UNIT 12 GLOBALISATION OF FINANCIAL SYSTEMS AND SOURCES OF FINANCING

Objectives

The objectives of this unit are to :

- explain the concept of globalisation,
- throw light on globalisation of world Financial systems,
- scan the Indian Scenario of globalisation,
- study the various global sources of financing.

Structure

12.1 INTRODUCTION

In financial circles in recent years, the word 'globalisation' is often heard, most commonly with reference to the heightened internationalisation of financial transactions. This catch word sums up the Phenomenon in which financial transactions increasingly transcend the geographical and time limitations of local financial markets, giving rise to a single, uniform 'global' market. While the Phrase 'internationalisation' refers to cross border transactions among national markets, globalisation goes beyond national frontier to create a 'borderless' market in which national borders gradually disappear.

The international financial system is characterised by the following types of institutions:

a) Financial markets;

b) The banking sector;

c) Foreign exchange markets; and

d) Special financial institutions, such as the World Bank, IMF, etc.

Since the early eighties, there has been a virtual transformation of these markets. Not only has there been a complete integration of these markets in any given country or economy, but the ties have been strengthened as to result in a unified financial system on a world-wide scale. Not surprisingly, we hear of tendencies towards common transaction methods and common settlement periods across the globe. A complete integration of the markets world-wide, no doubt, requires swift communication between countries. The developments in technology whereby information can be had within a matter of seconds from any part of the globe have made the process of globalisation much easier and profitable. Financial managers across the world are concerned with identifying profitable opportunities with associated minimum risk. The financial integration of markets whereby funds can be easily transferred from one place to another has certainly influenced the financing and investment decisions financial managers make on a day-to-day basis.

12.2 DEREGULATION IN FINANCIAL MARKETS

Many factors have helped the globalisation process in which no market, howsoever remote, remains isolated and insulated from developments taking place world-wide. The October 1987 crash is much too recent to be forgotten and a telling evidence of the extent to which markets have been integrated. Popularly too, of American and Japanese markets, it is said that when America catches a cold, Japan sneezes. There have also been a number of studies on the integration of European markets with the American market. In general, the share prices move in tandem with each other.

The introduction of the floating exchange rate regime in 1973, interest rate deregulation and securitisation since the 1970s have been among the major factors behind the steady progress of financial globalisation. The OPEC phenomenon of the 1970s and the debt crisis triggered by the developing countries in the 1980s also significantly influenced the volume of international capital flows and the restructuring of the financial system as a whole. Innovative financing techniques are constantly being designed to turn the financing game, instead of the zero-sum game that was witnessed in the 1980s. The innovativeness in finacing techniques and tools have also been accompanied by the growing deregulation of the national financial markets, characterised by relaxation of barriers separating the activities of different types of institutions, relaxation of interest rate ceiling, extension of the geographical domain of existing institutions, and reduction in barriers to entry into the domestic financial system by both foreign and non-banking institutions. The abolition or relaxation of exchange controls, elimination of quantitative credit ceilings, removal or reduction of withholding tax on interest earnings of non-residents and changes in regulations governing access of foreigners to domestic markets, and access of residents to international markets has tremendously helped the national markets to forge a global financial market. The increasing competition among banks themselves on the one hand and between banks and non-banks on the other, for providing finance and financial services compelled banks to look into hitherto uncharted territories.

The deregulation of the London Stock Exchange that took effect from October 27,1986, ecstatically referred to as the ‘Big Bang’, has been the most memorable one in the far-reaching changes that were introduced in the financing of the London financial market. The liberalisation, though initially intended to be limited to the abolition of the fixed commission on broking business and the separation of the functions of brokers and jobbers, now encompasses a wide range of related aspects for facilitating competition and internationalisation of the London Stock Exchange. The traditional distinction between brokers (who buy and sell on behalf of investors) and jobbers (who make the markets on the floor of the Stock Exchange) has been given a body blow in other financial centres also. The permitting of institutional membership into the stock market has meant the injection of new capital into the UK. Not to be left behind is the Bombay Stock Exchange in India, which besides permitting institutional membership has also taken up computerization on a mass scale.

