Module 14 · International financial environment P14 · 14.1 · 14.2

SM pp. 617–629 (exercise 630–634). **5–7 marks every paper since Dec'23** (expected 6.5): **Q8(b) a 5-mark note** — GDR / ADR / foreign bonds four times (J24, J25, D25, J26), **World Bank / IMF in both D23 and D24** (December papers) — plus **MCQ (xii)** (GDR features, Euro notes). One sum in the SM (GDR issue), never examined.

Paper	Q8(b) note	MCQ
Dec'23	**major initiatives of the World Bank**	–
Jun'24	features of GDRs	–
Dec'24	**IMF lending schemes**	–
Jun'25	types of foreign bonds	–
Dec'25	key features of GDRs (= J24)	features of GDRs
Jun'26	ADR: concept and advantages	unsecured short / medium-term FC debt = Euro notes

WHAT IS DUE FOR DEC'26 (PREDICTION)

- The December habit: **World Bank / IMF** (D23, D24; MQP Q8(b)). The SM gives only the institutions — learn the IBRD / IDA / IFC / MIGA / ICSID list and the IMF's functions; the scheme lists below are marked ⚠.
- Repeatable: GDR features, ADR advantages / limitations, foreign bonds; not yet asked: FCCB benefits / limitations, Euro notes (CP, NIF, MTN), sponsored v unsponsored DRs.

A International financial institutions · Q8(b) 14.1

- **Bretton Woods** (July 1944): IMF and World Bank. **IMF** — international monetary cooperation, exchange-rate stability, orderly exchange arrangements; 44 countries at the conference; 24-member Executive Board; resources from member **quotas**. [SM 617–618]
- **IMF's three functions**: overseeing economic development, **lending**, capacity development. Lending: General Resources Account on non-concessional terms to all members; concessional support through the Poverty Reduction and Growth Trust. [SM 618]
- **World Bank** (two institutions): **IBRD** — lends to governments of middle-income and creditworthy low-income countries; **IDA** — interest-free credits and grants to the poorest countries. [SM 618]
- **World Bank Group** adds: **IFC** (private sector), **MIGA** (created 1988; guarantees to promote FDI in developing countries), **ICSID** (conciliation and arbitration of investment disputes). Medium- and long-term infrastructure loans; government guarantee needed. [SM 618–619]
- Also: regional development banks, national development banks, other regional institutions. [SM 619–620]

⚠ NOT IN THE SM — D24 Q8(b) IMF LENDING SCHEMES

From the IMF's own facility list (verify before relying on it): **non-concessional** — Stand-By Arrangement (SBA), Extended Fund Facility (EFF), Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), Rapid Financing Instrument (RFI); **concessional (PRGT)** — Extended Credit Facility (ECF), Standby Credit Facility (SCF), Rapid Credit Facility (RCF); **Resilience and Sustainability Facility** (RSF). Open with the SM's lines on the GRA and PRGT.

⚠ NOT IN THE SM — D23 Q8(b) WORLD BANK INITIATIVES

The SM has no list of "initiatives". Build the answer from the SM's five institutions and their roles (above), then add, with ⚠: poverty reduction and shared prosperity (twin goals), infrastructure and IDA financing for the poorest, private-sector support through IFC / MIGA, dispute settlement through ICSID, BoP-support lending tied to growth-oriented policies (SM 619).

B Sources of foreign currency · Q8(b) and MCQ (xii) 14.2

MODEL ANSWER · FEATURES OF GDRs (J24, D25)

a. **Underlying shares** — each GDR represents one or more shares held by the custodian of the depository bank.
b. **Entry in company's books** — the depository bank is shown as the holder.
c. **Returns** — dividends paid in local currency to the depository, converted into dollars for the holders.
d. **Negotiable** — exchangeable for the underlying shares at any time or after a period, generally **45 Days**.
e. **Globally marketed** — traded in more than one country.
f. **Settlement** — through CEDEL and Euro-Clear.

Impact on Indian markets: investors track world events (arbitrage), free pricing, foreign investment inflow. [SM 628]

MODEL ANSWER · ADR: CONCEPT AND ADVANTAGES (J26)

A depository receipt issued in the US against a foreign company's shares held by a custodian; sponsored (Level I, II, III, 144A) or unsponsored. **Advantages**: (i) access to large capital; (ii) access to foreign exchange; (iii) no change in shareholding / voting pattern; (iv) international recognition; (v) no exchange-rate risk (dividends paid in rupees). **Limitations**: high issue cost; large issue size; stringent compliance. [SM 625–627]

MODEL ANSWER · TYPES OF FOREIGN BONDS (J25)

a. **Yankee bonds** — US-dollar issues by foreign borrowers in the US market.
b. **Samurai bonds** — non-Japanese borrowers in the domestic Japanese market (minimum investment grade).
c. **Bulldog bonds** — sterling foreign bonds in the UK market.
d. **Shibosai bonds** — privately placed bonds in Japan; less stringent criteria.

[SM 622]

- **Eurobonds**: outside the regulation of the country of the currency of denomination. [SM 621]
- **FCCB** benefits: lower coupon; debt falls on conversion; investors get a fixed minimum return plus upside. Limitations: weak demand in a falling market; dilution of EPS; adverse exchange moves; credit risk; no control over conversion terms. [SM 622]
- **Euro notes** (J26 MCQ): commercial paper (short-term unsecured), note issuance facilities (up to one year), medium-term notes (over one year). [SM 623]
- Euro-convertible bonds (call / put options), Euro-convertible zero bonds, Euro-bonds with equity warrants, syndicated credits. [SM 623–624]
- GDR issue (SM Illus. 1, recomputed by m14_patterns.py): net $20 million, cost 2% → gross $20.408 million; GDR = 2 shares × ₹500 × 90% = ₹900 = $12.50 → **1.63264 million GDRs**; cost = 40 ÷ 882 + 0.10 = **14.54%**. [SM 628–629]

Practise these: Q8(b) D23, J24, D24, J25, D25, J26 · MQP Q8(b) · MCQs D25, J26 Q1(xii), MQP Q1(xii) · SM exercise (SM 630–634) · ICMAI Practice Workbook: no problem on this module.