



Strengthening Financial Sectors

**Final Report on Cross Border Listings
for the
South Asian Federation of Exchanges**

R303

Developing Model Listings Regulations



December 2005

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Acronyms, Abbreviations and Notes

ADR	American Depositary Receipts
BSE	Bombay Stock Exchange
CDS	Clearing Depository System
CSE	Colombo Stock Exchange
DR	Depository Receipt
DSE	Dhaka Stock Exchange
FX	Foreign Exchange
GDR	Global Depository Receipt
ISE	Islamabad Stock Exchange
KSE	Karachi Stock Exchange
LSE	Lahore Stock Exchange
MOU	Memorandum of Understanding
NSE	National Stock Exchange, India
RBI	Reserve Bank of India
SAFE	South Asian Federation of Exchanges
SEBI	Securities and Exchange Board of India
SECP	Securities and Exchange Commission of Pakistan

Executive Summary

Introduction

This final report forms the conclusion of Phase 2 of the SAFE project on “Developing Model Listings Regulations”.

The consultant visited the following four SAFE countries in November and December 2005: India, Pakistan, Bangladesh, and Sri Lanka. He also met with a delegation from the Securities Board of Nepal, whilst he was in Bangladesh.

In each country the consultant held discussions with the SAFE member stock exchanges, Ministries of Finance and Central Banks, Securities Regulatory bodies, a small cross section of listed issuers to discuss cross border listing, and a small cross section of market intermediaries to discuss potential investor interest in cross border trading. The listed issuers and intermediaries were identified by the stock exchanges in each country.

Overall Conclusions

The SAFE member countries are all experiencing encouraging economic growth and are in the process of liberalising their economies. However significant restrictions on cross border linkages still remain – primarily in the areas of foreign exchange controls and restrictions on inward foreign investment.

Although these restrictions are being lifted gradually, there is a general lack of market inter-linkages at this stage and very limited interest in any form of cross border listing and/or trading within the SAFE member countries.

A very low percentage of the population in each country (less than 5%) hold any form of securities and so there is very low demand for cross border investments at this time. To the extent that investors are looking overseas they are seeking diversification into Western markets, or the Gulf or South East Asia, rather than the neighbouring SAFE member countries.

On the other hand, there is a good understanding of the benefits that greater linkages between these developing markets can bring, and a general eagerness to see cross border trading develop as soon as possible and further linkages (e.g. cross border listings) develop in due course.

The stock market capitalization of listed companies in the four SAFE member countries visited is, in total, around US\$550 billion, which is around 1% of world market capitalization (approximately US\$50 trillion). Excluding India (US\$500 billion), these markets are just too small on their own to attract much global investment. There is therefore a need for more integration of these markets and a need to develop securities that cover the entire SAFE region, in order for them to compete effectively for global capital flows.

Our Recommendations

Based on our study, we make the following recommendations for immediate action by SAFE:

1. SAFE should complete the Harmonization of Disclosure Norms project that was started in August 2005 and produce a set of new Listing Regulations that are agreed

- by each member exchange and submitted to the regulators in each country with a view to providing common disclosure standards for cross border listings in future;
2. The securities regulators in each SAFE member country need to become part of SAFE;
 3. SAFE should set up a Securities Institute program. It is hard to get visas for SAFE member nationals to travel to other member countries for training (e.g. to the BSE Training Institute in Mumbai). Instead, it would be good if SAFE could organize programs in each member country on things like: minimum standards for brokers; what are derivatives, disclosure standards, etc – using SAFE as the brand name;
 4. SAFE needs to issue a series of regional publications – like the BSE Securities Review - that cover the SAFE member economies and exchanges. SAFE could also prepare and issue technical “how to” guides on securities market subjects (e.g. Mergers & Acquisitions, valuing securities; charting, etc.) i.e. subjects that are universal in all SAFE member countries
 5. The exchanges and regulators in each SAFE member country need to establish comprehensive MOUs between themselves and the exchanges/regulators in each of the other member countries, to provide for the proper regulation of cross border business, as it develops, and appropriate enforcement of those regulations across borders;
 6. SAFE should explore the idea of setting up a regional index which can be licensed to the member exchanges for trading futures and options contracts on the index;
 7. SAFE needs to actively lobby governments and state banks for liberalisation of foreign exchange regimes – at least to permit individuals to make cross border investments in securities that are listed in other SAFE member countries;
 8. The SAFE member countries need to deepen the institutional investor base (e.g. through the growth of life insurance companies with long term liabilities which tend to take longer term investment views). SAFE should lobby governments to open up these sectors to more foreign investment;
 9. Given the existing linkages and the growth in the Gulf region, SAFE should invite the DIFX and DGCX to join SAFE; and
 10. SAFE should organise a donor conference in Q1 2006 to secure further funding for SAFE.

Introduction

This final report forms the conclusion of Phase 2 of the SAFE project on “Developing Model Listings Regulations”. The objectives of this element of Phase 2 have been to identify for SAFE:

1. any regulatory or other obstacles to cross border listing;
2. potential demand from issuers to list their shares in other countries in SAFE; and
3. potential demand from investors to trade securities from another SAFE country.

The consultant visited the following four SAFE countries in November and December 2005: India, Pakistan, Bangladesh, and Sri Lanka. He also met with a delegation from the Securities Board of Nepal, whilst he was in Bangladesh.

The information required under point number 1 above was obtained through discussions with the SAFE member stock exchanges, regulators, Ministries of Finance and Central Banks, and issuers in each of the four countries.

The information required under points numbered 2 and 3 above was obtained by meeting with (1) the SAFE member exchanges, regulators and a small cross section of issuers identified by the four stock exchanges to discuss cross border listing and (2) meeting with a small cross section of market intermediaries to discuss potential investor interest in cross border trading.

The exchanges, regulators, listed companies and intermediaries were each given a questionnaire ahead of the meeting, which was designed by ISC to establish the level of commitment to cross border listing and cross border trading in each country visited. A copy of the questionnaire is set out in the Appendix. In some cases the questionnaire had been completed in advance by the interviewee. In all cases, the questionnaire was used as a guide during the interview and not a detailed script.

It is important to note that the interviewees are a cross-section of intermediaries and listed issuers in each country, selected by the stock exchanges, and are not a scientifically significant “representative sample”. The primary data collect by the consultant thus represents “exploratory research” regarding the level of commitment to cross border listing and cross border trading in each country visited.

A list of the people interviewed, together with the interview notes and completed questionnaires received are set out in the accompanying document entitled “Primary Research Data”.

Forms of Cross Border Listings

Cross border listings come in two forms. A company can engage a foreign depository to establish a depository receipt program in the depository’s home market, or the company can list its shares directly on a foreign stock exchange.

Direct Listings

An issuer may take a direct listing for its securities on the foreign market. In such cases the securities will trade in all respects like the securities of a domestic company in that market.

However, the issuing company must meet all the regulatory and disclosure requirements of each of the markets where it lists securities.

In 1998, DaimlerChrysler pioneered a new form of security called a Global Registered Share (GRS). DaimlerChrysler's GRS were simultaneously listed on 21 stock exchanges around the world and took cross border listings to a new level. Companies such as UBS and Deutsche Bank have subsequently followed DaimlerChrysler's lead. GRS require electronic links between the relevant CDS, close co-operation between transfer agents and a global share register, in order to enable trading, settlement and seamless, fungible transfer between markets.

Depository Receipts

The most common structure for a depository receipt is for a depository bank to acquire the shares of a foreign company (either in the local market for those shares or directly from the issuer), deposit those shares in a custodian, and then issue certificates to investors in the depository bank's home jurisdiction which certificates represent a contractual interest in the underlying shares.

The majority of all non-US companies that list their shares on US exchanges do so through depository agreements with US banks. Depository receipts facilitate low-cost investment in companies that trade on an overseas stock exchange without the inconvenience of accessing the overseas stock exchange directly. Depository receipts can be traded and settled in the domestic market, in the investor's domestic currency.

