

# U.S. Competitiveness in Public Equity Capital Markets

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 COMMITTEE ON CAPITAL MARKETS REGULATION 

Measure	Historical Average	YE 2007
<b>U.S. Share of Equity Raised in Global Public Markets</b>		
<i>WFE</i>	2002-2005: 28.9%	17.3%
<i>Thomson Financial</i>	1996-2005: 33.2%	19.8%
<b>Global IPOs by Foreign Companies (By Value)</b>		
	1996-2005: 30.9%	6.9%
<b>Largest Global IPOs</b>		
	1996: 8 of 20	0 of 20
<b>Rule 144A IPOs by Foreign Companies</b>		
<i>As a Percent of the Total Value of Global IPOs in the U.S.</i>		
	1996-2005: 61.9%	87.9%
<b>IPOs of U.S. Companies Abroad</b>		
<i>Percent of U.S. IPOs Listed Only Abroad (By Value)</i>		
	1996-2005: 0.1%	4.2%

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<b>Measure</b>	<b>Historical Average</b>	<b>YE 2007</b>
<b>Cross-Listing in the U.S. by Foreign Companies</b>	2000-2005: 21	5
<b>Foreign Delisting Rates on the NYSE</b>	1997-2005: 5.2%	15.1%
<b>U.S. Share of Global Market Capitalization</b>	1990-2005: 43.6%	35.8%
<b>U.S. Share of the Value of Global Share Trading</b>	1990-2005: 50.7%	45.0%

## Faulty Competitiveness Measures

### U.S. Underwriting Fees

IPO gross spread of 3.5% on LSE compared to 5.6% on NYSE minor consideration in listing choice; smaller difference for follow-ons (IPOs only 10-15% of stock) and different underwriting process (U.S. bookbuilding)

### “In Play” (E&Y)

Assumes no UK AIM listings would qualify in US (\$50 million plus do, average AIM listing is \$58 million), that US cannot get Chinese listings (does get many) and does not count Rule 144As

### Number of Foreign IPOs in U.S. (Thomson)

Absolute number does not give market share

### Types of Firms That Listed in Past Continue to Do So Today (Doidge, Karolyi, Stulz (DKS) 2007)

Irrelevant since U.S. is not getting foreign listings now; compare AIM's increase from 220 in 2005 to over 500 (as of February 2008)

## “Maybe” Competitiveness Measures

### **U.S. Cross-Listing Premium**

(market/book)

If there is a premium, what  
difference does it make if few  
foreign firms come to get it?  
Truly “academic”

## Listing Premium Findings

- Doidge, Karolyi, Stulz (2007): 1993-2005, average 17% premium for foreign firms cross-listing on U.S. exchanges compared to no premium for firms cross-listing on London Main Market
- Two major flaws in study
  - Does not adequately control for self-selection because better companies cross-list: with controls, other studies find small or no premium—post-SOX, only 8% compared to 5% for OTC, Zingales (2007), no difference from OTC, Georgieva and Lee (2007); Bianconi and Tan (2008), 0% premium for cross-listers from six Asian Pacific countries (Australia, China, India, Japan, Korea and Taiwan)
  - Higher premiums on competitive markets: AIM 27% in 2005, DKS (2007) (average size of AIM listing exceeds minimum \$50 million capitalization necessary for NY listing), Hong Kong over 80%, 1994-2002, Sun, Tong and Wu (2006)
- Listing premiums decrease more post-Sox for firms from strong corporate governance countries that get less value from higher cost U.S. bonding—Zingales (2007), Litvak (2007), and even more for small firms (where more SOX impact), Piotroski and Srinivasan (2007)

## Impact of Loss of Competitiveness

- Less attractive public market leads to less U.S. capital formation, e.g. less venture capital investment
- Fewer investment choices for US retail investors who are shut out of private markets and are not familiar with or do not trust foreign markets
- The securities industry is a key component of the U.S. economy, contributing 1.3% of GDP in 2005; in 2006; the financial services industry contributed 7.8% of GDP, 5.4% of private sector employment (13.5% in securities industry with high paying jobs)
- There is a vast economic literature showing that a thriving financial sector is an important requirement for economic growth

## Why Have U.S. Public Markets Lost Competitiveness?

- Better home and foreign markets, more liquid and better regulated
- More money outside U.S., less need to come
- Better private markets
- Higher regulatory and litigation costs in U.S.