The prominence of the Swiss market to its present status has been largely due to its deregulated functioning. A significant portion of the Euro-deposits came to be parked in the Swiss market because of the virtual absence of Governmental control as well as tax-free income from securities. The emerging role of Tokyo as an important financial center has also been because of the easy access it provides to both domestic and overseas investors and financial intermediaries to a growing variety of instruments issued by or for Japanese entities. Foreign banks can now engage in trust business (although on a selected basis) and can join in the government bond underwriting syndicate. Foreign securities houses can lead-manage Euro-yen bonds and can be members of the Tokyo Stock Exchange. Amongst the great variety of debt instruments and financial packages available in Japan are also the multi-currency bonds and the leasing bonds, where-in by providing funds to leasing companies to purchase high-valued items such as aircraft, cross-border financial leasing is facilitated.

The need for financial innovation to make large amounts of funds easily accessible has also been felt because of the growing trend towards privatisation of nationalised industries and increase in flexibility of operations leading to mass restructuring and consolidation of business entities. Competitive pressures have led to a growing awakening towards maximising both economies of scale and scope. The mass restructuring and consolidation of business entities have resulted in more frequent breakups and dispositions, leveraged buyouts (LBOs) and management buyouts of units of companies that do not fit into coherent strategic alliances, often with significant equity stakes, have also been entered into as alternatives to full mergers or acquisitions. Resources for financing merger transactions have also been provided with bridge loans, ‘mezzanine financing’ synthetic securities, junk bonds, and other related techniques. While ‘mezzanine financing’ refers to the issue of equity-related bonds, e.g., bonds with warrants, the term synthetic securities refers to a package of securities such as a Eurobond and a currency swap arrangement that converts an original security into a security with different currency or other characteristics. Junk bonds are simply bonds rated below investment grade (BBB) by rating agencies but are popular because of the extremely high yields they promise. The junk bond market flourished initially by financing large volumes of LBO transactions.

12.3 DEVELOPMENTS IN THE BANKING SECTOR

The banking sector too, has gone through revolutionary changes. At least three trends characterise the future of banking the world over:

i) The banks’ role as funding intermediaries is diminishing and instead banks are taking on the role of broker and/or underwriter for credit transactions;

ii) Banks’ formerly protected turf is being invaded by investment banks, thrifts, insurance companies, and even retail firms. In response, banks are expanding their activities into the domain of investment banks and insurance companies; and finally

iii) Banks are expanding geographically as they compete in inter-state and even international markets.

However, although the role banks play as funding intermediaries is diminishing, it will not disappear entirely. Banks’ ability to fund loans will continue to be important in, at least, two ways.

First, banks will continue to make and hold loans that are not readily securitised. To make loan-backed securities marketable, securitisation requires the standardisation of loan terms and conditions. Similarly, it requires that investors be able to evaluate the credit risk of the underlying pool of loans at relatively little cost. Loans that require special knowledge of the expertise in local markets, therefore, are not easily standardised. To compensate lenders for the higher costs associated with making these non-standardised loans, their yields will rise relative to the yields on debt obligations that can be securitised. Consequently, banks will have incentives to continue to make and hold non-securitised loans. A second way in which banks will remain important intermediaries is as backup sources of liquidity when borrowers find it difficult and/or costly to raise funds in capital markets. For this reason, even the borrowers that have ready access to commercial paper and other direct securities markets still pay banks substantial fees to maintain lines of credit and loan commitments. Likewise in international capital markets, borrowers have been attracted to the note issuance facilities offered by banks. These facilities ensure access to funds, should the borrowers be unable to sell their notes directly to investors.

The volume of newly arranged underwritten facilities reached their peak in 1985 - about 18 per cent of total international financing. In 1986, they accounted for only 8 per cent of total international financing, due to the imposition of capital rations on banks' off balance-sheet activities (OBSAs) since 1984. Nevertheless, bankers will continue to engage in these activities, as historical experience indicates that losses on such activities have been small. Other fee-generating activities include issuing stand-by letters of credit, commercial letters of credit, loan commitments and indulging in foreign-exchange obligations and interest rate swaps. Such business for major palyers run into billions of dollars. Some idea of the globalization of banking can be had from the following table:

Table 12.1: The Growth of Bank Off Balance-Sheet Activities 1981-1987

Activity	$ Billions 1980	1986	Compound Annual growth	$ Billions 1980-1986	Annual growth from 1986
Letters of Credit	47	170	23.9%	168	-1.6%
Stand-by Commercial Loan	20	28	5.8	30	9.6%
Commitments	432	572	9.8%	595	5.4%
Foreign-exchange transactions	177	893	31.0%	1558	110.0%
Interest-rate swaps	186	367	97.3%	602	93.9%
Band Capital	108	183	9.2%	180	-2.2%

Source: *Joseph F. Sinkey, Jr., Commercial Bank Financial Management in the Financial Service Industry, Macmillan Publishing Co., 1989, p.578.*

The table clearly shows that foreign exchange transactions and interest rate swaps are now the most important sources of revenues from OBSAs. Profits in foreign-exchange trading come from two main sources:

i) trading profits generated by the bank trading for its own accounts; and

ii) fees generated by trading in currencies for its customers.

