

Financial markets and cross listing

[Economics](#), [Financial Markets](#)



Cross-listings can also be made for marketing reasons. According to this reasoning, foreign listing can boost corporate marketing efforts by broadening product identification among investors and consumers in the host country. The listing, it is claimed, creates greater market demand for the firm's products as well as its securities. In addition, cross-listing can be an advertisement for the firm's products and thereby increase its foreign sales, by raising consumer demand and improving relationships with suppliers and employees. Harmonisation eases the way of preparing financial and non-financial statements with the elimination of multiple jurisdictions thus resulting in a common accounting system for adjusting, reconciling and explaining different bases applied in different countries.

Harmonisation lowers investment risk because it reduces an element of risk associated with understanding foreign financial reporting for investors and lenders. Although there are several benefits for firms to cross list their securities, companies resorting to this scheme can face a number of problems. The main drawbacks associated to this policy are high transaction costs, the risk of a foreign takeover and problems associated with differences in disclosure requirements between the home stock market and the foreign ones.

Is Harmonisation a perfect solution? With harmonization of listing rules, common standards need to be developed with the existing market structure and not as part of the creation of a single securities market regulated by a "Global Regulator." The creation of a "Global Regulator" would be likely to raise strong political resistance from domestic governments fearing loss of their sovereign powers. Thus it is found that the process of harmonization

will require compromises among various domestic regulators that hold different views about disclosure standards. Political opposition by various interest groups may hinder, if not stop, the process of harmonization.

Moreover, when standards are "formally" harmonized, their enforcement and interpretation might differ among nations. An inefficient harmonized standard would be worse than an equally inefficient domestic market, since it would govern the activities of many more market participants than any single domestic standard. Finally, even if harmonization is proved to be an efficient solution, the transition costs involved in implementing such a radical change might outweigh its benefits.

Conclusion

While financial markets worldwide have become more integrated, geography still matters in finance. After a profound understanding of what cross-border listing is all about and the role of regulators in monitoring such financial transaction, it can be said that their work of facilitating the smooth flow of security listings involved much risk and is quite a difficult task as more than one country's listing rules are involved. Stock exchanges are trying to circumvent barriers to international capital flows by creating strategic alliances that reach across borders.

Firms are also constantly striving to overcome market segmentation by adopting financial policies such as cross listing. Cross listing allows firms to reduce the cost of their equity capital by reducing the systematic risk of their shares for investors, by increasing the liquidity of their shares, and by

improving the information environment. Global competition for order flow among stock exchanges and the resulting enhancement in market quality not only improve the financial conditions of firms, but are also beneficial for investors. Presently many regulators are working on the harmonization of their listing rules in order to enhance cross-border listing as this transaction is becoming more and more popular especially with globalization and the technological progress.

However, this will be a long term process as there need to have a proper consensus among the regulators involved as well as a number of issues will have to be resolved in order to stabilize the world financial system whereby a more elaborate and detailed reviewed of securities laws and regulations of each country is required. Moreover, given the innovating nature of today's financial market and their rapid integration, securing the financial stability is a continuous task where we need to find the proper balance in answering the question: " How much freedom is possible, how much regulation is necessary?" Indeed, harmonization of listing rules by regulators becomes a vital component as this will be one of the major contributions to the creation of the " Level playing field" that enables cross-border linkages to develop quickly.