## Are U.S. Regulatory and Litigation Costs a Significant Cause?

- Survey data of financial executives from McKinsey (2006) and Financial Services Forum (2007) indicates significant
- How else to explain boom in Rule 144A private market (less liquid, but no '34 Act or SOX and less litigation exposure—only 10b-5, not Section 11)
- Trivial private securities litigation costs and much lower regulatory costs in foreign markets
- Only cause we can do something about

### Exhibit 3

## AMONG HIGH IMPORTANCE FACTORS, NEW YORK EXCELS IN TALENT BUT UNDERPERFORMS IN LEGAL AND REGULATORY

Performance gap, rating scale

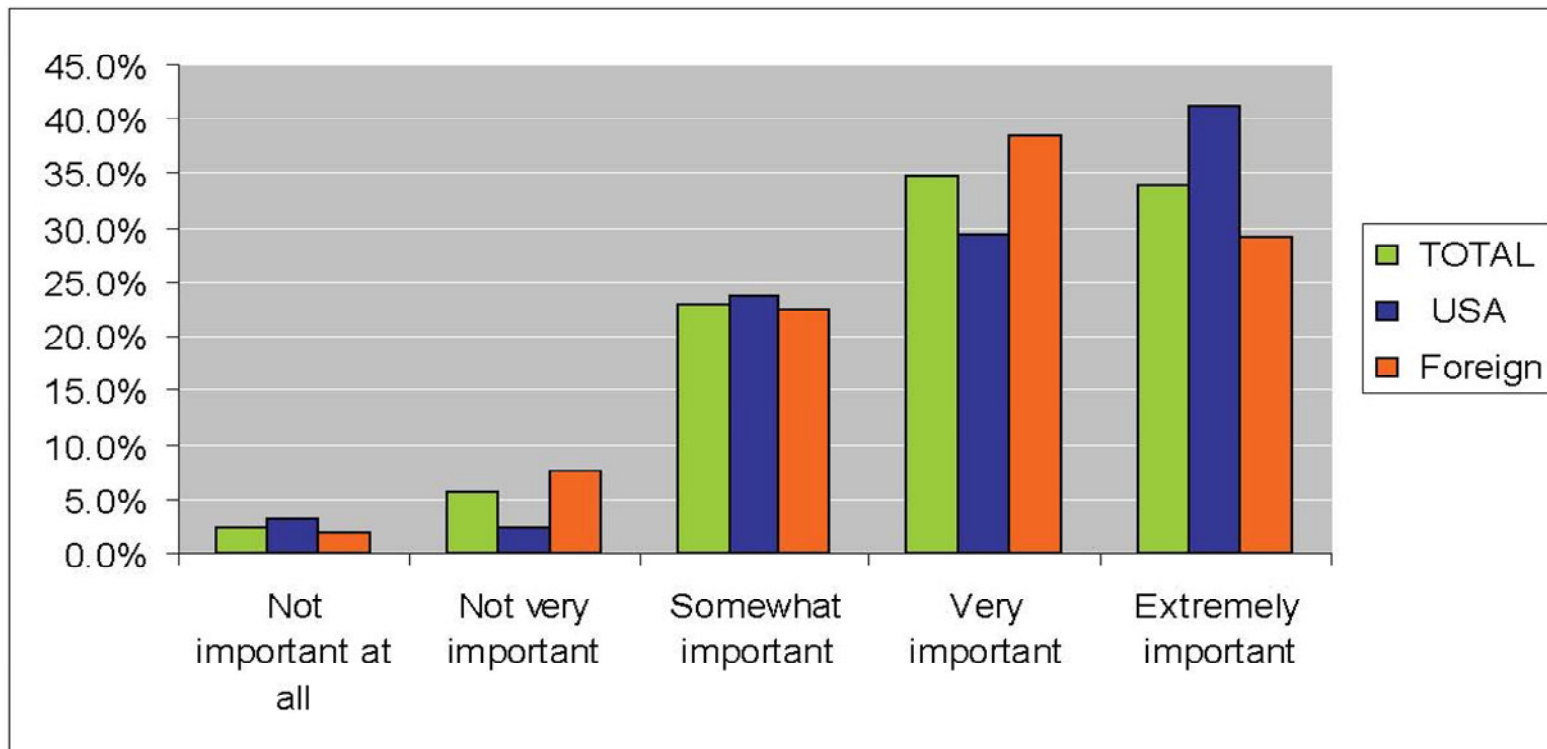
**Importance\***  
 High  
 Medium  
 Low



