part in the lower sales of 3D TVs. Today, one can buy a typical 40-inch LCD TV for about Rs40,000, while a 3D TV of similar dimensions would make the wallet lighter by more than Rs1 lakh. In addition, it requires a special pair of glasses to enjoy the 3D format. Manufacturers provide one or two pairs bundled with the TV set, but every additional pair costs a steep Rs10,000.

But there is encouraging news on this front. Next month, Toshiba will show its no-glasses 3D TV for the first time outside Japan, at the International Consumer Electronics Show at Las Vegas. While the high

cost and lack of appropriate content was a dampener in 3D TV sales, content was also a headache for DTH service providers while transmitting channels in HD. Very few of the more than 450 channels operating in India telecast in the HD mode, and those that do, charge more fees. Nevertheless, as and when more channels opt for HD delivery, tariffs could come down over the next few years.

We may have not included all the new bits and pieces, but Moneylife will continue to give you a discerning view of the technology trends as they play out in 2011.

**Source: Moneylife.in**

## **Miles sponsor's CNBC Financial Advisor Awards 2010 as Technology Partner**

Miles is extremely pleased to continue to associate as “**Technology Partner**” at the **UTI Mutual Fund & CNBC-TV18 Financial Advisor Awards 2010**, which honors India's best Financial Advisors who have set a benchmark by providing through sound advice and quality service to investors. Technology is a key strategic tool in the business of financial services and Miles continues to innovate and evolve its suite of solutions and product offering.

Speaking on the occasion of the Awards Function, Sandeep Presswala, reiterated that the growth prospects of the Financial Services Industry were extremely bright and the depth and width of the Miles Offering provided existing players and new entrants with a comprehensive platform from which to manage their businesses - be it Transaction Processing, Customer Relationship Management, Revenue Management, or MIS and Reporting.

Milan Ganatra also pointed out that as the Regulatory Changes force new business paradigms on the players - technology and its early adoption was the only solution to be able to deal with the changes in a cost effective manner while protecting both the top lines and bottom lines of the businesses.

## **Miles Soft's New DMA Solution**

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