We would like to place our sincere appreciation to the regulator who has brought a discussion paper in public domain and has sought views from various stakeholders. We try to look at the situation from the point of view of 3 major stakeholders – customers, investors and the power exchange industry. Below is our take on market coupling:

1. **Customers:**

- **Power market regulations 2020 speaks about improvement in Liquidity and discovery of a uniform clearing market price through a combination of MBED and market coupling**

  Our view – The exchanges, including IEX, are already pan India. Liquidity can be further enhanced through implementation of MBED. It is difficult to believe there is any case for improvement in liquidity or price discovery only through market coupling (MBED is necessary for market coupling). This is because of the dominance already achieved by one exchange, IEX.

  The surge in prices witnessed during FY23 and sustenance of high prices even in some parts of FY24 is mainly due to supply side constraints (coal availability issue + non-availability of ample thermal capacities to meet peak demand).

- **Lack of innovation**

  Our view – Market coupling will impact innovation in the market. No one will be incentivised to innovate/develop new products and thus the industry will suffer in the long run. In fact, IEX and PXIL started operations in the same year, we have observed that all the new products were first introduced by IEX (RTM, GTAM, GDAM, Cross Border, LDC etc) except for HP-TAM which is introduced by HPX which is natural extension of HP-DAM introduced by IEX. The other exchanges are riding on this and only seek to compete on pricing.

- **No social welfare gains**

  Our view - We believe there is no social welfare gains to be achieved by adopting market coupling. Rather, market coupling which is akin to nationalisation of exchanges, will lead to erosion of social welfare due to less innovation and major destruction of shareholder savings.

2. **Impact on current shareholders**

   The idea of introducing a multi-exchange model in the power sector was one of the key tenets of the Electricity Act (2003). The Electricity Act (2003) was conceived with a view to encourage competition amongst exchanges and cater to the growing and varying requirements of market participants. Over a period, participation on exchange platforms increased leading to increased efficiencies, which led to increased investor interest.

   Our View - The current listed Exchange has 60% Institutional holding and 40% retail holding. We at Mirae Asset Investment Managers hold 8.5% stake in the company. We have been investors for over 4.5 years. We represent over 7 m unit holders across the country including some pension funds of the Indian Armed Forces. **Post the news of Market coupling the stock had corrected by 25%. A permanent change in the industry structure, as envisaged by the market coupling paper, will lead to a deeper and permanent erosion of hard-earned investor savings.**

   By adoption of market coupling, whereby the key function of price discovery will be taken away, the regulations would be overturning the pitch and eroding the work of 15 years by the current largest exchange. Thus no exchange will be left with any moat. **All this will lead severe drop in business volumes, profits and subsequently stock price.**

World over exchanges evolve in such a manner that one out of the few which start tends to become dominant on the back of superior technology, offerings and subsequent network effect. If that is the path and superstructure which the regulator has created, market coupling will be a complete U turn and a regressive policy.

3. <u>Power exchanges/Industry Structure</u>

- One of the impacts of Market coupling is that Exchanges will lose their ability to attract customers on merit and thus the ability to garner volumes. As a result of this, they will not engage in market making by engaging with and persuading buyers and sellers to participate on their respective platforms for efficient price discovery. Coupling of power exchanges to centralise the bid matching platform (outside the purview of private enterprise) would not leave any incentive for power exchanges to innovate products or invest in technology.

  Our View - Market coupling will lead to undue benefits to the two Exchanges who have not been able to gain substantial market share till date. PXIL started operations in same year as IEX and yet could not garner significant market share. HPX started operations knowing that IEX has the liquidity advantage and yet went ahead with setting up a separate exchange. Market structure was well known before the commencement of the new exchange.

  There is no reason for anyone to invest in an exchange business post market coupling, as it will be a losing proposition as no one can protect their turf. There will be no MOAT left for an exchange.

- **International experience:** There is no international experience of creating market coupling in a national market. Europe had decided to go for market coupling to create a single European market. Infact, Germany saw merger of 2 exchanges to boost the volumes but did not opt for market coupling in the same geography.

  Our view – There is no parallel which can be drawn for our markets. India already has pan India exchanges - IEX, PXIL & HPX.

The Regulator has sweeping power to amend regulations, but in our view, it has to be exercised prudently and in the interest of all stake holders and the development of long-term market. We believe market coupling doesn't aid long term development of the market and is clearly detrimental to all the shareholders (many who have patiently waited for the business to develop) of the existing leader and to new investments in this space. We, thus, do not support market coupling.