Multinational banks are very active in Euro-currency markets wherein they gather deposits and make loans, usually in Eurodollars. Interest-arbitrage transactions are frequently entered into, i.e., borrowing funds in one foreign currency and country and making loans in another currency and country, due to substantially different interest rates across countries. The objective of these arbitrage transactions is to maximise the interest-rate spreads, given the banks' risk preferences.

12.4 DEVELOPMENTS IN THE FOREIGN-EXCHANGE MARKETS

Foreign-exchange markets exist because of trade between countries with different currencies. That is, exporters prefer not to hold foreign currencies; they want to be paid in their national currency. Foreign exchange transactions have, thus, become an integral, even essential, part of international trade and finance. In the immediate aftermath of World War II, foreign exchange trading was relatively limited, as most major currencies were subject to extensive exchange controls, and the opportunities for the movement of funds across national boundaries were severely limited. The subsequent recovery and growth of the world economy brought a gradual relaxation of these controls and as a result foreign exchange trading became more and more active. The really explosive growth of the exchange markets began, however, with the advent of floating exchange rates following the collapse of the Bretton Woods system in the early 1970s. Since then, not only has world trade continued to expand very rapidly, but international financial transactions have grown exponentially and with them, the foreign exchange markets. Moreover, not only has the volume grown, but the markets have become increasingly volatile, and that, in itself, has drawn in additional players to the market, both, for defensive and aggressive trading.

The foreign exchange market is dominated by giant commercial banks. To provide foreign exchange services to customers, these banks take a position (i.e., hold inventories) in the major currencies of the world. Some banks do this by keeping deposits with foreign banks. In addition to providing for customers' foreign currency needs in either the spot or the forward markets, banks also trade on their own account in the foreign exchange market. The importance of foreign-exchange income to the major US banks is reflected by the fact that it accounts for anywhere from 10 per cent to 60 per cent of the overseas operating income of these banks.

This increased internationalisation has, nevertheless, meant increased vulnerability of the players in these markets. Amongst the various risk-reduction methods that have come to be employed, swaps, futures and options are the most conspicuous. These facilities enable banks and corporations to hedge their exposure to financial risks arising from interest rate and exchange rate changes. In the international markets, currency options are more predominant than interest rate options. In currency options, standard period options (3 months, 6 months, etc.) for major currencies against US dollars are being increasingly traded. In the options market, banks may act as agents for other parties or as principals. Financial futures have registered significant expansion in recent years with the expansion of the business of existing futures markets and also with the setting up of futures markets in other centres particularly London, Singapore and Amsterdam. Interest and currency futures not only offer actual hedging facilities but also speculative innovative techniques, which, though useful to transfer risks to counterparties has also called for appropriate management control and monitoring systems. Capital adequacy norms for the banking sector was one such step in the regulatory system. The need for regulation is heightened with fiascoes of massive proportions, such as the failure of BCCI.

12.5 SPECIAL FINANCIAL INSTITUTIONS

The World Bank's role as a catalyst in attracting development finance for high-priority programmes in the developing countries through co-financing has increased significantly in recent years. Co-financing has been a feature in about 37 per cent of Bank/IDA operations and the volume of funds mobilised from other sources external to borrowing countries has been equivalent to more than 36 per cent of the total volume of banks group lending. Although historically, the major source of co-financing has been official bilateral and multilateral aid agencies, projects with private co-financing especially in the industrial and power sectors are becoming more and more popular.

The Special Drawing Rights (SDRs) mechanism operated by the International Monetary Fund whereby member countries bail each other out in times of foreign exchange crisis has provided a fair measure of stability to the international development agencies such as the export-import banks in various countries providing loans to domestic borrowers for export, import and overseas projects, as well as technical service credits in such projects as the construction of factories, dams, etc., and direct loans to foreign governments, banks and corporations.

