

# Cross Listing: Benefits beyond Borders

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**Abstract –** The overall health and productivity of an economy has a considerable impact on a well-developed and functioning capital market. Finally, the capital market development and overall economic activity go hand in hand. As a result of the securities listing on a foreign stock exchange, companies formed in India that want to issue shares on overseas markets will be able to raise money at a cheaper cost. This new framework will enhance the growth and development of the Indian economy. Additionally, the listing of companies outside of India on Indian stock exchanges will help increase the allocation of money and help investors diversify their investment options. As an exercise to accommodate global businesses, the SEBI decided that firms incorporated in India should be allowed to list their equity securities on foreign exchanges, while outside incorporated companies should be allowed to list their shares on Indian Secondary market platform. This study is intended to find out whether proposed norms are successful, and if they are, to discover how they work. The study is much more in-depth on this topic, in which it addresses both international and Indian firms going public on Indian stock exchanges directly.

**Key Words –** Cross-listing, SEBI, Stock Exchange (SE), International Organization of Securities Commissions (IOSCO), Financial Action Task Force (FATF)

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## I. INTRODUCTION

The Expert Committee on the Listing of Equity Shares of foreign bonds and non-Indian corporations on India presented its findings on the fourth day of December 2018. This paper focuses on a phenomenon known as the cross-listing of financial instruments. Consequently, the meaning of this uncommon phrase is essential to understand. The secondary listing is the procedure through which the shares of a single company are entered on more than one stock market.[1] The company starts with an initial or primary exchange list, it is then a comparatively smaller enterprise and then continues to be listed in one or more jurisdictions since its size and prosperity have increased.[2] If a firm is listed outside its home country, then it has the possibility of having access to money that is otherwise unable to access in its primary listing competence.[3]

Given the worldwide temperament and propensity toward international capital market evolution on a global scale, the timing of the Report is extremely appropriate and suitable. Although one company's shares are not convertible, shareholders benefit from the combined profit.[4]

The following are some important questions to consider at this time: Why Cross List? What are the advantages of cross listing? What impact will cross listing have on the interested parties, such as

corporations, investors, and the Indian economy as a whole? While a quick answer is that dual listing is a simple way to avoid capital gains tax and other complicated tax issues while gaining massive size and merger synergies without having to sell or transfer shares. However, time has shown that these instruments are insufficient to meet a company's needs and capital requirements. Given this context, the project aims to summarise the key points raised by the Committee of Experts in the Report. The article also examines the benefits and drawbacks that cross-listing securities may bring. Finally, the author offers his views and suggestions for the holistic and comprehensive development and growth of the Indian capital markets and firms.

- **Hypothesis**

Cross listing of securities of Indian companies in foreign jurisdiction and foreign companies' securities on Indian stock exchange if allowed it will require regulatory revamp and will also open up new avenues.

- **Research Questions**

1. What is meant by cross listing of securities?

2. What are the various advantages and disadvantages of cross listing of securities?
3. What would be the way forward regarding the question of allowing cross listing of securities?
- **Research Methodology**

This paper will follow the doctrinal method of research. The research is analytical and explanatory in nature.

## II. HIGHLIGHTS OF THE REPORT SUBMITTED BY SEBI

The highlights of the submitted report have been described here:

1. A structure allowing enterprises to solely list on certain stock exchange in permissible jurisdictions (PJ) outside India is possible according to the study.[5] The report also defines the PJ. The legally binding jurisdiction criteria are identical to that used to assess if masala bonds are to be listed on the stock exchange by the Reserve Bank of India (RBI).[6]
2. The provisions of the Companies Act and of the SEBI in order to lawfully implement the Framework must be amended to the 1999 Foreign Exchange Management Law ("FEMA"), and its circulares, news reports and other documents related to it.[7]
3. In the approved jurisdiction, the criteria for knowing your client and anti-money laundering may be similar in relation to the requirements for masala bonds set by the Reserve Bank of India. Those residing in the PJ may be entitled to participate under the 2018 Significant Beneficial Owners Rule.[8]
4. For international firms wishing to list on Indian stock markets, e-voting must be essential and financial statements must be made in whole or in part in English in compliance with one of the following rules: Ind AS; IFRS; US GAAP; or the local GAAP country are all valid options.[9]
5. The Department of Revenue has the power to exempt foreign companies merely on the basis of their public commerce in India from the requirements of the regulations of the place of efficient management ("POEM").[10]
6. The tax department will manage the tax implications of the cross-listing process. The intentions in this study are good and if the listing is allowed, the Indian economy as well as the "India" brand will have a huge positive

impact on the financial market. Significant regulatory work and enhanced accounting and management standards will be needed. In addition, adjustments will have to be implemented to a number of regulations and acts. An additional regulatory burden would be imposed on SEBI, NSE and BSE. Many tax challenges must be overcome, including a fair market value assessment of stocks.[11]

