When we move to the Euro issue, we are talking about a situation where we are selling abroad. Never mind the fact that the investors do not know the people running the companies. They may be unsure about the currency, the economy, or the customs of the country. It becomes very essential for the management to convince the investor that they are genuine, competent and hard working and will not conceal information from them. This is going to determine the willingness of the Europeans or other investors to invest in India.

One immediate long term effect would be that Indian companies become more professionally managed. You cannot run the company as

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if it is your personal property. There are people abroad who have put money in your hands and expect an accurate and a timely report on how well the company is doing. Selling shares abroad also puts a lot of pressure on the management to improve the amount of information available. Ultimately how well the stock market functions depends on the quality of information available to the investors about the firm. Although the financial press and business analysts also provide information to the investors and shareholders, both existing and potential. India still has not developed the information market.

However, once the quality of financial reporting satisfies the foreign investors it would create the all important “spillover effect” on the companies which have not gone in for the Euro issue. The long run effect would be to provide the same kind of rules to the Indian companies in the market, you would find in the past, most of the large blocks of stocks in the market were held by government financial institutions. If a large amount of shares are being handled by large blocks of stocks and the small investors are less likely to be informed about how the market functions, with the result that the large investors are going to write the rules of trading and exchange. A rise in block trading is going to give rise to the regulatory aspect also. Are we going to go by the old rules or are we going to create new ones? This moment we create a new set of rules for the big players we are going to be subject to criticism.

In fact, it was only about a year ago the Securities and Exchange Commission in the US permitted unregistered securities to be sold in large blocks to Institutional Investors. These investors do not need the government protection of registration of securities before deciding to buy it. This is the first time that the US is incorporating a two tiered regulatory system to keep trading within the US. Prior to this the rules were all focussed on the small investor to give them a fair chance. As a result, they found that many of the large investors were going to the London Stock Exchange because they can do bulk trading there. This two tiered regulatory system can become a very sensitive issue politically.

In a way it is a game that is very difficult to win either by the government or the regulator. No matter which way you go you are going to have a subject to the financial market. The subject of Euro listing is going to give rise to this problem.

Effect of disclosure

Accounting and disclosure rules do differ from country to country. In the US it is the Securities and Exchange Commission and the Financial Accounting Board, which is a private organisation, which sets the accounting and disclosure rules. In most countries it is the government who sets the rules. Though in the UK they have a private board, even that works within the framework of the Companies Act. UK. For international investors this is a crucial factor because every company operates under a new set of rules and makes comparison very difficult. There is an international organisation, the International Accounting Standards Council which consists of representatives from 30 to 40 countries that has been trying to develop an international set of accounting standards in order to provide a minimum common denominator for all countries.

There will now be a greater pressure on Indian companies to adopt the IASC stand. On this basis I would say the foreign investors that our accounting reports have been prepared in a standard that they are already familiar with.

Have you ever wondered why there has been no US issue? It has to do with the inability of most foreign firms to meet the stringent US requirements. Of course, this has caused its own controversy in this country. Most Japanese and German companies do make these funds being available and operated by expectation that the return rate would be very high. But gradually these returns are going to come down. As more and more funds come in and use up all the most profitable business opportunities in India. The result would be that we would have a lot of difficulties investing. The Securities and Exchange Commission have declined to lower their regulatory standards. Currently the big, profitable companies are able to maximize worldwide standards were not permitted to trade in the US market because their financial statements did not meet IASC standards. Eventually, Benz correlated and others.

Therefore, Indian companies thinking of trading in the US market have to pay attention to their stringent laws. Even if we do not meet their standards now we or for companies operating under a new set of rules and makes comparison very difficult. There is an international organisation, the International Accounting Standards Council which consists of representatives from 30 to 40 countries that has been trying to develop an international set of accounting standards in order to provide a minimum common denominator for all countries.

One balance of payment implication that emerges is that if the company does not fulfil the expectation of the investor, the capital coming in would flow out just as easily and foreign exchange reserves would go down.

A country gets rich by putting its money in the most profitable areas. The fundamental function of the stock market is that capital should go to those areas where a high rate of return is expected. Thus, if a public sector company is in a more competitive sector than the private sector, then that is how it ought to be. The reason behind this being that the limited amount of saving or wealth that we have should be put to the best. The investors will expect not only good professional management, well prepared timely, honest financial reports and disclosure of important events but also minimal tender trading at the expense of other shareholders.

As told to S Josse

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