12.6 INDIAN SCENARIO

The Indian capital market had been insulated from changes in the international economy till 1991. It was due to high insulation of the Indian capital market that during the Gulf War when global capital markets were declining, the Indian capital market was actually having a bullish run. However, since 1991 Indian capital market has globalised so much so that now changes in any major capital market or economy are reflected in the sensex. The Indian capital market has now become a major investment avenue for foreign investors. Foreign Institutional Investors (FIIS) have invested over US $ 6 billion directly, while Indian companies have raised over US $ 4 billion from the international market through the global depository receipts route.

The last one and a half decades witnessed dramatic change in the pattern of financing of corporate sector, with its increasing reliance on capital market. Till 1980, funds raised from the capital market were less than Rs.200 crores and, in fact, less than Rs.100 crores in several preceding years. Industry had to depend largely on financial institutions and its own surplus generation for meeting long-term investment needs and on banks for working capital requirements. Capital market emerged as a major source of funds to industry in 1980s. The equity culture which was lacking in its thrust earlier developed fast during this period.

Within a period of 10 years, the amount of capital raised from the market rose 33 times from Rs.195.9 crores in 1980 to Rs.6473.1 crores in 1989-90. The buoyancy in the capital market gained further momentum right from the beginning of 1990s with significant boost in the activities in the new issues market. The amount raised from the capital market was of the order of Rs.22,480 crores in 1993-94 (11.4 per cent of the gross domestic savings) and Rs.25,000 crores in 1994-95, however, in 1996-97 it slowed down.

The number of stock exchanges increased from 9 in the beginning of 1980s to 23 now. Around 8000 companies are currently listed on the stock exchanges against only 2265 in 1980. The market capitalisation rose sharply from Rs.50 billion to about Rs.4330 billion during this period. The number of shareholders and investors in mutual funds increased from about 2 million in 1980 to over 40 million now. As a result, India ranks second in terms of investor population in the world, next only to the U.S.

At the end of 1993, the International Finance Corporation ranked India 22nd in terms of market capitalisation and 24th in terms of total value traded among 40 countries with developed as well as developing markets. India is second only to the United States, at the end of 1993, in terms of the number of listed Domestic Companies with 8000 companies listed on Domestic Stock Exchanges. India has become today an important market in the emerging markets of the world, next only to Malaysia, South Africa, Mexico, Taiwan, Brazil, Korea and Thailand in terms of Market Capitalisation. With the expected new offerings pouring in at the rate of about 10 per cent of the market capitalisation, disinvestment of public sector undertakings taking place at the rate of about 5 per cent of the market capitalisation and prices registering all appreciation of about 20 per cent, market capitalisation of Indian Stock Markets can be estimated to rise by one-third every year which would mean doubling up the market capitalisation every two and a half years. In terms of average company size (market capitalisation/listed domestic companies), India, however, did not figure in top 40 markets.

The market has been brought to a focal point by policy reforms initiated by government since 1991. Pricing of equity is free and the Office of the Controller of Capital Issues (CCI) is abolished. Capital market has been opened to foreign institutional investors and Indian companies have been allowed to raise funds from abroad through Euro Issues. Private sector has been permitted to set up mutual funds. Today it is possible to raise capital at lower cost, although there definitely continues to be a time lag between the going to the Securities and Exchange Board of India (SEBI), taking permission with regard to fixation of premia and clearance of prospectus and coming to the market with their issues.

12.7 GLOBAL SOURCES OF FINANCING

Some of the major global sources of financing are;

1. Global Depository Receipts (GDR).
2. Euro Convertible Bonds (ECB).
3. Foreign Direct Investment (FDI).
4. Portfolio Funds (FII).
5. International Financial Institutions like World Bank, IMF, etc.

The Euro Currency Market:

The Euro Currency Market is outside the legal purview of the country in whose currency the finances are raised. The term 'Euro' is affixed to an off-shore currency transaction. Capital raised in the Euro Currency Market can be classified temporarily as under:

Eurocurrency Finance:

Short term *(upto 365 days)*	**Medium term** *(2 to 10 years)*	**Long term** *(10 Yrs and above)*
(a) Euroloans from banks	(c) Syndicated Loans	(e) Eurobonds
(b) Eurocommercial paper (ECP)	(d) Revolving Underwriting Facilities (RUFs)	(f) Euroequities

Euro-loans are essentially short term accommodations provided by bankers to their clients. The interest charged is a mark up on the London Interbank Offered Rate (LIBOR), which varies according to the credit worthiness of the borrowing company.