### Analysis

The Securities and Exchange Board of India (SEBI) received a report on cross-listing from the expert committee on cross-listing in December of last year. Cross-listing occurs when shares of firms formed in a country (India) are directly listed on FSE or when equity shares of firms incorporated outside India are immediately listed on ISE. It should be noted that a direct listing differs from the depository receipts that are presently on the market in terms of both legal and technological factors.

This is a tougher task to do than it initially appears. What is most important is to determine in which jurisdictions Indian stocks are eligible for IPO. In reality, the vast majority of countries will fail to meet the minimum requirements. To put it another way, only a select few countries make the cut.

How should this list be compiled? The committee used a "principles-based approach" to identify these jurisdictions and exchanges. It has been determined that jurisdictions with a "treaty obligation to exchange information and cooperate with Indian authorities throughout an inquiry" will be preferred. Members and signatories to the IOSCO Board of Directors, as well as membership in the FATF, have been filtered out, with an emphasis on counter-terrorism financing and anti-money laundering.

The United States, Japan, China, the United Kingdom, South Korea, France, Hong Kong, Germany, Switzerland and Canada have been identified by the committee. The Indian stock exchange will accept a company that is good enough to be listed on these markets. Surprisingly, neither Australia nor Singapore make the top ten list.

To do this, it is required to amend various legislations including Tax law. The committee has identified amendments to the Companies Act, the Foreign Exchange Management Act, and the Securities and Exchange Board of India regulations that should be enacted, and this is the report's primary focus. The analysis establishes that, in addition to the foreign jurisdiction's listing framework, the United Kingdom's Companies Act will apply. Additional

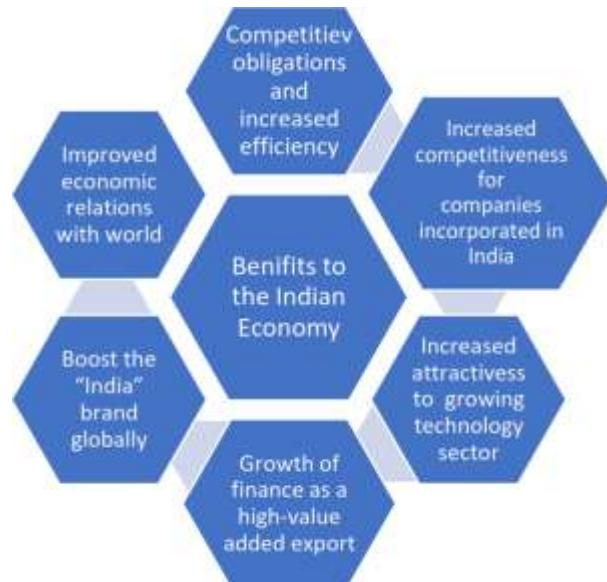
suggestions will likely prevail, including those relating to permitted nations, KYC norms, and beneficial ownership records, all of which have created confusion among Indian firms. Two that tax issues have historically been contentious, and the committee advises that the department of revenue initiate contact with the committee. Three that require businesses to provide financial information in both jurisdictions will be enacted. It has been agreed to waive the minimum issue size and investor requirements, as well as the necessity of an identified promoter or promoter group, for foreign enterprises seeking to list in India.

It will only be partially decided whether the aim is met based on the adoption of these ideas and the capacity to address regulatory and tax concerns pragmatically when they occur. To be successful, the user case must be both persuasive and appealing. This is the point at which the most complex difficulties arise.