All of the four countries visited have seen domestic issuers make DR issues (which are either listed in Luxembourg/London or the US). During the early 1990s there was considerable investor interest in emerging markets generally and several DRs from SAFE member countries were issued. Apart from some 70 remaining Indian issuers with GDRs, these issues were generally failures, with investors converting the DRs back into the underlying securities as quickly as possible. However, in the last 12 months there have been a number of successful new DR issues as follows:

Bangladesh: Beximco Pharma (Oct 2005, listed on the London Stock Exchange) – the first ever GDR issue by a Bangladesh company

India: India Cements Ltd., Gateway Distriparks Ltd., Centurion Bank, Bharat Forge and Bajaj Hindustan

Pakistan: NBP, Hubco. and PCTL. Oil and Gas Development Company Limited – government reportedly considering making GDR issue of some of its remaining holdings

Sri Lanka: Hatton National Bank

Indian Depository Receipt (IDR) Program

The Indian Depository Receipt (IDR) is a new policy initiative of the Indian government and SEBI. The idea is to have the framework in place for foreign companies to issue IDRs in India and raise capital there. The Ministry of Company Affairs has approved "entry norms" for such issues but SEBI is still working on the implementing regulations (e.g. model disclosure rules and model listing agreement for NSE and BSE). The entry norms are very high (the foreign issuer must have average turnover of US\$500m in the last 3 years and paid up capital and free reserves of US\$100m) – so the program is not really aimed at companies from neighbouring SAFE member countries. With such high entry norm the programme seems to be aimed at foreign companies that have BPO operations in India and want to raise their profile in that country.

SEBI is discussing with the Indian government the idea of lower entry norms for South Asian Association for Regional Co-operation (SAARC) members. FX approval will be provided by RBI for the IDR program – so the issuer can take the proceeds of the issue out of India.

This IDR regime will take months not weeks to finalise. The concept has been discussed in the market but there exists no list of companies lined up to do it.

The IDR concept is not attractive to other SAFE member countries since they stand to lose trading volume on their exchanges.

SAFE Regional Overview

The SAFE member countries are all experiencing impressive economic growth and are in the process of liberalising their economies. However significant restrictions on cross border linkages still remain – primarily in the areas of foreign exchange controls and restrictions on inward foreign investment.

Although these restrictions are being lifted gradually, there is a general lack of market inter-linkages at this stage and very limited interest in any form of cross border listing and/or trading within the SAFE member countries.

Amongst the four countries visited, trade relations and economic growth are heavily effected by political instability and disputes, such as the ongoing Indo-Pakistan conflict, an ongoing border dispute between India and Bangladesh, an Islamic insurgency in Bangladesh and a civil war in Sri Lanka.

The most significant of these is the Indo-Pakistan issue. Ever since the partition of the sub-continent in 1947, India and Pakistan have been political rivals. The animosity has its roots in the centuries old conflict between Hindus and Muslims and is dominated by the long-running conflict over the state of Jammu and Kashmir. There have been two Indo-Pakistani wars and, in recent years, the tension has even escalated into a nuclear arms race. In May 1998, India conducted underground nuclear tests in the western desert state of Rajasthan near the border with Pakistan. In response, Pakistan conducted six tests in Baluchistan. In October 1999, General Pervez Musharraf led a military coup in Pakistan, deposing the elected Prime Minister Nawaz Sharif. Foreign investment in Pakistan dried up after the nuclear test denotations, but is gradually returning now.

Over the past couple of years, India's relationship with two major powers once closely allied with Pakistan has changed. India and the US have developed a closer economic and political relationship and India has also improved ties with China - again using economic ties to foster an improved political relationship.

Partly as a result of this, relations between Pakistan and India are improving. A ceasefire was drawn up in 2004 and earlier this year the prime ministers of each country met and agreed to build trade and business ties. However, market linkages are still very difficult to establish and there are no existing direct linkages in the securities markets.

The stock market capitalization of listed companies in the four SAFE member countries visited is, in total, around US\$550 billion, which is only around 1% of world market capitalization (approximately US\$50 trillion). Excluding India (US\$500 billion), these markets are just too small on their own to attract much global investment. There is therefore a need for more integration of these markets and for the development of securities that cover the entire SAFE region, in order to compete effectively for global capital flows.

India Profile

Population: 1,080,264,388 (July 2005 est.)¹

GDP: US \$3.319 trillion (2004 est.)²

GDP Growth rate: 7.5%

Listed Companies: Over 5,000 in total. Approximately 2,600 are actively traded.

Market Capitalisation: US\$500 billion³

IPO's in 2005: over 70

India is experiencing healthy growth and a solid macro-economic environment. The SENSEX index is trading above 6,000 having risen significantly YTD in 2005. It is one of the fastest growing emerging market economies.

India has been liberalizing its economy over the last 10 years through relaxation of restrictions on Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). In addition, there have been privatizations of public sector entities. With strong foreign currency reserves, there has also been a relaxation of outward investment restrictions and individuals are now permitted to invest up to US\$25,000 each outside of India. Despite this new measure, however, few Indian investors are making investments outside of the thriving domestic economy, and very few currently appear to be interested in other SAFE member countries. Companies are still required to seek prior approval for overseas investments, but there is now an accelerated approval route (which does not involve the Investment Board).

In a recent A.T. Kearney survey of global executives regarding their most-preferred destinations for foreign direct investment, two emerging market nations, China and India, ranked higher than the US.⁴

Within the South Asian region, India is emerging as a regional leader in financial services. Since the launch of the National Stock Exchange (NSE) in 1992, the country has moved to fully automated trading and fully electronic (de-materialized) settlement of all securities trades. The NSE now operates a highly successful derivatives market, with futures and options on stocks and stock indices. Although the NSE now dominates equity, debt and derivatives trading, the Bombay Stock Exchange (BSE) continues to play an important role. The other 20 or so regional exchanges, on the other hand, have largely become irrelevant and many are now becoming subsidiary members of the NSE and/or the BSE and thus enabling their members to trade on one or both of the national exchanges. This consolidation in the securities market has been good for the market and concentrated liquidity in the fully electronic and well regulated national markets.

Pakistan Profile

Population: 162,419,946 (July 2005 est.)⁵

GDP: US \$347.3 billion (2004 est.)⁶

GDP Growth rate: 8%

Listed Companies: 662

Market Capitalisation: US\$39.5 billion⁷

IPO's in 2005: over 16

¹ Source: CIA World Factbook

² *ibid.*

³ World Federation of Exchanges, Nov 2005 (BSE: US\$503,700 mil; NSE: US\$469,862 mil)

⁴ A.T. Kearney FDI Confidence Index

⁵ *ibid.*

⁶ *ibid.*

⁷ KSE

Pakistan is emerging from a period characterized by political instability. Foreign investment slowed noticeably following the nuclear test denotations in 1998 and most foreign investment banks withdrew from Pakistan at that time.

However, over the last 3 years the country has achieved greater political stability and, along with economic liberalization, is now experiencing growth in the economy. The government is privatizing many state owned enterprises and allowing foreign investment in them (e.g. PCTL and Union Bank Limited). Pakistani individuals are allowed, in theory, to buy foreign exchange and invest outside Pakistan, but other than buying real estate in Dubai, few investors are actually investing outside Pakistan (and few in other SAFE countries). Companies are still required to seek prior approval for overseas investments, and this is still a very beaurocratic process (which involves the Economic Council).

Foreign interest in Pakistan is growing and the KSE index is above 9,000 having grown significantly YTD in 2005.

Severe constraints on travel and business links with India remain, as a legacy of 2 wars and continuing tensions over the disputed region of Jammu and Kashmir. Although there are many cultural and family linkages between the two nations, and they share a common border, there are few economic inter-linkages between the two. As a result, Dubai and the Gulf have become a hub that provides a neutral place to do business. Pakistan thus has many business links with Dubai and companies are now considering issuing DRs in Dubai and listing on the DIFX.

