1. Introduction

The world has witnessed an unprecedented growth of international trade and investments. Foreign investments are generally classified in the following categories:

1) International Direct investments

In this type of foreign investment, the investor invests directly through capital investment and establishes a business in the foreign country. In this form of investment the investors have control over the direction and management of that company.

2) International Portfolio investment

In this type of foreign investment, the investor acquires ownership interests (such as shares) in a company located in a foreign country, but does not have control over the direction and management of that company.

The subject of this research paper is the second form of foreign investment, i.e. international portfolio investment (also referred to as ‘cross-border portfolio investment’). This form of investment may be either through private equity placements or through a public offering of shares. When a company lists its shares on a stock exchange and solicits the public to subscribe to the shares in the company, it is a public offering of shares. Whereas, private equity placements refers to share acquisition in private companies through private contracts.
involved. However, in public offerings the public is invited to subscribe to the shares in the company and hence there is a need for protecting the interest of the investing public. This calls for more complex regulations. Public offering of shares is regulated by applicable disclosure regulations and the scope of this article is limited to these type of cross-border investments.

2. Current Trends towards International Portfolio Investment

Historically, whenever companies required additional funds, they acquired it either through loans or by selling ownership interest in the company (sale of shares). In either case, companies predominantly sought finance from within the country of incorporation.

However, in the last 15 years, the world has witnessed dramatic changes in business and political environments, which has created a global environment conducive for cross-border investments. More and more companies now look for capital outside their home country.

2.1. Reasons for Growth of Cross-Border Portfolio Investments

There are various factors that have triggered the growth of cross-border investments. Factors such as current account deficits amongst nations, the growth of international trade, the rapid technological environment and the concomitant need for businesses to manage foreign-currency exposure, and increased awareness of the benefits of international portfolio investments are some of the more immediate reasons for the growth of cross-border portfolio investments.

International portfolio investment is beneficial to both the investors as well as the company (also referred to as ‘issuer’). International portfolio investment

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2 Traditionally, private companies in some countries, like the United States, England and India supplemented their capital by selling shares to domestic investors; while in some other countries, such as Japan and Germany, where investors historically preferred the safety of bonds, equity financing from the public was rare. Whether a company would prefer to raise funds through loans or by selling equity stake in the company would depend on various factors e.g. interest rates, the share-holding pattern, etc.

