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RESEARCH BULLETIN • The Institute of Cost Accountants of India • Volume 43 • No I • April 2017

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RESEARCH BULLETIN

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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ISSN 2230 9241

Volume 43 • No. I • April 2017

Contents

A STUDY OF ASSOCIATION BETWEEN MARKET VALUE ADDED AND EARNING-BASED MEASURES (EBM) VIS-À-VIA VALUE-BASED PERFORMANCE MEASURES (VBM) - AN EMPIRICAL STUDY OF BSE SENSEX COMPANIES

Avijit Sikdar

Abstract:

Investors are interested in assessing the corporate financial performance that correlate with shareholders' wealth maximization, measured by the market price of share. Traditional earning-based performance measures like return on investment, earnings per share, etc., have been used as the most important indicators for measuring the corporate performance. But the insufficiency and somewhat irrelevancy of accounting based performance indicators have given rise to the need of alternative performance indicators. The value-based performance indicators is an answer to the limitations of traditional accounting based performance indicators. There are several value based measures such as Economic Value Added (EVA), shareholder Value Added (SVA) and Cash Value Added (CVA).

This paper attempts to examine empirically the relevance and association between Market value added and value based performance indicators versus traditional earning based performance indicators and their interrelationship with reference to Indian companies. In this paper we also study incremental information content of value-based

BREXIT AND FLUCTUATIONS IN THE SHARE MARKET IN INDIA AND ABROAD

Sharmistha Ghosh

Abstract:

United Kingdom's membership of European Union has contributed towards their economic prosperity to a considerable extent. On the other hand the share market is considered to be the barometer of a country's progress. Britain's exit from the European Union has led to a lot of speculation about its future impact on both the Indian and global stock markets. Financial markets before the poll already started to price in the risk of Brexit. It was also opined by many experts that Brexit will transmit shocks through several channels, the intensity of which would depend on policy developments and the time horizon considered. In this regard, the present paper aims at analyzing the impact of Brexit on the stock markets in India and abroad.

Key Words:

Brexit, Indices, European Union, Sensex, FTSE100

1. Introduction

The expectations of market participants express themselves in the stock prices. But of course the first days after the Brexit vote were not very informative on details since stocks co-moved downwards in an undifferentiated panic reaction. Brexit was intended following the June 2016 referendum in which 51.9% of votes were cast in favour of leaving the EU. Hence, June 23, 2016 became a notable day in history.

The declaration of the Brexit victory was followed by the resignation of Mr. Cameron as Prime Minister. The value of the pound dropped as Brexit campaigners celebrated around the country. The impact was felt worldwide. The expectations of the market participants can be assessed from the behaviour of the stock markets. When Indian markets began trading in the week on Monday before Brexit, they had to factor-in the impact of Rexit i.e. the Reserve Bank of India Governor Raghuram Rajan's exit from

the central bank once his term finishes in September. Though markets opened with a modest cut, they recovered later in the day, mostly on account of the FDI reform measures announced by the government. On Friday, however, a much bigger event, the referendum on Britain's membership of the European Union (EU), which resulted in its exit from the EU—Brexit—spooked the markets. The Sensex opened lower by 635 points and went down by 1,091 points before bottom fishing brought some stability as the experts commented. Even as the index recovered 486 points from the day's low, it still closed the day with a deep cut of 605 points or 2.24%. The debt market did not react much on Brexit which otherwise showed a negative vibe towards Rexit. The currency market took a beating and the rupee lost on both Monday and Friday and ended the week with a loss of 89 paisa against the US dollar. The immediate impact of Brexit is an increase in risk aversion when it comes to investing. Michael Strobaek, Global Chief Investment Officer of Credit Suisse says, "Risk aversion is likely to take hold across asset classes". The first hint of this was seen on Friday when crude oil fell while gold rallied 5% each. Among the global currencies, only the Japanese yen and the US dollar appreciated which are considered as safe currencies by the market. Report says that currency depreciation will further increase risk aversion and put more pressure on the weak Asian currencies. Despite obvious regional effects, the European stock markets are highly integrated. Investors have the option of shifting between markets easily and many companies have strong cross-border ties, which both result in a steady co-movement of stock prices within Europe, at least for the larger companies. The co-movement between the UK and the rest of the EU has always been a little weaker than between other member states, this is a result of differences in industrial structure. In this context, a review of literature has been attempted in the following section to throw some light on the research works that has been conducted so far with regard to impact on economy in India and abroad in response to Brexit. *Section 3* highlights the objectives of the study while *Section 4* draws the methodology adopted to attain the objectives. *Section 5* is devoted to analysis and findings and finally *Section 6* sketches the concluding observations.

2. Literature Review

As per the reports, the impact of Brexit through the trade and investment channels would be most severe in the UK. Regulatory divergence would increase over time, affecting trade volumes and reducing the attractiveness of the UK for investment. *Wright (2016)* in the New Financial prepared a report with 25 responses from different market participants across Europe and different sectors of the capital markets to a detailed questionnaire. Most of the respondents were of the opinion that a vote to leave the EU could cause an initial period of significant dislocation and uncertainty in markets and across the industry, leading to lower activity and less cross-border investment. The UK could miss out on the potential benefits of the capital markets union (CMU) project. Respondents also said CMU marked an important shift in mindset by European policymakers in recognising the need for deeper capital markets in Europe - and that capital markets could be part of the solution. But they warned that in the event of Brexit it would either grind to a halt or become a more inward-looking project for the rest of the EU excluding the UK. It was felt that there is a high level of interdependence between capital markets in the UK and the rest of the EU. The UK has much deeper capital markets than the rest