The securities markets in Pakistan have been modernizing and all trading is fully automated with electronic (dematerialized) settlement. However, the market remains fragmented between the Karachi Stock Exchange (KSE), the Lahore Stock Exchange (LSE) and the Islamabad Stock Exchange (ISE), with the KSE dominating the trading volumes. The LSE and ISE have recently agreed to merge and ultimately it makes sense to have one national stock exchange in Pakistan.

A new derivatives exchange has been proposed, owned by the existing stock exchanges three stock exchanges and some banks, but it is yet to start operations.

Bangladesh Profile

Population: 144,319,628 (July 2005 est.)⁸

GDP: US \$275.7 billion (2004 est.)⁹

GDP Growth rate: 5.4%

Listed Companies: 284

Market Capitalisation: US\$3.6 billion¹⁰

IPO's in 2005: 13

Bangladesh has experienced political instability and is now fighting a terrorist insurgency. However, Bangladesh's finance minister forecasts that the economy will grow more than 7% this financial year, a record, despite a deadly bombing campaign by Islamic militants. With regard to inward investment, Bangladesh is more liberal than other SAFE countries. Foreigners may invest without restriction and there is 100% convertibility for proceeds of sale and dividends. There are no percentage limits on foreign holdings, except in respect of

⁸ *ibid.*

⁹ *ibid.*

¹⁰ DSE

some very limited sectors (e.g. forestry and arms manufacture). However, there is currently little inward foreign investment.

Outward investment is possible in theory but not much occurs in practice.

There has been no interest in cross border listings and only a very few Bangladesh companies would be suitable for listing in say India or Pakistan. However, a successful GDR issue by Beximco Pharma in October 2005 on the London Stock Exchange is the first ever such issue by a Bangladesh company.

Sri Lanka Profile

Population: 20,064,776 (July 2005 est.)¹¹

GDP: US \$80.58 billion (2004 est.)¹²

GDP growth: 5-6 %

Listed Companies: 239

Market Cap: US\$6 billion¹³

IPOs in 2005: 6 new listings this year. 2 IPOs and 4 introductions. Dialog was big IPO (Malaysian parent co). RP 135 billion market cap.

Inward investment is very open – Share Investment External Rupee Accounts (SIERA) are fully convertible for companies and individuals (including Sri Lankan nationals overseas). Foreign investors can hold 100% of most businesses, except some limited sectors (e.g. Money lending and coastal fishing – 0%; plantations, mining, shipping or travel agencies limited to maximum of 40%). This is the most liberal inward investment regime of the 5 SAFE member countries studied.

On the other hand, outward investment is very restricted – all capital account investments must be pre-approved by the MOF on a case-by-case basis. No liberalization for individuals investing outside Sri Lanka are currently proposed. However informal leakage is apparently very efficient.

2 GDR issues have been made. The first by John Keels Holdings was apparently not a success – all the DRs were converted back into the underlying. More recently, Hatton National Bank has listed a GDR in Luxembourg.

Sri Lanka struggles to attract foreign investment because of the civil war, it is much smaller than its nearest neighbour, India and there has not been as much economic growth.

However, there are examples of cross border linkages developing with India:

1. Lanka IOC, the Sri Lanka subsidiary of a large Indian listed company has listed on the CSE;
2. members of the CSE have had commercial relationships with Indian brokers in the past;
3. the CSE is currently working with the NSE to launch a derivatives market in Sri Lanka; and
4. a Comprehensive Economic Partnership Agreement (CEPA) is now being negotiated between India and Sri Lanka which may allow for equivalent treatment in the banking, insurance and capital markets areas – on a reciprocal basis.

¹¹ *ibid.*

¹² *ibid.*

¹³ CSE

Cooperation between Exchanges required to stay Competitive

A May 2005 report by Financial Insights¹⁴ examines the Asian exchange dynamics and discusses some of the pressures facing the exchange community. Entitled "Dynamic Transformation at Asian Exchanges", the report also highlights the challenges Asian exchanges encounter and explores what the future possibly holds for those vying to take advantage of opportunities in the region.

In the report, Li-May Chew, CFA and Senior Research Manager for Financial Insights Asia/Pacific Capital Markets Advisory Service, points out that "the regional trading venues have undergone multiple layers of transformation as they transition from an era of monopolies to a new era marked by globalization, competition, and technological innovation. Asian exchanges have been responding by placing more emphasis on cross-border listings and alliances, widening their product offerings, and improving regional trading linkages."

However, the exchanges face distinct threats to their existence, amongst them being rivalry from their peers and risk of broker internalization. Other obstacles impeding growth include the substantial investment required to keep pace with the unrelenting advancement in technology, differing supervisory standards, and restrictive government policies which have negative ramifications on exchange development. An example of such policies is the foreign exchange control restrictions in SAFE member countries, which severely constrain cross border capital flows.

Financial Insights see exchanges increasingly looking to strategic alliances as commercial strategies to stave off competition. Today, the Asian region's equity markets comprise approximately 18% of total world market capitalisation, with Asia-Pacific excluding Japan at just 9% of the world's total. By way of contrast, the US markets comprise 47% of global market capitalization, with Western European markets comprising 27%. Since Asia/Pacific exchanges still face considerable competition from their much larger global counterparts, integration is particularly useful for smaller exchanges to build critical mass.

"Fragmented liquidity pools imply that Asian exchanges have to strive harder to appeal to institutional investors and attract global funds. But by combining their strengths and achieving efficiencies not otherwise possible in silos, the region has better prospects to compete on level ground with more established global exchanges for the same pool of order flow," points out Li-May.

Analysis of Primary Research Data

Methodology

- Interviews were conducted with a cross section of exchanges, regulators, intermediaries, listed companies and other stakeholders.
- In some cases the questionnaire had been completed in advance by the interviewee. In all cases, the questionnaire was used as a guide during the interview and not a detailed script.
- It is important to note that the interviewees, a cross-section of intermediaries and listed issuers in each country selected by the stock exchanges, are not a scientifically significant "representative sample". The primary data collect by the consultant thus

¹⁴ Dynamic Transformation at Asian Exchanges (Financial Insights, FIN1600, May 2005)

represents “exploratory research” regarding the level of commitment to cross border listing and cross border trading in each country visited.

- The purpose of the interviews was primarily to assess: 1. any regulatory or other obstacles to cross border listing; 2. potential demand from issuers to list their shares in other countries in SAFE; and 3. potential demand from investors to trade securities from another SAFE country, and to determine whether more detailed primary research is required.

Interview Highlights

The following points are the key “take-aways” or highlights from the interviews.

Demand for Cross Border Listing

There is very limited demand for cross border listings at this time. SAFE member exchanges are generally interested in having companies from other member countries to come and list on their exchange, but are not so keen to see domestic companies going to list in other countries.

Each of the four countries visited have seen ADR/GDR issues by domestic companies. In the past, only India has had any success with DRs issued and listed overseas, but in the last 12 months Bangladesh, Pakistan and a Sri Lanka have seen companies successfully issue GDRs (with more issues planned).

Demand for Cross Border Trading

All of the SAFE member exchanges interviewed are interested in encouraging cross border trading. Obviously, they would like investors in neighbouring countries to be able to trade on their exchange.

A very low percentage of the population in each country (less than 5%) hold any form of securities and so there is very low demand for cross border investments at this time. To the extent that investors are looking overseas they are seeking diversification into Western markets, or the Gulf or South East Asia, rather than the neighbouring SAFE member countries.

Benefits of Cross Border linkages

In Pakistan there is a strong desire to see some larger Indian companies available for trading in Pakistan, especially in those sectors that are lacking in Pakistan (e.g. IT and Pharma) in which India is stronger. This would create a much broader range of securities for Pakistani investors.

Interviewees realise that cross border trading would deepen and broaden the capital markets in each SAFE member country.

Disadvantages of Cross Border linkages

If the domestic exchange has limited liquidity, then cross border listings may reduce trading as some liquidity migrates to the other exchange(s). Even if only the largest companies take cross border listings, a migration of liquidity can have negative effects for the remaining local stocks.

