Initial public offers for global firms

Business

Initial Public Offers for Global Firms: Risks and Laws for Mitigating the Risks

Risks Associated with Global Firms' IPOs

Global firms face relatively more challenges when launching IPOs because of the diversity of environments they trade in. For instance, an IPO may face the risk of failure due to negative perceptions by investors of the firm's country of inception. The legal requirement for full disclosure ensures investor confidence, thereby shielding against this type of risk. Equally, countries face political risk; a risk emanating from a change in host country's policies towards the country of inception. The Byrd Amendment cautions firms against discriminate treatment on political grounds, since such is also violation of the rights of American investors in a foreign firm (Tolar et al, 2011).

Foreign Exchange Risks

When floating an IPO in a foreign country, there is the relative risk of losing out due to unstable currency exchange rates. To effectively eliminate the risk of losing investment money through currency fluctuations, the management of the global firm may decide to trade in a more stable currency. Alternatively, the firm's management may decide to price their investments and commodities at prices that reflect the foreign exchange projections over a safe period of time. The firm could also arrange for a forward exchange contract.

References

Tolar, S., Hanson, G., Darancou, N., Green, C., Pattni, B., Pinzon, Y., … Prince, J. D. (2011). National security or xenophobia: The impacts of the Foreign Investment and National Security Act (FINSA) in foreign investment in the U. S. The William Mitchell Law Raza Journal. 2(1): 1-43.