

“The securities markets and foreign investors
in a corporate scandal:

Evidence from India's Satyam crisis”

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Comments by Sergio Schmukler



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Comments

- Very nice paper
- Very interesting topic
- Unique experiment
- Motivates much thinking
- Much evidence

Who is the main audience, target?

- ✦ How is the paper positioned and done?
- ✦ Internal debate on functioning of capital markets?
- ✦ External audience that wants to learn about India?
- ✦ Those interested on emerging market evidence?
- ✦ Audience interested on unique case?
 - ✦ Unique scandal?
 - ✦ Unique data from India?
- ✦ Academic community?

Build a story

- ✦ If possible, tell evidence around story/straw man
- ✦ Much evidence but somehow disperse
- ✦ Different stories, different strands of literature
- ✦ Maybe too many questions for just one paper
- ✦ All questions worthwhile, perhaps focus on subset first and drill deeper in some issues
- ✦ Maybe contribute to how markets work at times of distress, especially measures beyond prices/returns

What to expect from a corporate scandal?

- ✦ Price drop in all markets/assets related to a company
 - ✦ Instantaneous reaction?
- ✦ Liquidity
 - ✦ Bid-ask spreads increase
 - ✦ Price impact: increase?
 - ✦ Volume: up or down?
- ✦ Contagion
 - ✦ Idiosyncratic vs. systemic shock
 - ✦ Contagion to similar companies or to all companies
 - ✦ Effects on prices and liquidity measures

What to expect from a corporate scandal?

+ Market breakdown

- + Liquidity
- + Price relationships
- + Segmented markets: differential effects across markets

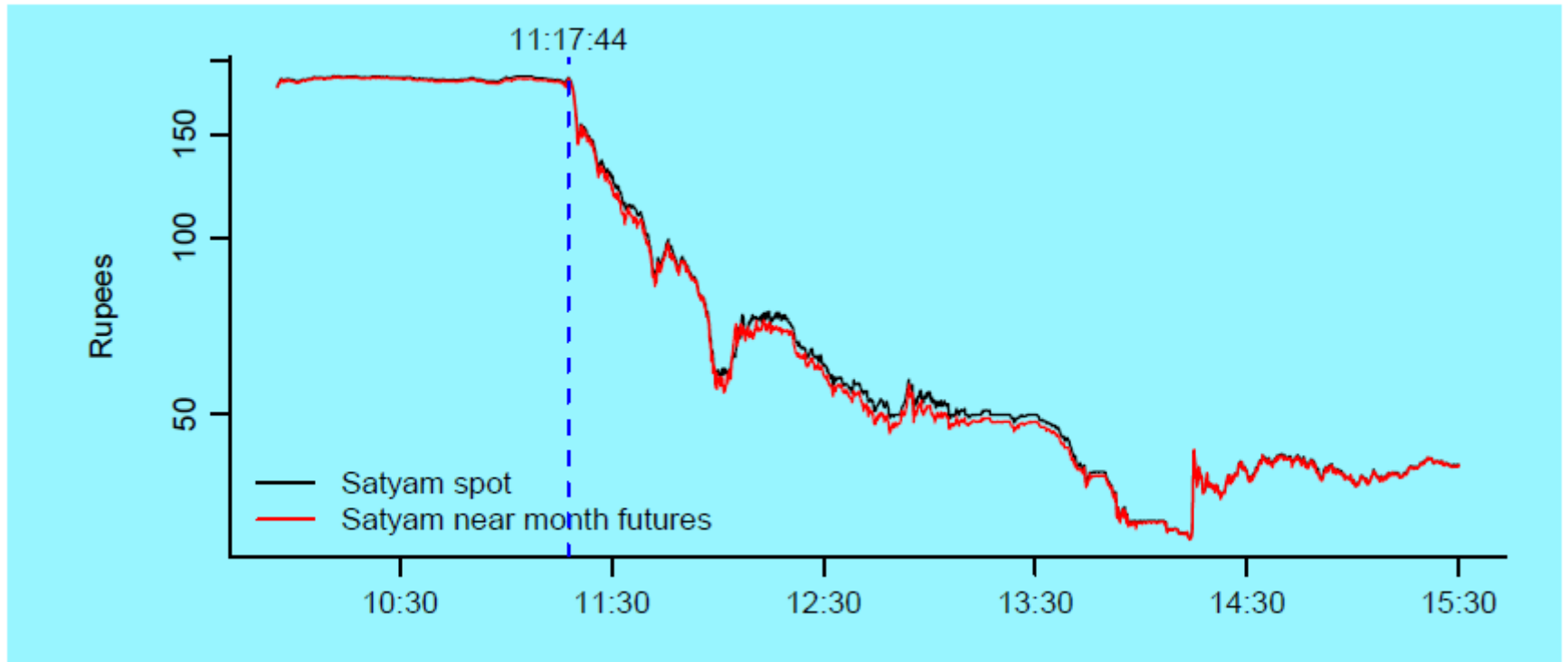
+ Foreign-domestic investors

- + Differential effect?
- + Asymmetric information (domestic know more)
- + Asymmetric treatment (domestic closer, share transfer)
- + Different risk aversion (overreaction in one market)
- + Different financial constraints (deep-pocket investors)
- + Segmented markets (foreigners in ADRs)