The stock exchange in the country receiving the listing may benefit to the detriment of the stock exchange(s) in the country were the cross listed issuer comes from.

Foreign Exchange Controls

Country	Inflows	Outflows
Bangladesh	Foreigners (both individuals and companies) may invest without restriction. 100% convertibility for proceeds of sale and dividends.	Investors need State Bank approval to open a FX account. Banga investors are only making limited investments in HK and US but none in SAFE region.
India	SCRA accounts allow only specific foreign institutions (FIIs) to invest in India with full convertibility of dividends and proceeds of sale. 30 day minimum holding period applies. Individuals may not open an SCRA account. Indian companies are permitted to raise foreign currency resources through the issue of Foreign Currency Convertible Bonds (FCCBs) and/or issue of ordinary equity shares through Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) to foreign investors i.e. institutional investors or individuals (including NRIs) residing abroad, with the prior permission of the Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi.	Individual Indian investors may now invest up to US\$25,000 per year outside India. The Remittance Scheme freely permits remittance for portfolio investment by individuals without restrictions. Mutual Funds may also invest outside India (to diversify their portfolio) up to US\$15 mil. or [] %.
Nepal	No mechanisms exist to enable foreign investment or assure convertibility for proceeds of sale and dividends.	State Bank approval required for all outward investments.
Pakistan	SCRA accounts allow both individuals and foreign institutions to invest in Pakistan with full convertibility of dividends and proceeds of sale. No minimum holding period.	Individual Pakistani investors are permitted to buy foreign exchange for any purpose, but main outflows are for real estate investments rather than for securities. Individual must apply to an Authorised

		Dealer for the foreign currency and the Authorised Dealer reports to the State Bank. The State Bank's F.E. Manual states that "Prior approval of the State Bank is now required for investment abroad by residents." Pakistani companies are not allowed to invest abroad without State Bank prior approval. State Bank is being more liberal with approvals, but over US\$5 mil requires ECC consent. State Bank is proposing opening up to allow mutual funds to invest overseas (as India has done) – 30% or US\$15 mil.
Sri Lanka	Share Investment External Rupee Accounts (SIERA) are fully convertible for companies and individuals (including Sri Lankan nationals overseas)	All outward investments must be pre-approved by the MOF. Case-by-case approval process. Priority is given to those investments that will generate FX.

Restrictions of Foreign Investment

Country	Inflows
Bangladesh	No % limits except in some very limited sectors (e.g. forestry and arms manufacture)
India	Foreign investment is restricted in many sectors, but are being liberalised. The average is 49%, and range from 20% to 100%. E.g. Banking and Telecoms can be up to 49% foreign owned and IT can be 100%.
Nepal	
Pakistan	No restrictions on foreign investment (except in four specified sectors) but investors must report all holdings to the State Bank.
Sri Lanka	No percentage limits except in some very limited sectors (e.g. fishing, plantations and tourism – with 40% limit).

Regulatory Restrictions

Apart from the FX restrictions and foreign investment restrictions, there are some other major regulatory impediments to the development of cross border linkages.

For example, the Company laws and/or Listing Regulations of several countries require that a company must be incorporated in that country in order to be listed. For example, in Sri Lanka, IOC Lanka was able to list only because it is a subsidiary of IOC and is incorporated in Sri Lanka. The parent company, IOC, which is an Indian company, would not be able to

list on the CSE. Similarly in Pakistan, the exchanges may only list domestically incorporated companies at the moment.

Similarly, broker members of the SAFE member exchange must be locally incorporated entities, although in most of the countries visited the domestic brokerage company could be 100% foreign owned.

In Pakistan, Section 62A of the Companies Ordinance states that a Pakistani company must get SECP approval for each issue of shares outside Pakistan.

Practical Restrictions

In a cross border trade the clearing and settlement issues are more complex than for domestic trades. This is because the investor must take delivery of the security in a foreign securities depository (CSD). This means that the investor must be linked, either directly or indirectly, to the foreign CSD. Because most institutional investors use a custodian the custodian must be linked to the foreign CSD or the domestic CSD must have an electronic link to its foreign counterpart. At the moment there are no such cross border links between CSD in the SAFE member countries.

Alternatively, securities may be deposited in a regional CSD that, unlike a purely domestic CSD, holds international securities from several countries and has electronic links to the domestic CSD in each of those countries. Again, there is currently no SAFE regional CSD.

In addition, settlement problems would arise from the differences across SAFE member countries in settlement cycles (the time between trade execution and settlement), which range from T+3 to T+7, and in domestic currencies. As a result, the highest cost of investing in cross border securities in the SAFE region will be the settlement costs.

Another practical restriction is that the regulators do not currently have comprehensive MOUs between countries. This leads to concerns about the level of regulation in each country and how regulators in one country could enforce their domestic regulations against a broker from another SAFE member country, assuming that brokers who are licensed in one member country are permitted to carry on business in other member countries.

Key issues that need to be addressed before cross border trading can develop include:

1. How to get simultaneous disclosure of company/price sensitive info on all markets?
2. Trading arrangements. What currency? Local or US\$?
3. Settlement arrangements – each market has different standards (T + 3 – 7). Could we establish a new central depository for cross border issues?
4. Markets have different holidays (some dates move based on when the moon appears).

The Growth of Dubai and the Gulf Region

Dubai is now seeking to play a greater regional role through the launch of The Dubai International Financial Exchange (DIFX) and the Dubai Gold & Commodities Exchange (DGCX). The DIFX was officially launched in September 2005 and the DGCX was launched in November 2005. The DIFX is intended to be a world-class financial exchange and is already listing international securities. Both the DIFX and DGCX have several trading members. The DGCX is a derivatives market.

The DIFX forms the centrepiece of the Dubai International Financial Centre (DIFC), a state-run financial free zone, with its own laws and regulations, designed to create a unique financial services cluster economy for wealth creation initiatives. The DIFC itself was launched in September 2004 and has already seen over 70 companies licensed to operate from the centre; these include Merrill Lynch, Credit Suisse, Barclays Capital, Standard Chartered, Deutsche Bank and AIG.

Pakistan, India and Sri Lanka have many economic ties with Dubai, and the Gulf has played a special role as neutral third-party for trading between India and Pakistan. Accordingly, some intermediaries expressed a growing interest in listing securities or DRs on the DIFX, with a view to attracting higher valuations than are available in the domestic markets. This view was particularly prevalent in Pakistan.

In India, Pakistan and Sri Lanka there are intermediaries that have set up offices or subsidiaries in Dubai, some to join the new DGCX.

Given these existing linkages and the growth in the Gulf region, some interviewees suggested that it may be sensible to invite the DIFX and DGCX to join SAFE.

Issuer's Viewpoint

The consultant interviewed some listed issuers, some intermediaries owned by listed parent companies, and some merchant banks that advise listed issuers and companies seeking a listing, in each country.

The overwhelming feedback is that cross border listings are not on anyone's agenda at the moment.

The closest thing to cross border listing at the moment is DR issues. In most cases, issuers in SAFE member countries are looking to list DRs in Europe or the US. However, in Pakistan there is currently considerable interest in listing DRs in Dubai.

This lack of interest is not surprising given the current barriers to cross border listing and the low level of securities market inter-linkages that exist at the moment.

The main benefits of pursuing a cross border listing are access to a broader investor base and increased marketability of an issuer's securities. A cross-border listing can help a company target new shareholders for fresh capital. The primary objective of a cross border listing, therefore, is the financial goal of reducing the cost of equity capital for the issuer.

Compliance with the foreign reporting requirements can impose major additional costs and is perhaps the greatest disadvantage of a cross border listing.

Perceived Benefits of a Cross Border Listing

In the context of SAFE member countries the perceived benefits of cross border listings can be analysed as follows:

Does a SAFE cross border listing enable a company to access a broader range of investors?

