

# COMMITTEE ON CAPITAL MARKETS REGULATION

## CONTINUED EROSION IN COMPETITIVENESS OF U.S. PUBLIC EQUITY MARKET WAS AMONG THE FEW CLEAR TRENDS DURING 2008 MARKET CHAOS

**CAMBRIDGE, Mass., March 24, 2009** - The Committee on Capital Markets Regulation, an independent and nonpartisan research organization dedicated to improving the regulation and enhancing the competitiveness of U.S. capital markets, said today that its Q4 2008 update on the competitiveness of global capital markets presents evidence of a significant and continued decline in the attractiveness of the U.S. public equity market for foreign and U.S. issuers alike.

The Committee's latest analysis of competitiveness was complicated by chaotic market conditions that distorted some measures. Those factors included a steep decline in overall global IPO activity in 2008 – just 92 global IPOs (those offered by foreign companies outside their home markets) valued at \$20.9 billion compared to 335 worth \$95.8 billion in 2007. That is the biggest decline since the aftermath of the dotcom crash (2001-2003), when the aggregate value of global IPOs averaged just \$10.4 billion annually.

Hal S. Scott, Director of the Committee and Harvard Professor said: “Although the current financial crisis has distorted some traditional measures, there is little question that the competitive position of U.S. capital markets continues to deteriorate.”

He noted that U.S. IPO activity in 2008 was even more anemic than global IPO activity. The 92 global IPOs completed in 2008 represented a 73% decline from the 335 global IPOs completed in 2007, but the 35 U.S. IPOs completed in 2008 represent an even greater 84% drop from the 220 U.S. IPOs completed in 2007.

In other key conclusions, the Committee found that:

- U.S. exchanges continued to lose their share of global IPOs. From 1996 to 2006, U.S. stock exchanges attracted 28.7% (by value) of the IPOs done by foreign companies outside their home markets. By year-end 2008, that figure had plummeted to 1.9%.
- None of the largest global IPOs were listed on a U.S. exchange for the second straight year. In the eleven-year period from 1996 to 2006, before it fell to zero in full year 2007, the U.S. had a 25% share of this market, with an average of 5 of the 20 largest global IPOs listed on a U.S. exchange.
- The number of IPOs that U.S. issuers have chosen to list abroad rather than in the U.S. more than double those abroad – a category all but unheard of a decade ago – has skyrocketed. In the seven-year period from 1996 to 2002, 0.3% of U.S. companies listed their IPOs only on foreign exchanges. By 2007, that figure had jumped to 8.6%, and in 2008 it rose sharply to 20%, with 7 of the 35 U.S. IPOs being listed only abroad.

Additionally, the Committee discovered that market chaos has distorted some traditionally reliable measures. The following measures are misleading and favor the U.S. public equity market in the latest quarter:

- U.S. share of global market capitalization (36.0% in 2008 vs. 32.8% in 2007)

- U.S. share of the value of global share trading (62.4% in 2008 vs. 45% in 2007)

Far from indicating improvement in the competitive posture of U.S. capital markets, the above measures largely reflect the wave of sell-offs hitting smaller non-U.S. equity markets. The Committee also recognized that a big drop in the percentage of New York Stock Exchange-listed foreign issuers, who sought to delist their shares in 2008 (down to 5% from 15% in 2007), reflected the fact that the large number of delistings during 2007 were likely stimulated by a relaxation of SEC delisting rules that had previously made delisting much more difficult.

The Committee also noted a rise in the activity of foreign issuers raising equity through Rule 144A IPOs in the U.S. during 2008. This is also distorted, as the rise (to about 95% of the total value of global IPOs listed in the United States in 2008, up from 88% in 2007) may be a reflection of the near impossibility of getting IPOs done in the current economic climate rather than an increasing aversion to the U.S. public equity markets.

The Committee found that while its 2008 data must be interpreted in the context of the low IPO levels amid significant market turmoil, the competitive position of the U.S. public equity markets does indeed continue to deteriorate from historical standards. Without major reforms in shareholder litigation, the regulatory process, and shareholder rights, the Committee predicts that these adverse trends will continue. Additional regulation of the capital markets, if done only by the United States and not its competitors, may further accelerate this trend.

The Committee began tracking 13 separate measures of the competitiveness of U.S. capital markets on a quarterly basis in December 2007 with its report: “The Competitive Position of the U.S. Public Equity Market.” The 13 measures fall into five categories: (1) equity raised in public markets; (2) the relative size of the private Rule 144A and public equity markets in the U.S.; (3) cross-listings and delistings by foreign companies; (4) trading on U.S. and non-U.S. stock exchanges; and (5) regional origin of U.S. investment banking revenue. Historical data through 2008 is now available on the Committee’s website at [www.capmktreg.org](http://www.capmktreg.org).

# # #

**For Further Information:**

Prof. Hal S. Scott, Director  
Committee on Capital Markets Regulation  
(617) 384-5364  
[hscott@law.harvard.edu](mailto:hscott@law.harvard.edu)

Steve Rose  
Hullin Metz & Co.  
(212) 752-1044  
[steve@hmccllc.com](mailto:steve@hmccllc.com)