



SECTION - 3

INTERNATIONAL FINANCIAL MANAGEMENT: IMPORTANT ISSUES AND FEATURES, INTERNATIONAL CAPITAL MARKET

This Section includes

- **International Financial Markets**
- **Eurocurrency markets**
- **Asian Currency market**
- **International capital markets**
- **International banking**

3.1 INTERNATIONAL FINANCIAL MARKETS

- 3.1.1 International financial markets are a major source of funds for international transactions. Most countries have recently internationalized their financial markets to attract foreign business.
- 3.1.2 Internationalization involves both a harmonization of rules and a reduction of barriers that will allow for the free flow of capital and permit all firms to compete in all markets.

3.2 EUROCURRENCY MARKETS

- 3.2.1 Eurocurrency market consists of banks that accept deposits and make loans in foreign currencies outside the country of issue. These deposits are commonly known as Eurocurrencies. Thus, US dollars deposited in London are called Eurodollars; British pounds deposited in New York are called Eurosterling, etc.
- 3.2.2 Eurocurrency markets are very large, well organized and efficient. They serve a number of valuable purposes for multinational business operations. Eurocurrencies are a convenient money market device for MNCs to hold their excess liquidity. They are a major source of short term loans to finance corporate working capital needs and foreign trade.

3.3 ASIAN CURRENCY MARKET

- 3.3.1 In 1968, an Asian version of the Eurodollar came into existence with the acceptance of dollar denominated deposits by commercial banks in Singapore, which was an ideal



location for the birth of the Asian currency market due to its excellent communication network, important banks and a stable government.

- 3.3.2 Asian currency market developed when the Singapore branch of the bank of America proposed that the monetary authority of Singapore relax taxes and restrictions.

3.4 INTERNATIONAL CAPITAL MARKETS

- 3.4.1 International capital market consists of international bond market and the international equity market. The New York Stock Exchange, the NASDAQ, the London stock exchange and the Tokyo stock exchange are the world's four biggest markets, measured in market value.
- a. International bond market: These are bonds sold outside the country of the borrower. International bond consist of foreign bonds, Eurobonds and global bonds. The currency of issue is not necessarily the same as the country of issue.
 - b. Foreign bonds: These are bonds sold in a particular national market by foreign borrower, underwritten by a syndicate of brokers from that country, and denominated in the currency of that country. Dollar denominated bonds sold in New york by a Mexican firm are foreign bonds are foreign bonds, but should be registered with the US securities Exchange Commission.
 - c. Eurobonds: These are bonds underwritten by an international syndicate of brokers and sold simultaneously in many countries other than the country of the issuing entity. These are bonds issued outside the country in whose currency they are denominated.
 - d. Global bonds: These are bonds which are sold both inside and outside the country in whose currency it is denominated.

3.5 INTERNATIONAL BANKING

- 3.5.1 International banking has grown with the unprecedented expansion of economic activity since the world war.
- 3.5.2 International banks perform many vital tasks to help the international transactions of multinational companies. They finance foreign trade and foreign investment, underwrite international bonds, borrow and lend in the Eurodollar market, organize syndicated loans, participate in international cash management, solicit local currency deposits and loans and give information and advice to clients.
- 3.5.3 Interbank clearing house systems: There are three key clearing house systems of interbank fund transfers which transfer funds between banks through wire and facilitate international trade.
- a. The clearing house interbank payments system(CHIPS): This is used to move dollars among New York offices of about 150 financial institutions that handle 95 percent of all foreign-exchange trades and almost all Eurodollar transactions.



- b. The clearing house payments assistance system (CHPAS): This began its operations in 1983 and provides services similar to those of CHIPS. It is used to move funds among London offices of most financial institutions.
- c. The Society for Worldwide Interbank Financial Telecommunications (SWIFT): It is an interbank communication network which carries messages for financial transactions. It represents a common denominator in the international payment system and uses the latest communication technology. It has reduced multiplicity of formats used by banks in different parts of the world. International payments can be made very cheaply and efficiently.

3.6 FINANCING FOREIGN TRADE

1. There are three major documents involved in foreign trade, namely, a draft, a bill of lading and a letter of credit.
2. Documentation in foreign trade is supposed to assure that the exporter will receive the payment and the importer will receive the merchandise. Many of these documents are used to eliminate non completion risk, to reduce forex risk and finance trade transactions.
3. A draft or bill of exchange is an order written by an exporter that requires an importer to pay a specified amount of money at a specified time. Through the draft, the exporter may use its bank as the collection agent on accounts that the exporter finances.
4. A bill of lading is a shipping document issued to an exporting firm or its bank by a common carrier which transports goods. It is simultaneously a receipt, contract and a document of title. As a receipt, the bill of lading indicates that specified goods have been received by the carrier. As a contract, it is evidence that the carrier is obliged to deliver the goods to the importer in exchange for certain charges. As a document of title, it establishes ownership of the goods. Bill of lading can be used to insure payment before the goods are delivered.
5. Letter of credit is a document issued by a bank at the request of an importer. In this, the bank agrees to honor a draft drawn on the importer if the draft accompanies specified documents such as the bill of lading. The importer asks that his local bank write a letter of credit. In exchange for the bank's agreement to honor the demand for payment that results from the import transactions, the importer promises to pay the bank the amount of the transaction and a specified fee. A letter of credit is advantageous to both exporters and importers because it facilitates foreign trade.