Not completely – due to the existing foreign investor restrictions.

Does a SAFE cross border listing increase the marketability of a company's securities?

Yes.

Does a SAFE cross border listing lead to an increase in the market price of a company's securities?

Not necessarily, it may be other way round, since the market operates on supply and demand and other factors including quality of company's securities.

Does a SAFE cross border listing add prestige to a company's profile?

Yes. E.g. IOC Lanka

Does a SAFE cross border listing raise a company's profile with investors in the foreign market where it lists?

Yes. E.g. IOC Lanka and GDRs

Does a SAFE cross border listing raise consumer's knowledge of a company and its products in the foreign market where it lists and ultimately raise sales volume?

There are still major restrictions on doing business between India and Pakistan – which restricts the extent to which a cross border listing between these two economies (the largest countries in SAFE) is beneficial. There is not sufficient cross border business between India and Bangladesh to drive cross border listings.

On the other hand, there is a lot of business and cultural ties between India and Sri Lanka. E.g. IOC Lanka listed on the CSE to raise its profile as a Sri Lankan company and recent newspaper reports suggest that Brandix, a textile company, has opened a factory in India and is looking to list on the NSE in India as it becomes more Indian in outlook.

Does a SAFE cross border listing assist a company to recruit and retain employees in the foreign market where it lists by enabling it to create employee option programs?

Yes, it may assist recruitment and retaining of employees in the foreign market although share options schemes are not so well entrenched in SAFE member countries.

Does a SAFE cross border listing enable a company to participate in more mergers and acquisitions in the foreign market where it lists?

Yes, subject to compliance with the legal and regulatory requirements of the respective countries.

Ideas Raised to Encourage Cross Border Linkages

Harmonised Disclosure Norms

The KSE is working with the BSE to get a set of standardized Listing Regulations for overseas companies to list in each market. Work started at the Regional Markets Committee meeting of SAFE held at the BSE in August 2005. The KSE, BSE, DSE and the stock exchanges in Nepal and Bhutan have already prepared a "comparative review" of their disclosures requirements. The CSE is in the course of completing the document on its listing

rules. The idea is to establish a separate set of new, harmonized regulations that will enable the listing of an overseas company from another SAFE member country on any of the exchanges. Having harmonized disclosure rules will considerably reduce the cost for any company that wishes to list on more than one market in the SAFE region.

The project is now awaiting a decision from SAFE on the next steps.

SAFE Regional Mutual Fund

In 2001, the CSE raised the idea of a SAFE regional mutual fund in a letter sent to SAFE members. Each member country would launch a domestic mutual fund, which raised capital locally. These domestic funds would each invest in a Mauritius based offshore fund. The offshore fund would then invest back into the SAFE member countries, with the amount invested in each country being exactly proportional to the amount raised in that country. Whilst the domestic funds would each have to get FX consent to invest in the offshore fund, the net FX effect would be zero, since that amount would be invested back into the country.

Cross Border Trading

Many exchanges and intermediaries interviewed suggested that cross border listings would take too long to arrange and that cross border trading should be encouraged first. The Euronext concept from Europe was often cited as a role model for SAFE, with licensed brokers in one market able to trade on the exchanges in other SAFE member countries.

Cross Membership Arrangements

Several exchanges expressed a strong desire to see cross memberships between the exchanges. This would certainly encourage cross border trading to develop.

The CEPA agreement between India and Sri Lanka is slated to provide that banks and securities brokers from each country will have equal rights in the other country as domestic institutions, but the details of this concept are yet to be finalised.

Asian Regional Development Initiatives

The members of The Association of Southeast Asian Nations (ASEAN), of which Indonesia, Thailand, Malaysia, and Singapore have the largest economies, have a combined gross domestic product of US\$800 billion and a population of 558 million. The 10 members of ASEAN last year agreed to accelerate tariff cuts to form a common market by 2012. In addition, ASEAN last year signed an accord with China to create the world's biggest free trade area of 1.8 billion people by 2010, and is pursuing similar deals with India, Japan, South Korea, Australia and New Zealand.

A new era is about to unfold in the relationship between India and these ASEAN countries. An India-ASEAN free trade zone will be the largest in the world and, at the time of writing this report, there is an India-ASEAN summit and the first East Asia summit being held with a view to establishing such a free trade zone.

In addition, the South Asian Association for Regional Co-operation (SAARC) groups together Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. In January 2004, the members of SAARC signed a landmark deal to create a South Asian Free Trade Area (SAFTA), with 1 January 2006 set as the deadline for implementation. However, the SAFTA is not expected to become fully operational until 2016.

Case Study: Singapore – Malaysia

Prime Minister Lee Hsien Loong has recently stated publicly that Singapore's plan to establish cross border trading of securities with Malaysia should be expanded to other Southeast Asian countries.¹⁵ The Singapore Exchange, which runs the island's securities and derivatives market, said in January of this year that it intends to have a trading tie-up with Malaysia ready by the end of next year.

"This is good for both countries," Lee told businessmen in Kuala Lumpur, where he was attending a meeting of Southeast Asian leaders and their major trade partners in the Asia-Pacific region. "I hope that over time, we'll be able to do that with other capital markets in [ASEAN]."

The stock market capitalizations of listed Malaysian and Singaporean companies are both less than 0.5% of global market capitalization. These markets are too small to attract many global investors, which should prompt ASEAN's "key cities" to offer shares covering the entire region, Lee said.

The planned Malaysia-Singapore tie-up comes six years after the two exchanges fell out in 1998, when Malaysia banned trading in about US\$3.6 billion (HK\$28.08 billion) of shares of Malaysian-based companies on a Singapore over-the-counter market. The ban came a day before Malaysia's government imposed capital controls to stem a slide in its currency, the ringgit.

New Ideas to Encourage Cross Border Linkages

Relaxation of Foreign Exchange Controls

It is clear that further cross border linkages cannot develop unless and until there is further liberalisation of the foreign exchange control regimes in SAFE member countries.

As a minimum, member countries should follow India's lead and permit individuals to make cross border investments. This can be done in a controlled way, with an upper limit of say US\$100,000 per person and/or an initial restriction that the investment must be in securities that are listed in other SAFE member countries. This latter restriction ensures that the outward investment will not be easily lost in some speculative venture, and helps ensure that the investment earns future FX, in the form of dividends and proceeds of sale.

Correspondent Brokerage Arrangements

As a first step towards enabling cross border trading, there need to be correspondent broker arrangements between licensed intermediaries in the SAFE member countries.

"Subsidiary" Cross Border Memberships

The way in which regional exchanges in India have joined one or both of the 2 national markets as corporate members could be a good role model for cross border memberships. For example, the CSE could join the NSE and BSE as broker member and thus allow each of its domestic members to trade on those exchanges through one "omnibus" account.

SAFE Regional Index

¹⁵ Yahoo News. Monday December 12 2005. "SINGAPORE PRESS: PM Pushes For Cross Border Share Trade"

One way to “leapfrog” the existing constraints on cross border linkages is to create a SAFE Regional Index. This would be an index comprising a basket of the top SAFE regional stocks (e.g. 15 Indian companies, 10 Pakistani companies and 10 stocks from the other member countries). The index could be computed by SAFE (or another independent third-party) and made available (by license) to each SAFE member exchange for the purpose of futures contract trading. This concept provides a regional security, but avoids currency issues since each market has its own local contract on the one index.

Key issues to be determined:

1. Who will compute the index?
2. What are the rules for constituent stocks?
3. Will it be a market weighted or free-float weighted index?
4. What will be the contract terms?
5. Which exchanges would be licensed to use the index?
6. How to ensure simultaneous disclosure of company information? – e.g. central collection entity and one web site for dissemination? Links to Bloomberg and Reuters.
7. Risk management – for each market on their own contracts.

The Role of SAFE

Since cross border listing and trading is a long term goal, SAFE also needs to work on issues where there is more scope for immediate co-operation and not so many legal and regulatory barriers.

