

FIRST QUARTER MEASURES REVEAL CONTINUED DECLINE IN COMPETITIVENESS OF U.S. PUBLIC EQUITY MARKETS

CAMBRIDGE, Mass., July 22, 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 Q1 2009 update presents evidence of continued decline in the competitiveness of U.S. public equity markets.

The Committee's analysis of competitiveness continues to be complicated by overall economic deterioration worldwide. Looking at global IPOs narrowly defined (those offered by foreign companies outside their home markets), issuance activity plunged in the first quarter of 2009—there were only 8 global IPOs valued at \$200 million, compared to 92 global IPOs valued at \$20.9 billion for all of 2008, and 335 worth \$95.8 billion for all of 2007. This is the biggest decline in global IPO activity since the bursting of the dot-com bubble (2001-2003), when the aggregate value of global IPOs averaged just \$10.4 billion annually.

Harvard Professor Hal S. Scott, President and Director of the Committee said, “while the latest results must be cautiously interpreted in light of the global recession, the competitiveness of U.S. public equity markets appears to continue to decline.” Most of the Q1 2009 competitiveness measures reflected negatively on the attractiveness of U.S. public equity markets.

For example, the U.S. share of global IPOs dropped to a near-nonexistent 0.8% in Q1 2009. Historically, the US share of global IPOs by value averaged 28.7% for the period 1996-2006, but dropped to 6.9% in 2007, and further down to 1.9% in 2008.

Even among the global IPOs captured by the United States, the percentage by value consummated via the private Rule 144A market, rather than the public market, remains above historic levels. During 1996-2006, this figure averaged just 64.1%. In Q1 2009, 71.7% of those IPOs were Rule 144A offerings.

Other key findings include:

- The U.S. share of equity globally raised in public markets was just 8.9% in Q1 2009, less than half of its 23.6% share in 2008. Historically, this measure has averaged 32.2% during 1996-2006.
- The U.S. share of total global M&A advisory and equity/debt underwriting revenue steadily declined from an average of 49% for 1996-2006, to 42% in 2007, 41% in 2008. The decrease was even more dramatic for Q1 2009—the U.S. share had dropped to 34%.

The Committee also found that some measures that appeared to improve during the market chaos in 2008 returned to their historic downward trajectory:

- While the U.S. share of global market capitalization grew amidst the market chaos of 2008 to 36.0% from the previous year's 32.8%, that figure is down to 34.1% in Q1 2009, marking an overall steady decline from an average of 43.3% during 1990-2006.
- The U.S. share of the value of global share trading dipped to 23.7% after erratically peaking at 62.4% in 2008. On the whole, this measure has been in decline from a historic average of 50.6% during 1990-2006 and 45.0% for 2007.

At the time these erratic movements took place, the Committee put forth the hypothesis that they largely reflected the wave of sell-offs hitting smaller non-U.S. equity markets, a type of flight to quality, rather than any improvement in the attractiveness of U.S. exchanges. The passage of time indicates this hypothesis may be correct.

The Committee did find that some measures improved in Q1 2009, but it is likely this is attributable to the low level of worldwide IPO activity.

- In Q1 2009, one of the "top 20 IPOs" was done in the United States. However, there were only a total of nine global IPOs in the first quarter. In the eleven-year period from 1996 to 2006, the United States had a 25% share of this market. But in 2007 and 2008, the United States captured none of the top 20 global IPOs.
- The percentage of IPOs that U.S. issuers have chosen to list only abroad has fallen to zero after climbing to 20.0% in 2008. However, in Q1 2009 there were only four IPOs done by U.S. issuers, a base too small for any meaningful conclusion to be drawn. Historically, the percentage of IPOs that U.S. issuers have chosen to list only abroad has been negligible, averaging only 0.3% during 1996-2006 but growing to 8.6% in 2007.

In addition, while the number of foreign companies choosing to cross-list in the United States increased from 3 in 2008 to 8 in Q1 2009, it is still quite low by historical standards. Another improved measure was the number of foreign companies delisting from the NYSE, having declined to 1.2% compared to 5% in 2008 and 15.1% in 2007. As the Committee has previously indicated, it may be that most of the foreign companies who find a U.S. listing unattractive have already departed after the 2007 SEC rule change made such departure more feasible.

Overall, the Committee found that while its Q1 2009 data must be interpreted in the context significant market turmoil and general economic decline worldwide, the competitive position of the U.S. public equity markets continues to deteriorate from historical levels. The Committee predicts that without major reforms in capital markets regulation these adverse trends will continue. The current crisis provides a unique opportunity to effect reform in this area. In May, the Committee released a comprehensive report entitled *The Global Financial Crisis: A Plan for Regulatory Reform* containing 57 specific recommendations aimed at ensuring stability and increasing transparency in the

U.S. capital markets. Implementation of these reforms would restore confidence in the U.S. financial system while enhancing the competitiveness of U.S. capital markets.

The Committee began tracking 13 measures of the competitiveness of U.S. capital markets in its December 2007 report, *The Competitive Position of the U.S. Public Equity Market*. Each quarter, the Committee issues an update to this report. 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 Q1 2009 is now available on the Committee's website at www.capmksreg.org.

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