Benchmark for this case study

- ✦ How big of a shock? Larger than others?
- ✦ What happened in other corporate scandals?
- ✦ What do authors expect about this case?
 - ✦ Spot, futures, liquidity, foreigners/domestic, etc.
 - ✦ When does a relationship break down?
- ✦ How would circuit breakers work?
- ✦ Do price adjustments always lead to autocorrelated returns?
- ✦ Are returns autocorrelated in general?

Slow adjustment?



Measuring the impact

- ✦ Hard period to analyze
 - ✦ Volatile period
 - ✦ Too many events going on in the international economy (unfolding of subprime crisis)
 - ✦ Especially impact on other companies in India
- ✦ Horizon of the impact
 - ✦ How relevant is the short term?
 - ✦ How long should one go?
- ✦ How big are the effects in economic terms?

Data on foreign investors

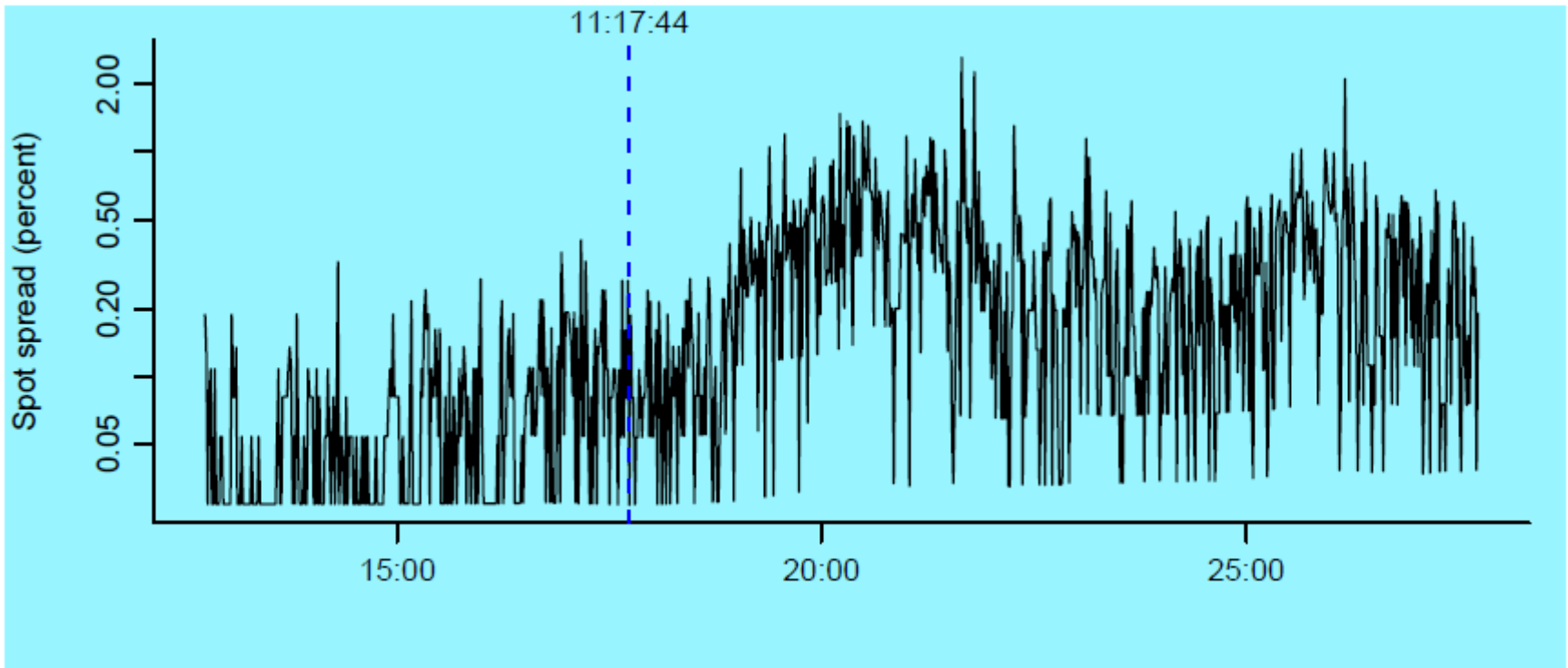
- ✦ Explain more the data
- ✦ Only foreign side?
- ✦ Are gross and net changes available?
 - ✦ If so, why not study both?
 - ✦ Transfers within investor types – gross flows (sales and purchases within foreign investors)
 - ✦ Across investor types – net flows
- ✦ Are same foreigners switching? Different investors?
- ✦ Magnitudes of effects? Net effects?
 - ✦ Understanding different pictures and their patterns
 - ✦ Negative serial autocorrelation?