SAFE must deliver benefits to its members in return for their investments of time and money, so that the member exchanges continue to take it seriously as an organization. For example, at the moment the NSE in India does not attend SAFE meetings because it may not yet see the worth of the organization and it considers that cross border listings are unlikely.

Many of the issues confronting SAFE involve closer regulatory co-operation between the SAFE member countries. This requires that the securities regulators in each country are also on board and share the same developmental goals. It would clearly help if the securities regulatory bodies were also members of the organisation – SAFER, the South Asian Federation of Exchanges and Regulators.

Several members of SAFE are offering securities market training programs. For example, in Sri Lanka the NSE from India is holding joint seminars on derivatives with the CSE for Sri Lankan brokers and investors. Similarly, one member of staff at the CSE is attending a BSE organised seminar in Mumbai on “demutualization of exchanges”. The BSE in particular has a serious research and training institute which offers training courses for nationals of all SAFE member countries. However, it is sometimes hard to get visas for SAFE member nationals to come to the BSE Training Institute in Mumbai (especially from Pakistan). Instead, it would be better if training programs could be organized in each member country on things like: minimum standards for brokers; what are derivatives?, disclosure standards, etc. These initiatives could foster cross market co-operation and spread common knowledge and information.

Clearly, further SAFE initiatives will require additional funding and discussions with donors.

Our Recommendations

Based on our study, we make the following recommendations for immediate action by SAFE:

1. SAFE should complete the Harmonization of Disclosure Norms project that was started in August 2005 and produce a set of new Listing Regulations that are agreed by each member exchange and submitted to the regulators in each country with a view to providing common disclosure standards for cross border listings in future;
2. The securities regulators in each SAFE member country need to become part of SAFE;
3. SAFE should set up a Securities Institute program. It is hard to get visas for SAFE member nationals to travel to other member countries for training (e.g. to the BSE Training Institute in Mumbai). Instead, it would be good if SAFE could organize programs in each member country on things like: minimum standards for brokers; what are derivatives, disclosure standards, etc – using SAFE as the brand name;
4. SAFE needs to issue a series of regional publications – like the BSE Securities Review - that cover the SAFE member economies and exchanges. SAFE could also prepare and issue technical “how to” guides on securities market subjects (e.g. Mergers & Acquisitions, valuing securities; charting, etc.) i.e. subjects that are universal in all SAFE member countries
5. The exchanges and regulators in each SAFE member country need to establish comprehensive MOUs between themselves and the exchanges/regulators in each of the other member countries, to provide for the proper regulation of cross border business, as it develops, and appropriate enforcement of those regulations across borders;
6. SAFE should explore the idea of setting up a regional index which can be licensed to the member exchanges for trading futures and options contracts on the index;
7. SAFE needs to actively lobby governments and state banks for liberalisation of foreign exchange regimes – at least to permit individuals to make cross border investments in securities that are listed in other SAFE member countries;
8. The SAFE member countries need to deepen the institutional investor base (e.g. through the growth of life insurance companies with long term liabilities which tend to take longer term investment views). SAFE should lobby governments to open up these sectors to more foreign investment;
9. Given the existing linkages and the growth in the Gulf region, SAFE should invite the DIFX and DGCX to join SAFE; and
10. SAFE should organise a donor conference in Q1 2006 to secure further funding for SAFE.

APPENDIX 1: PRELIMINARY REPORT

In September 2005, ISC prepared and submitted the following preliminary report.



Strengthening Financial Sectors

**Preliminary Report on Cross Border Listings
for the
South Asian Federation of Exchanges**

R303

Developing model listings regulations



August 2005

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Introduction

This preliminary report forms the start of Phase 2 of the SAFE project on “Developing Model Listings Regulations”. The objectives of this element of Phase 2 are to identify for SAFE:

1. any regulatory or other obstacles to cross border listing;
2. potential demand from issuers to list their shares in other countries in SAFE; and
3. potential demand from investors to trade securities from another SAFE country.

The information required under point number 1 above will be obtained through discussions with stock exchanges, regulators, Ministries of Finance and Central Banks, and issuers in four countries (India, Pakistan, Bangladesh, and Sri Lanka).

The information required under points numbered 2 and 3 above will be obtained by meeting with (1) exchanges, regulators and a small cross section of issuers identified by the four stock exchanges to discuss cross border listing and (2) meeting with a small cross section of market intermediaries to discuss potential investor interest in cross border trading. The companies and intermediaries will each be given a questionnaire prepared by ISC and reviewed by FIRST which will indicate, by their answers, the level of commitment to cross border listing and cross border trading.

Forms of Cross Border Listings

Cross border listings come in two forms. A company can engage a foreign depository to establish a depository receipt program in the depository’s home market, or the company can list its shares directly on a foreign stock exchange.

Direct Listings

An issuer may take a direct listing for its securities on the foreign market. In such cases the securities will trade in all respects like the securities of a domestic company in that market. However, the issuing company must meet all the regulatory and disclosure requirements of each of the markets where it lists securities.

In 1998, DaimlerChrysler pioneered a new form of security called a Global Registered Share (GRS). DaimlerChrysler’s GRS were simultaneously listed on 21 stock exchanges around the world and took cross border listings to a new level. Companies such as UBS and Deutsche Bank have subsequently followed DaimlerChrysler’s lead. GRS require electronic links between the relevant CDS, close co-operation between transfer agents and a global share register, in order to enable trading, settlement and seamless, fungible transfer between markets.

Depository Receipts

The most common structure for a depository receipt is for a depository bank to acquire the shares of a foreign company (either in the local market for those shares or directly from the issuer), deposit those shares in a custodian, and then issue certificates to investors in the depository bank’s home jurisdiction which certificates represent a contractual interest in the underlying shares.

The majority of all non-US companies that list their shares on US exchanges do so through depository agreements with US banks. Depository receipts facilitate low-cost investment in companies that trade on an overseas stock exchange without the inconvenience of

accessing the overseas stock exchange directly. Depositary receipts can be traded and settled in the domestic market, in the investor's domestic currency.

Pros and Cons of Cross Border Listings

The main benefits of pursuing a cross border listing are access to a broader investor base and increased marketability of an issuer's securities. A cross-border listing can help a company target new shareholders for fresh capital. The primary objective of a cross border listing, therefore, is the financial goal of reducing the cost of equity capital for the issuer. Indeed, the evidence suggests that when foreign firms list their shares abroad the market value of the company increases and investors perceive such companies as "less risky" so that the expected returns required by investors decreases¹⁶. In addition, liquidity normally increases because of the extended trading hours, the increased potential investor base and the heightened information flow from the company.

On this criterion, whether the benefits outweigh the costs involved depends on whether total trading volume increases and/or the share price increases after the cross border listing.

In addition some issuers may use a cross border listing to enhance the company's prestige or increase the visibility of its products in another country. It may also strengthen a company's position in the foreign labour market as stock options become an available form of compensation.

The diversification of a company's shareholder base can also spread the financial risk in the same way that diversifying a portfolio can spread investment risk. This can lower the volatility in the price of the company's shares.

However, there are disadvantages to a cross listing.

Compliance with the foreign reporting requirements can impose major additional costs and is perhaps the greatest disadvantage of a cross border listing. Accordingly, IOSCO has endorsed a set of "Disclosure Standards to Facilitate Cross-Border Offerings and Listings by Multinational Issuers". IOSCO believes that it is important for securities regulators to facilitate cross-border offerings and listings by enhancing comparability of information, while ensuring a high level of investor protection. IOSCO states that its work in this area has:

1. simplified the process involved in making an international offering, which will lower the costs of raising finance and of maintaining listings on world markets for all issuers, no matter where they are located in the world. This, in turn, should increase cross-border activity and listing and trading on world exchanges;
2. enhanced investor protection by providing for more relevant disclosure and enabling better comparability, particularly if the presentation format recommended by IOSCO is followed; and
3. allowed regulators the opportunity to review their existing rules against other countries' requirements and for relevance to investors and to produce a blue print, not only for emerging markets, but for the future development of rules within all securities markets.

