“The securities markets and foreign investors in a corporate scandal: Evidence from India's Satyam crisis”
by Ila Patnaik and Ajay Shah

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?
Data on foreign investors

Net buy of Satyam by foreigners
Data on foreign investors

Net buy of rest of Indian equities foreigners
Data on foreign investors

Net buy of all Indian equities foreigners
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
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!