Euro-commercial Papers are short term promissory (bearer) eurocurrency notes. These are typically issued at a discount of their face value which represent the yield to the investors.

Syndicated (Euro-currency) loans are given by syndicates of banks to borrowers at a variable rate of interest (e.g. Libor + 0.25%).

Revolving Underwriting Facility (RUF) involves sale of bearer notes to investors on a revolving basis. The investors under RUF undertake to make certain amount of funds available to the borrower upto a certain date during which the borrower is free to draw down, repay and redraw the funds after giving due notice.

Eurobonds are long term unsecured debt securities usually fixed rate instruments, with bullet repayments. These are targeted at high net worth individual and institutions and are listed on stock exchanges such as Luxembourg or London to provide liquidity.

Euroequities are company shares which could either be directly offered listing on the foreign stock exchanges or take the form of global depository receipts with shares underlying such receipts.

Core Strategies for a successful Euro-Issue:

- Careful selection of a lead manager
- Company Fundamentals
- Timings of Issue
- Careful Pricing
- Good Marketing
- Innovative options in terms of financial instruments offered

Euro Issues ($ Million):

The Finance Ministry permitted Indian Companies to make Euro Issues of GDRs and Euro convertible bonds in the Union Budget speech of 1991-92. Since May'92 when the first Euro Issue was made till December'96, Indian companies have raised $ 6.7 million through Euro Issues. ECB approval as on December 2002 were US $ 2788.94 million.

Table 12.2: Resources Raised

Year	(Amount Rs)
1992-93	240
1993-94	2,493
1994-95	2,152
1995-96	627
1996-97 (Apr-Dec)	1,189
Total	**8,701**

Of the total inflows through Euro issues, $5.43 billion (or 81 per cent) have come in the form of GDRs and the remaining $1.27 billion have been in the form of ECBS. The issuance of ECBs was discouraged by the government during 1994-95 and 1995-96, since convertible bonds add to the external debt of the country till the time of conversion.

GDR Issues:

Inflow through the issuance of global depositor receipts (GDR) declined sharply during 1995-96. During this year, Indian companies raised $0.63 billion as compared to $2.05 raised during 1994-95. During 1994-95, there were 29 GDR issues. This crowding of issues resulted in a clear oversupply of Indian paper in international markets, with the result prospective companies either deferred or shelved their plans of making GDR issues, fearing the possibility of having to price their issue at a steep discount over the domestic price.

Table 12.3: GDRs/ADRs Issues ($ Million)

Year	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
Amount	2082	683	1366	645	270	768	831	477

Size of Indian GDR Issues:

GDR issues of Indian companies have, by and large, been small; in the region of $50 million to $ 100 million. Out of the total 62 GDR issues made till October 1996, the sizes of 22 issues were in this range.

Table 12.4: Size of Indian GDR Issues

Range ($ Million)	No. of Issue
Below 50	17
50-100	22
100-150	16
150-200	5
Above 250	2
Total	**62**

Pricing of Indian GDRs:

Indian GDRs have generally been priced at a discount over the prevailing domestic market price. Of the 62 GDR issues made, 34 were priced at a discount over the domestic price at the time of pricing.

Euro Convertible Bonds:

Resources raised through Euro convertible bonds have been much lower than those raised through GDRS. This has been in view of the government guidelines issued in October 1994 which banned the issuance of convertible bonds. No ECB issue was floated during 1995-96.
During 1994-95, $ 102 million were raised in the form of ECBs as compared with $ 896 million raised in 1993-94. The coupon rates offered on these bonds ranged from 2.5 per cent to 5.5 per cent for funds raised in dollar terms. Till the end of 1995-96, two companies issued ECBs designated in Swiss Bangs and one of these, Bharat Forge, placed convertible bonds with a coupon rate of just 1 per cent. The Finance Ministry permitted Indian companies to issue Euro convertible bonds during 1996-97. Till December 1996, three companies issued Euro convertible bonds for an aggregate amount of $273 million.

Table 12.5: ECB Issues ($ Million)

Year	Amount
1992-93	0
1993-94	896
1994-95	102
1995-96	0
1996-97 (Apr-Dec)	273
Total	**1,271**

Although Indian corporates have raised resources through convertibles bonds at low interest rates, they are now facing redemption pressure. Almost all the bond issues have a put option which enables the bondholder to convert or redeem the bond before the bond matures.