Another disadvantage is that an issuer with multiple listings will have higher listing fees than local companies.

¹⁶ Cross Border Listings and Depositary Receipts, Mihir Desai, Harvard Business School January 20, 2004

Key Regulatory Issues

The main potential legal or regulatory obstacles to cross listing include:

- foreign exchange and exchange control regulations;
- legislative prohibitions or constraints
- regulatory prohibitions or constraints

Foreign Exchange and Exchange Control Regulations

An issuer that raises capital in a foreign currency may need home country approvals to repatriate that capital and convert to its home currency. Conversely, when paying dividends the issuer may need foreign exchange permission to convert dividends into the foreign currency.

During periods of political uncertainty a Central bank may impose temporary currency controls (e.g. Malaysia in 1997 and Venezuela in 2002). In both cases the authorities imposed restrictions on the conversion of local currency in an effort to prevent further devaluation of the domestic currency. As a result, investors were “locked-in” as they could not repatriate the proceeds of a sale in their home currency.

Legislative prohibitions or constraints

The most obvious potential legal restriction on cross border listings in SAFE countries is foreign ownership restrictions.

In addition, investors in one market, especially institutional investors, may be prohibited by law from investing in foreign companies. In such cases, depositary receipts may circumvent the investment restriction and enable those investors to invest in a domestically traded security.

Regulatory prohibitions or constraints

The main regulatory constraint on cross border listings is usually disparate disclosure requirements.

In order to list on an overseas exchange, a company must comply with all of the regulatory and disclosure requirements of the foreign jurisdiction. In an ideal world there would be a single disclosure document that could be used by foreign issuers in cross-border offerings and initial listings, subject to the host country review or approval processes. In practice, most countries have similar but different disclosure requirements. This creates a constraint on cross border listings and offerings as it significantly increases the time and legal costs involved in preparing an offer document that meets all of the differing requirements and in getting the approval of multiple regulators.

Once the disclosure requirements are standardized, all of the regulators involved in regulating an issuer with multiple listings can agree amongst themselves which of them will take the “primary role” in the regulation of that company as an issuer of listed securities. The other regulators can then defer to the primary regulator and allow the additional listings to be “secondary listings”. This allows the issuer to deal mainly with one regulatory body and further reduces the duplication and costs involved in cross border listings.

Key Practical Issues

The main potential practical obstacles to cross listing include:

- transactions costs
- how will the securities be traded?
- how will the securities be cleared and settled?

Transactions costs

Buying and selling foreign securities can be far more expensive than trading local securities. The additional costs include brokerage fees (e.g. fees for two brokers if the investor uses its local broker, who in turn also uses a foreign broker), foreign exchange costs and any additional costs imposed by regulators in one or other, or both, of the markets.

On the other hand, depository receipts have reduced the transactions costs of foreign investors who can buy the DRs at lower fee levels than buying the underlying foreign securities directly.

Liquidity Issues

If the domestic exchange has limited liquidity, then cross border listings may reduce trading as some liquidity migrates to the other exchange(s). Even if only the largest companies take cross border listings, a migration of liquidity can have negative effects for the remaining local stocks.

Trading Issues

As we have seen, cross border listings raise the question “will the securities be traded in their natural form or in depository receipt form?”

Clearing and Settlement Issues

In a cross border trade the clearing and settlement issues are more complex than for domestic trades. This is because the investor must take delivery of the security in a foreign CSD. This means that the investor must be linked, either directly or indirectly, to the foreign CSD. Because most institutional investors use a custodian the custodian must be linked to the foreign CSD (e.g. the investor must use a local custodian that is a member of the foreign CSD or a global custodian, typically a global bank, which is a member of the foreign CSD).

A direct link from the custodian to the foreign CSD is not necessary if the domestic CSD has an electronic link to its foreign counterpart, although this seldom occurs at present. Alternatively, the foreign security may be deposited in a regional CSD that, unlike a purely domestic CSD, may hold international securities from several countries and have electronic links to the domestic CSD in each of those countries.

Regardless of the mechanism used to link an investor and a foreign securities depository, completion of a cross-border trade clearly requires more complicated institutional arrangements. In addition, settlement problems can arise from differences across countries in settlement cycles (the time between trade execution and settlement), in currencies (which may require a separate settlement process for conversion), in the legal systems, and in the myriad settlement arrangements for different types of securities. The highest cost, therefore, of investing in cross border securities is usually the settlement costs.

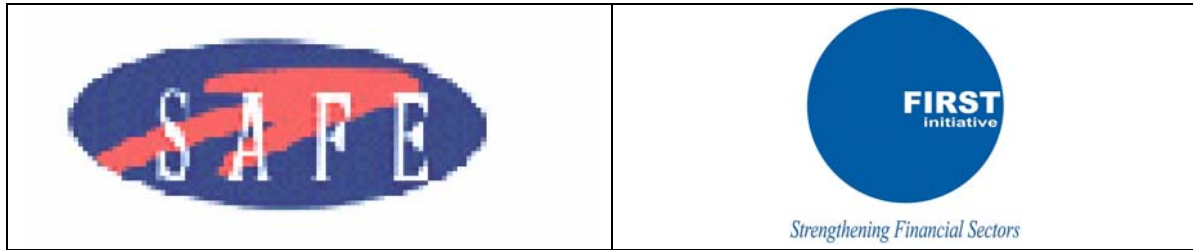
Conversely, if the issuer has a cross border listing, the issuer is normally required to make arrangements for its securities to be cleared and settled locally in each market where it is listed. This requires that each domestic CSD has a link to each other – or that a regional CSD exists (e.g. with GRSs).

Where the security can be settled in the investor's domestic market, the investor can take delivery in the same way as for local securities. For example, depositary receipts enable settlement in a domestic or an international currency (e.g. in US dollars for ADRs) which removes the currency conversion risks that come with a direct investment in a foreign security.

Draft Questionnaire

Attached as an Appendix to this report is a draft of the questionnaire which it is proposed will be sent out by the SAFE member exchanges.

APPENDIX: QUESTIONNAIRE



SAFE: STRENGTHENING STOCK EXCHANGE LISTING REGIMES AND REGIONAL HARMONISATION PROJECT

South Asian Federation of Exchanges

Questionnaire

On

Cross Border Listings

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Questionnaire on Cross Border Listings

This Questionnaire has been prepared as part of a South Asian Federation of Exchanges (SAFE) project on strengthening SAFE member's listing regimes and exploring the scope for greater harmonisation of listing standards – particularly with a view to encouraging cross border listings between member jurisdictions. SAFE member stock exchanges are situated in Bangladesh, Bhutan, India, Mauritius, Nepal, Pakistan and Sri Lanka.

The purpose of the Questionnaire is to gather information for a Report on Cross Border Listings for SAFE and to identify for SAFE:

4. any regulatory or other obstacles to cross border listing;
5. potential demand from issuers to list their shares in other countries in SAFE; and
6. potential demand from investors to trade securities from another SAFE country.

Important Notes for Respondents

- Submission should be in a Microsoft Word document file sent by e-mail to the SAFE Secretariat (info@safe-asia.org) and copied to Mr. William Woods (www@wwwoods.com) by no later than [30 October], 2005.
- ISC and SAFE would like to thank respondents in advance for their time and assistance in this important project. If you have any questions on what is required please contact SAFE or Mr. William Woods (www@wwwoods.com).
- Please supply written responses to each of the questions set out in the questionnaire.
- When answering please make specific reference to sources of information (e.g. pieces of legislation, regulations, rules or other documents). In cases where documents are accessible through websites, include URL references (e.g. securities commission, stock exchange's websites).

Forms of Cross Border Listings

Cross border listings come in two forms. A company can engage a foreign depository to establish a depository receipt program in the depository's home market, or the company can list its shares directly on a foreign stock exchange.