### III. HOW TO BENEFIT FROM CROSS LISTING

The logic for utilising "liquidity pools" is weak: any institutional investor interested in investing in Indian stocks must register as a foreign institutional investor (FII) in order to purchase their shares. Additionally, the major international brokerage firms have a presence in India and provide coverage of the companies of interest to investors. Additionally, the tangential benefit of these organisations having more robust governance standards and hence commanding greater valuations is incorrect. As India's governance-related regulations have become increasingly strict, there is currently no evidence to substantiate this allegation. Additionally, in the present day, corporate practices are becoming more integrated in terms of disclosures and increased involvement with investors. Companies must then decide if the marginal gain they anticipate from cross-listing their securities is worth the compliance costs connected with cross-listing.[12]

The benefits of cross listing can be divided into two parts first is the benefits to the Indian economy (Fig-1) and second is the benefits to Companies incorporated in India (Fig-2) as represented below:



**Figure-1**



**Figure-2**

However, foreign investors are not permitted to operate in India's domestic market. It is now more critical than ever for global firms to list in India. To this day, foreign investors have profited from the boom in Indian stocks. While it is true that Indian investors have done the same, they still have to diversify their investments. Such entries assist in the globalisation of our currency, bolstering our economic position, creating top-notch rules, and nurturing the professional services ecosystem. This helps the local market because in such scenario it would be worthwhile to put more emerging markets on the list. India is where they are more likely to turn to in the beginning than the United States or the United Kingdom.

Benefits to Companies Incorporated Outside India

The companies incorporated outside India may have following two benefits from the cross listing:

- i. ***The partnership with the brand "India" has been fruitful- Indian market is having full of potential the outside companies can reap.***
- ii. ***Gaining access to the Indian market-*** consumers and market participants are the two strong pillars the outside companies will have.

### Benefits to Indian Investors

**Portfolio diversity has been increased-** eligible investors of India may like to invest in the stock of global blue chip businesses, and the planned liberalisation of the Indian regulation is an operative means of granting their wishes.

**Participation in the wealth generated by multinational corporations**-It would also allow Indian investors to participate in the wealth generated by multinational enterprises that have a substantial impact on Indian lives if they were to invest in the equity share capital of companies incorporated outside of India. Many multinational companies are reaping fruits from Indian market now its time to share the benefit through issuance of shares.

## IV. ECONOMIC RATIONALE FOR CROSS LISTING

Listed companies on the rival BSE exchange are acceptable to the National Stock Exchange (NSE) if all statutory disclosures can be sent directly to the SEBI or another regulatory agency.[13] "We can be listed anywhere but disclosure should happen to the regulator or a neutral body," sources in NSE told Business Standard.[14] However, foreign investors are not permitted to operate in India's domestic market. It is now more critical than ever for global firms to list in India. To this day, foreign investors have profited from the boom in Indian stocks. While it is true that Indian investors have done the same, they still have to diversify their investments. Such entries assist in the globalisation of our currency, bolstering our economic position, creating top-notch rules, and nurturing the professional services ecosystem. This helps the local market because in such scenario it would be worthwhile to put more emerging markets on the list. India is where they are more likely to turn to in the beginning than the United States or the United Kingdom. However, as India's part of an MNC's business expands, and as Indian savings and pension funds rise, there is a greater need for international firms, particularly those domiciled in these nations, to seek Indian listings. India will never be able to compete with the likes of New York, London, Tokyo, or Hong Kong as a financial hub, until we begin to export capital to a

larger range of countries.[15] Instead of being regulated or overseen by another exchange, any firm or stock exchange will feel more at ease if they are controlled or supervised by a competent regulatory authority. According to the sources, the same reasoning applies to NSE. Although the NSE has stated that it will adhere to SEBI regulations, it is possible that some of the terms might be re-examined. Some people are even arguing for the inclusion of both names on the same ballot. The market may become divided as a result of dual-listing, and liquidity may be adversely affected as a result of dual trading, which can divide investors.[16]

According to the NSE, self-listing is a standard practise around the world, and a new delineation of the exchange's regulatory powers might be established. According to the worldwide benchmarks, practically every exchange that has opted to list has done so through self-listing as opposed to a traditional listing. As a result, going ahead and not listing on the NSE is not a good solution, Ravi Narain, vice-chairman of the NSE, said recently in an interview with Business Standard.[17]

### Impact of cross listing on startup

The startup industry in India is facing financial crunch as only limited options are available for them to grow and flourish like angel investors and Growth platforms. If international market made available to the startups, it will take the startups to the new heights. Many international investors are willing to provide funding as well as strategic support at the initial stage directly.

## V. CONCLUSION

The study is well-intentioned, and if cross-listing is permitted, it has the potential to propel the Indian economy to new heights while also ensuring that the brand "India" receives its proper portion of the financial market. A significant amount of regulatory work will be required, as would greater accounting and governance standards. In addition, revisions to a number of regulations and Acts will need to be implemented. The SEBI, the NSE, and the BSE would be burdened with an additional regulatory burden. There are a number of tax difficulties that need to be resolved, including the calculation of the fair market value of stock.

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