Foreign Direct Investment:

Foreign direct investment is very necesssary for any developing country as it brings not only badly needed financial resources but new technology as well. Since 1991 India has made hectic efforts to attract FDI but the actual flow has been much lower than the desired level. If we expect the Indian economy to grow at a rate of 7 per cent per annum, then we would need $ 10 billion of FDI annually. However, since 1991, we have not been able to cross the actual FDI level of $4 billion mark per annum, which is really peanuts in comparison to countries like china which is attracting anywhere between $30 to $50 billion per annum. Although most of the FDI has come in the area of infrastructure but the actual flow is only 25 per cent of the proposed FDI (Table 12.7) Although, scope is unlimited but somehow, 1 per cent of the total world foreign direct investment.

Table 12.6: Foreign Investment Inflows (US $ Million) in India

Year	1993-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
Direct Investment	586	1314	2144	2821	3557	2462	2155	2339	3904
Portfolio Investment	3567	3824	2748	3312	1828	-61	3026	2760	2021
Direct Investment as percentage of total investment	14.11	25.57	43.82	45.99	66.05	102.54	41.59	45.87	65.89

Table 12.7: Foreign Investment (US $ Millions)

	Approvals	Actuals
1991	207.63	141.12
1992	1315.41	242.28
1993	2822.23	568.79
1994	4519.00	946.37
1995 (Jan-April)	1783.58	709.41
Total	**1067.85**	**2607.97**

Actual Investment as a percentage of approved investment is 24.49 per cent.

Portfolio Funds:

Portfolio funds are basically brought in by foreign institutional investors. It is largely through pension funds, mutual funds, investment trust, asset management companies, institutional Portfolio managers or their power of attorney holders in securities traded in the primary and secondary capital markets. Currently about 400 FIIs are registered with SEBI and about 100 are active players. FIIs investment in Indian capital markets has been hovering around $2 to $3 billion annually over the years (Table-12.6).

International Financial Institutions:

India has been financing its Public Sector as well as private sector industrial, social and economic projects from the funds available from international financial institutions like World Bank, IMF, Asian Development Bank, etc., right from the inception of these institutions. India has figured amongst the top ten borrowing nations of the world. Currently, about over $ 100 billion worth of funds are being made available by various international financial institutions.

The new financing instruments possess great potential to fund the requirements of the Indian industry. Their imaginative use can provide finance in abundance at a lower cost, making Indian industry competitive and enabling it to globalise its operations. The current intensity of the Indian financial market reveals that there is a tremendous scope to deploy new financial instruments connected to equity, debentures/bonds, add-on products and derivatives. This may require appropriate changes in certain legislations and the will on the part of the Indian corporate enterprises to take risks and tune their decision making to the investor's psychology and market preference.

The alternate sources of finance have to be increasingly tapped. This would necessitate efforts on the part of the industry as well as necessary relaxations in policy guidelines. In the new economic environment which stresses on opening and globalising the Indian economy, Indian industry will have to play a major role to keep the economy on a high growth curve. Finance is a vital input for accelerating the pace of industrial progress. To ensure the timely availability of sufficient funds at reasonable cost, it would be important to strengthen the existing sources of finance and simultaneously initiate measures to tap alternate sources and new financial instruments.

12.8 SUMMARY

Globalisation has lead to increased degree of trade between various countries and as a consequence of that the domestic financial systems are alligning themselves to international financial systems. In this process the basic building blocks of financial system viz. the banking system, the foreign exchange markets and the capital markets are becoming more and more integrated with world financial systems.

Recent years have witnessed a change of roles of the financial institutions i.e. banks moving into insurance and activities of non banking financial companies.

During the last decade the forex market has also witnessed quite a change, now forex rate are market determined with little or no intervention from the government.

One of the major impact of globalisation on Indian companies is that now they can raise low cost funds from abroad by ADRs, GDRs, ECBs etc. Apart from this due to the increased FII's activities the shares of Indian companies are being quoted at fair value and there is less of information asymetry in the capital markets.

12.9 SELF ASSESSMENT QUESTIONS

1. What do you mean by globalisation? Comment on the level of globalisation of Indian capital market.
2. What are euro issues? Discuss some important instruments of euro currency.
3. Discuss some of the major types of institutions that constitute the international financial system.
4. What are the major global sources of financing? How far have Indian Corporates tapped these global sources?

12.10 FURTHER READINGS

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