Direct Listings

An issuer may take a direct listing for its securities on the foreign market. In such cases the securities will trade in all respects like the securities of a domestic company in that market. However, the issuing company must meet all the regulatory and disclosure requirements of each of the markets where it lists securities.

In 1998, DaimlerChrysler pioneered a new form of security called a Global Registered Share (GRS). DaimlerChrysler's GRS were simultaneously listed on 21 stock exchanges around the world and took cross border listings to a new level. Companies such as UBS and

Deutsche Bank have subsequently followed DaimlerChrysler's lead. GRS require electronic links between the relevant CDS, close co-operation between transfer agents and a global share register, in order to enable trading, settlement and seamless, fungible transfer between markets.

Depository Receipts

The most common structure for a depository receipt is for a depository bank to acquire the shares of a foreign company (either in the local market for those shares or directly from the issuer), deposit those shares in a custodian, and then issue certificates to investors in the depository bank's home jurisdiction which certificates represent a contractual interest in the underlying shares.

The majority of all non-US companies that list their shares on US exchanges do so through depository agreements with US banks. Depository receipts facilitate low-cost investment in companies that trade on an overseas stock exchange without the inconvenience of accessing the overseas stock exchange directly. Depository receipts can be traded and settled in the domestic market, in the investor's domestic currency.

Pros and Cons of Cross Border Listings

The main benefits of pursuing a cross border listing are access to a broader investor base and increased marketability of an issuer's securities. A cross-border listing can help a company target new shareholders for fresh capital. The primary objective of a cross border listing, therefore, is the financial goal of reducing the cost of equity capital for the issuer. On this criterion, whether the benefits outweigh the costs involved depends on whether total trading volume increases and/or the share price increases after the cross border listing.

In addition some issuers may use a cross border listing to enhance the company's prestige or increase the visibility of its products in another country.

The diversification of a company's shareholder base can also spread the financial risk in the same way that diversifying a portfolio can spread investment risk. This can lower volatility in the price of the company's shares.

Compliance with foreign reporting requirements can impose major additional costs and is perhaps the greatest disadvantage of a cross border listing. In addition, a company with multiple listings will have multiple listing fees.

Questionnaire for Issuers of Securities

No.	Question
Part 1: Company Background	
C1.	Please provide some background on your company (e.g. home country, head office address, main business operations, turnover, profits, net assets).
C2.	Does your company have any physical presence (factories, offices, etc) in another country? If so, please name the country/ies.
Part 2: Demand for Cross Border Listings	
C3.	Does your company currently have a cross border listing on two or more stock exchanges in SAFE member countries? (Bangladesh, Bhutan, India, Mauritius, Nepal, Pakistan and Sri Lanka) If so, are they direct listings or depositary receipt programs?
C4.	Do the securities of your company currently trade in an over-the-counter market in another SAFE member country? In the past, have you actively considered listing your shares in another country? If so, which country/ies? If you have not proceeded, why not?
C5.	Is your company currently contemplating making a cross border listing? If so, are you contemplating a direct listing or a depositary receipt program?
C6.	Is your company likely to contemplate making a cross border listing in the next 2 years?
C7.	Which SAFE countries/stock exchange(s) would be your preferred choice for listing your company's shares?
C8.	If you had a choice to raise equity capital in another country, would you prefer to do so: a. on a western stock exchange (eg London, New York)? b. On another regional stock exchange?
C9.	If you were contemplating raising capital on an overseas stock market, how would you rank the features for your choice: Ranking (1 most important, 5 least

		important)
C9a.	The size of the market?	
C9b.	The costs of raising capital in that market?	
C9c.	The proximity to your existing country?	
C9d.	The fact that your company has operations in that country?	
C9e.	The fact that your company wants to raise its profile in that country?	
Part 3: Perceived Benefits of a Cross Border Listing		
	Financial	
C10.	In your opinion, would a cross border listing enable your company to access a broader range of investors?	
C11.	In your opinion, would a cross border listing increase the marketability of your company's securities?	
C12.	In your opinion, would a cross border listing lead to an increase in the market price of your company's securities?	
	Corporate Visibility	
C13.	In your opinion, would a cross border listing add prestige to your company's profile?	
C14.	In your opinion, would a cross border listing raise your company's profile with investors in the foreign market where you list?	
	Product Visibility	
C15.	In your opinion, would a cross border listing raise consumer's knowledge of your company and its products in the foreign market where you list and ultimately raise sales volume?	
	Labour Market Visibility	
C16.	In your opinion, would a cross border listing assist you to recruit and retain employees in the foreign market where you list by enabling you to create employee option programs?	

	Capital Market Visibility
C17.	In your opinion, would a cross border listing enable your company to participate in more mergers and acquisitions in the foreign market where you list?
Part 4: Obstacles To Cross Border Listings	
	Foreign Exchange/Exchange Control Issues
C18.	Are there any foreign exchange control restrictions, of which you are aware, that currently prevent your company having a cross border listing?
	Legal Restrictions
C19.	Are there any legal restrictions, of which you are aware, that currently prevent your company having a cross border listing?
	Regulatory Issues
C20.	Are there any regulatory restrictions, of which you are aware, that currently prevent your company having a cross border listing?

Questionnaire for Exchanges, Regulators and Intermediaries

No.	Question
Part 1: Background on Your Organisation	
E1.	Name of your Organisation?
E2.	Country in which your Organisation is located?
E3.	Main activities of your Organisation?
Part 2: Demand for Cross Border Listings	
E4.	Are you aware of any companies that currently have cross border listings on two or more stock exchanges in SAFE member countries? If so, are they direct listings or depositary receipt programs?
E5.	Are you aware of any companies that have securities which currently trade in an over-the-counter market in another SAFE member country?
E6.	Are you aware of any companies currently contemplating making a cross border listing in a SAFE member country? If so, are they contemplating a direct listing or a depositary receipt program?
E7.	Are you aware of any companies that are likely to contemplate making a cross border listing in a SAFE member country in the next 3 years?
E8.	If the regulatory/legal and other obstacles you identify below were removed, how many new cross border listings in SAFE member countries would you anticipate: i. within 1 year; ii. within 3 years?
E9.	From which SAFE member countries are new cross border listings most likely to come, in your opinion?
Part 3: Perceived Benefits of a Cross Border Listing	
	Financial
E10.	In your opinion, does a cross border listing enable a company to access a broader range of investors?
E11.	In your opinion, does a cross border listing increase the marketability of a company's securities?
E12.	In your opinion, does a cross border listing lead to an increase in the market price of a company's securities?
	Corporate Visibility
E13.	In your opinion, does a cross border listing add prestige to a company's profile?

E14.	In your opinion, does a cross border listing raise a company's profile with investors in the foreign market where it lists?
	Product Visibility
E15.	In your opinion, does a cross border listing raise consumer's knowledge of a company and its products in the foreign market where it lists and ultimately raise sales volume?
	Labour Market Visibility
E16.	In your opinion, does a cross border listing assist a company to recruit and retain employees in the foreign market where it lists by enabling it to create employee option programs?
	Capital Market Visibility
E17.	In your opinion, does a cross border listing enable a company to participate in more mergers and acquisitions in the foreign market where it lists?
Part 4: Obstacles To Cross Border Listings	
	Foreign Exchange/Exchange Control Issues
E18.	Are there any foreign exchange control restrictions, of which you are aware, that currently prevent a company having a cross border listing in your country?
	Legal Restrictions
E19.	Are there any legal restrictions, of which you are aware, that currently prevent a company having a cross border listing in your country?
	Regulatory Issues
E20.	Are there any regulatory restrictions, of which you are aware, that currently prevent a company having a cross border listing in your country?
Part 5: Cross Border Listings and Your Organisation	
E21.	What benefits, if any, does your Organisation stand to gain from increased cross border listings within the SAFE member countries?
E22.	What risk, if any, does your Organisation perceive from increased cross border listings within the SAFE member countries?
E23.	In what ways, if any, could your Organisation actively encourage or facilitate more cross border listings within the SAFE member countries?