\* High importance factors were rated between 5.5-6.0 on a 7-point scale; medium between 5.0-5.4; low were less than 5.0

Source: McKinsey Financial Services Senior Executive Survey

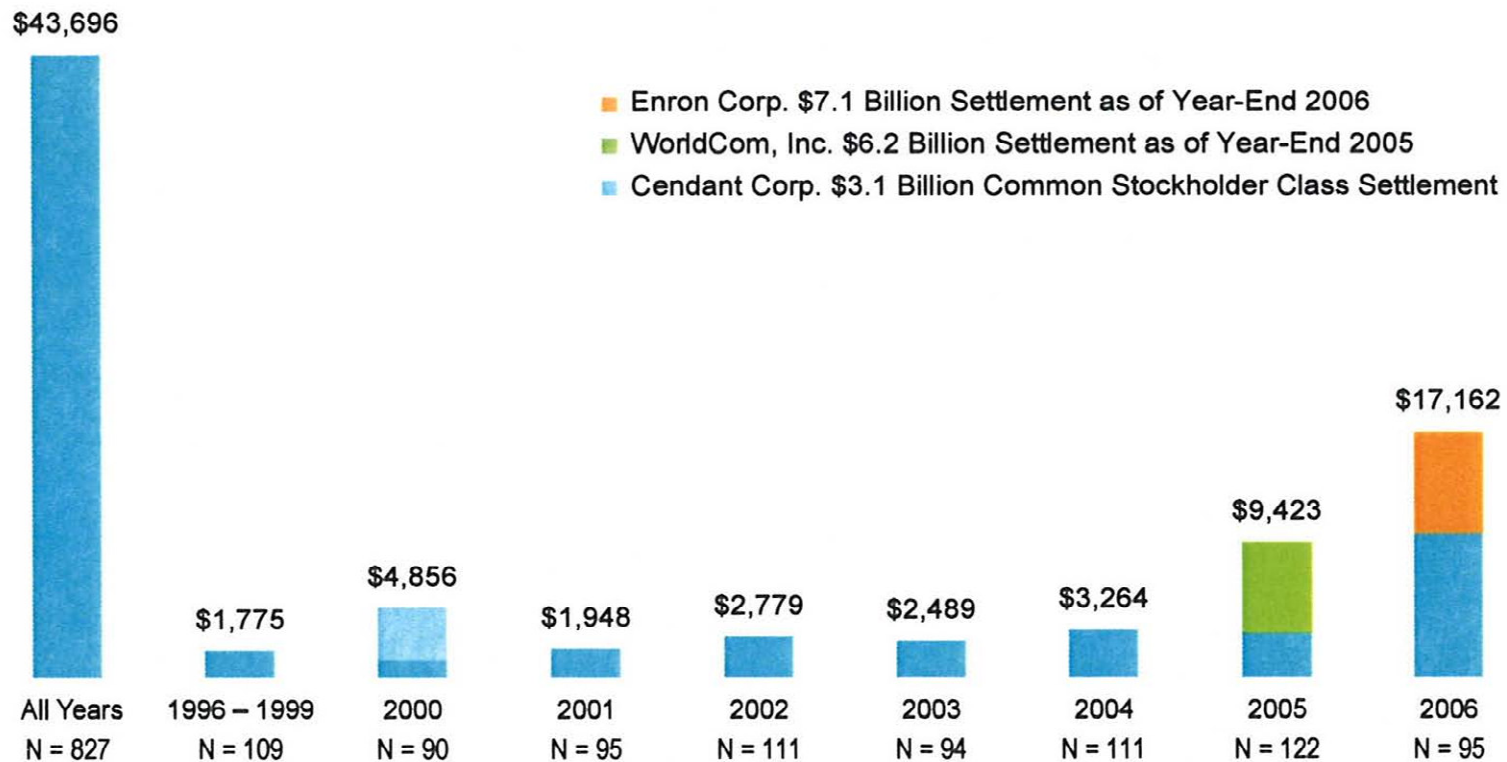
### Importance placed on litigation environment in listing decision



Source: Financial Services Forum, 2007 Global Capital Markets Survey

### TOTAL SETTLEMENT DOLLARS BY YEAR

*Dollars in Millions*



Settlement dollars adjusted for inflation; 2006 dollar equivalent figures shown.

Source: Cornerstone 2007