Direct Listing on Foreign Exchanges

For Prelims: Direct Listing, Depository Receipt, **Initial Public Offering (IPO)**

For Mains: Foreign Exchanges in India, Capital Market, Growth & Development

Source: IE

Why in News?

The Indian government has permitted certain **Indian companies to directly list on** foreign stock exchanges to access global capital.

- This provision, effective since 30th October 2023, was introduced through the **Companies (Amendment) Act, 2020.**
- It allows certain classes of domestic public companies to list their securities on foreign stock exchanges, including the **GIFT International Financial Services Centre (IFSC)** in Ahmedabad, Gujrat, with exemptions from certain procedural requirements (such as prospectus, share capital, beneficial ownership requirements, and failure to distribute dividends).

Note

- An IFSC is a financial centre that caters to customers outside the jurisdiction of the domestic economy.
- The IFSC in India is regulated by the **International Financial Services Centres Authority (IFSCA)**, a statutory authority that was established under the **International Financial Services Centres Authority Act, 2019.**
  - It is headquartered at GIFT City, Gandhinagar in Gujarat.
- At present, the GIFT IFSC is the maiden IFSC in India.
- In IFSC, all transactions must be in **foreign currency (except INR).** However, administrative and statutory expenses can be conducted in INR.

What is Direct Listing?

- Direct listing is a process by which a company can l**ist its shares on a foreign stock exchange** without issuing new shares or raising capital from investors.
- Direct listing is different from the **traditional** initial public offering (IPO), where a company sells a portion of its shares to the public and raises funds from investors.
- Direct listing is also different from the **depository receipt (DR) route,** where a company issues its shares to a custodian bank, which then issues DRs to foreign investors.
  - DRs are negotiable certificates that represent the **underlying shares of the company and trade on a foreign exchange.**

- Direct listing allows a company to access a larger and more diverse pool of investors, enhance its visibility and brand value, and improve its corporate governance and compliance standards.

How do Indian Companies Currently List on Foreign Exchanges?

- Currently, Indian companies list on foreign bourses using depository receipts, including **American Depository Receipts (ADRs)** and **Global Depository Receipts (GDRs).**
    - To list on foreign stock exchanges, Indian companies entrust their shares to an **Indian custodian, who then issues depository receipts (DRs)** to foreign investors.
- Between **2008 and 2018, 109 companies raised over Rs 51,000 crore** through ADRs/GDRs.
- However, after 2018, no Indian companies pursued overseas listings through this route.

Note

- ADR refers to a negotiable certificate issued by a **U.S. depositary bank** representing a specified number of shares, usually one share of a foreign company's stock.
- GDRs is a certificate issued by a depository bank that represents shares in a **foreign company** and deposits them in an account. GDRs are mostly traded on the European markets.

What are the Benefits of Direct Foreign Listing?

- Access to a **larger and more liquid market**, which can increase the demand and valuation of their shares.
- Ability to reach out to a wider and more sophisticated **investor base,** which can enhance their reputation and credibility.
    - **Startups and unicorns may benefit** from this avenue of raising funds and increasing their global profile.
- Savings on the **costs and time involved in the IPO or DR process,** such as underwriting fees, listing fees, legal fees, etc.
- Avoidance of the **dilution of ownership and control** that comes with issuing new shares or DRs.
- Exposure to the best practices and regulations of the foreign jurisdiction can improve their governance and transparency.

What are the Challenges Involved in Direct Foreign Listing?

- **Compliance** with the laws and rules of the **foreign jurisdiction,** which may be different from or more stringent than those in India.
- Challenges in direct foreign listings include **valuation issues,** as global investors may **not offer the same valuations as in India,** potentially impacting the company's market perception and pricing.
- Exposure to the **currency fluctuations and market volatility** of the foreign exchange can affect their share price and returns.
    - Potential conflicts or disputes with the existing shareholders, regulators, or tax authorities in India or abroad.
- Clarity is needed on which classes of public companies can use this route, the classes of securities that can be listed, the foreign jurisdictions and permitted stock exchanges for listing, and the exemptions offered to such companies in terms of procedural compliances.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (2019)

(a) Certificate of Deposit

(b) Commercial Paper
(c) Promissory Note
(d) Participatory Note

Ans: (d)

Q. With reference to the Indian economy, consider the following statements: (2020)

1. ‘Commercial Paper’ is a short-term unsecured promissory note.
2. ‘Certificate of Deposit’ is a long-term instrument issued by the Reserve Bank of India to a corporation.
3. ‘Call Money’ is a short-term finance used for interbank transactions.
4. ‘Zero-Coupon Bonds’ are the interest bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Which of the statements given above is/are correct?

(a) 1 and 2 only
(b) 4 only
(c) 1 and 3 only
(d) 2, 3 and 4 only

Ans: (c)