Liquidity

- ✦ Liquidity measures
 - ✦ Bid-ask spreads
 - ✦ Volume
 - ✦ Price impact
 - ✦ Traded days
- ✦ Liquidity series too choppy
 - ✦ What is going on?
 - ✦ Non-traded days?
 - ✦ How do you treat those days?

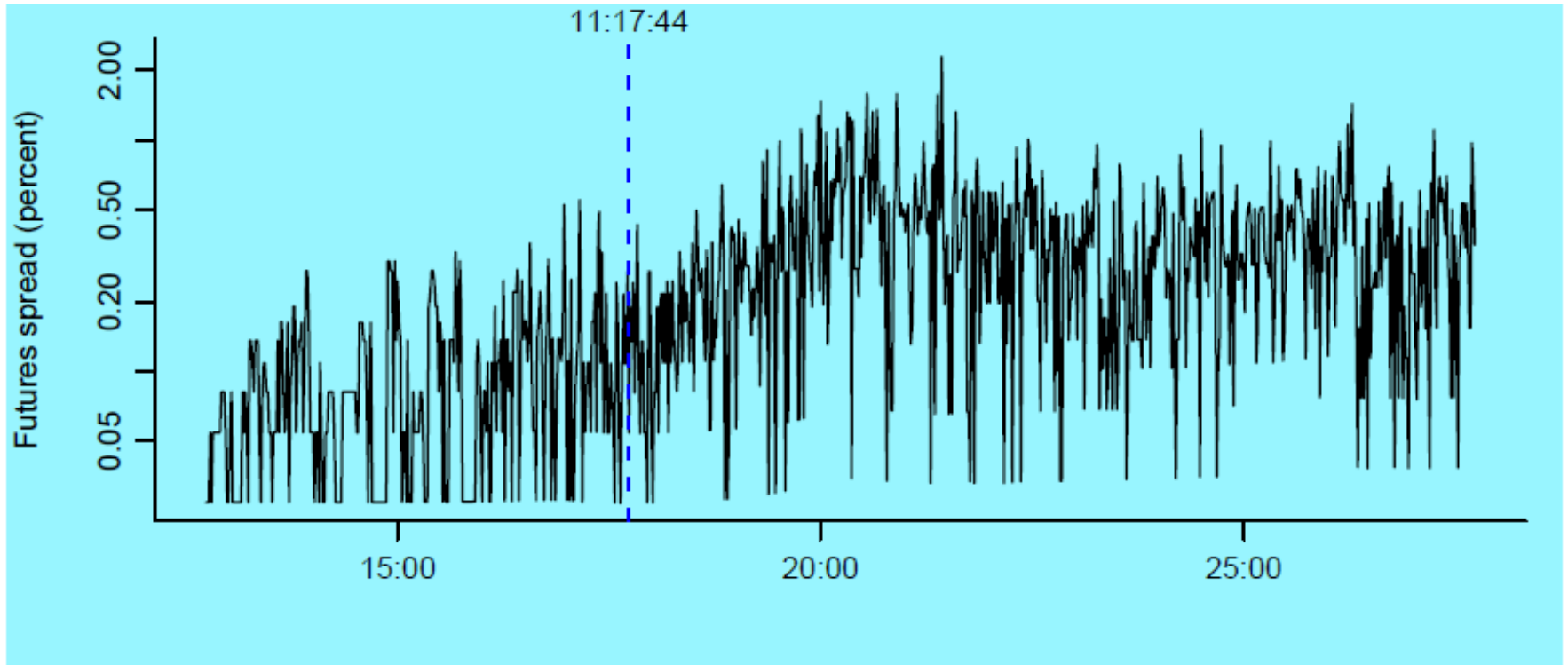
Liquidity

Bid-offer spreads for Satyam on Jan. 7 – Spot market



Liquidity

Bid-offer spreads for Satyam on Jan. 7 – Futures market



Other comments

- ✦ Why was the negative reaction to the Maytas deal not anticipated by management?
 - ✦ Seems bad idea, at least ex-post
- ✦ For arbitrage, perhaps use cross-market premium?
 - ✦ Difference between ADR and local price for reaction in different markets (under segmentation, capital controls)
- ✦ Aren't corporate governance measures highly correlated?
 - ✦ Are individual effects dampened by this correlation?

Thank you!