

CONTINUING COMPETITIVE WEAKNESS IN U.S. CAPITAL MARKETS

Committee Study Shows Weakness in the Competitiveness of US Primary Markets

CAMBRIDGE, Mass., February 25, 2015—U.S. capital market competitiveness showed continued historical weakness through the fourth quarter of 2014, despite the positive effect of the record-breaking initial public offering of the Alibaba Group.

“While the U.S. capital markets have strengthened in terms of domestic IPOs, the overall competitive landscape internationally continues to disappoint,” said Professor Hal S. Scott, Director of the Committee on Capital Markets Regulation. “Even taking into account the Alibaba IPO, foreign companies are choosing to raise capital outside U.S. public markets at rates far below the historical average. Putting aside Alibaba, the competitiveness of our public markets is significantly worse.” Professor Scott also expressed concern that “there is a disturbing trend of annual declines in the U.S. share of secondary market trading.”

Alibaba’s choice of New York over Hong Kong was driven primarily by a desire for a dual share class structure, which could not be achieved in Hong Kong, rather than a judgment about the appeal of the U.S. regulatory framework and liability rules, i.e. securities class actions. Establishing a lower standard of governance than other financial market centers is not the way to restore the competitiveness of the U.S. capital markets.

Excluding Alibaba, a number of additional key measures of market competitiveness showed continued weakness, including:

- **The U.S. share of global IPOs by foreign companies stood at 8%**, a far cry from the 1996-2007 average of 26.8%. Foreign issuers continued to express an aversion to U.S. public markets, as **85.5% of IPOs by foreign companies were conducted via Rule 144A**.
- **The U.S. share of the 20 largest global IPOs by foreign companies stands at 1 out of 20**, which is down from the 1996-2007 average of 20%.
- **U.S. share of global secondary market share-trading sits at 36.0%**, continuing the uninterrupted pattern of annual declines from 58.2% in 2008 to 42.6% in 2013. This calls into question the long-standing assumption that the technical sophistication of U.S. trading markets will ensure their privileged position in global capital markets.

The CCMR believes that the policy recommendations in its 2006 *Interim Report* remain essential to the restoration of U.S. competitiveness. “In addition, we urge regulators implementing the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act to minimize the adverse competitive effects of new regulations, particularly in areas where the U.S. regulatory approach differs significantly from competitor markets,” said Scott.

Historical data through 2014 are available at www.capmksreg.org.

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Founded in 2006, the Committee on Capital Markets Regulation is dedicated to enhancing the competitiveness of U.S. capital markets and ensuring the stability of the U.S. financial system. Our membership includes thirty-seven leaders drawn from the finance, investment, business, law, accounting, and academic communities. The Committee is chaired jointly by R. Glenn Hubbard (Dean, Columbia Business School) and John L. Thornton (Chairman, The Brookings Institution) and directed by Hal S. Scott (Nomura Professor and Director of the Program on International Financial Systems, Harvard Law School).

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COMMITTEE ON CAPITAL MARKETS REGULATION

Measure	Historical Average	2008	2009	2010	2011	2012	2013	2014
1. U.S. Share of Equity Globally Raised in Public Markets	1996-2007: 31.1%	23.6%	24.6%	30.0%	42.7%	49.8%	40.1%	31.1% (28.3%)
2. U.S. Share of Global IPOs by Foreign Companies (Broad Definition, By Value)	1996-2007: 26.8%	1.9%	16.9%	14.2%	8.6%	11.4%	7.0%	26.0% (8.0%)
3. U.S. Share of 20 Largest Global IPOs	1996-2007: 4 of 20	0 of 20	2 of 20	1 of 20	3 of 20	1 of 20	0 of 20	2 of 20 (1 of 20)
4. Rule 144A IPOs by Foreign Companies as % of Total Global IPOs in the U.S. (By Value)	1996-2007: 66.1%	95.5%	70.2%	79.3%	82.5%	84.5%	89.0%	64.4% (85.5%)
5. % of IPOs by U.S. Issuers Listed Only Abroad	1996-2007: 1.9%	20.0%	3.0%	5.2%	6.9%	0.7%	3.3%	2.6%
6. Equity Raised in the U.S. by Foreign Issuers via Rule 144A BONY ADRs	2000-2007: \$2.5b	\$308mn	\$738mn	\$771mn	\$1.323b	\$3.57b	\$1.51b	\$1.29b
7. Equity Raised via Rule 144A ADRs as a % of Equity Raised by Foreign Issuers in the U.S. Public Market	2000-2007: 10.6%	5.0%	4.1%	3.8%	6.3%	26.5%	5.7%	2.2%
8. No. of Foreign Companies Cross-Listings in the U.S.	2000-2007: 17	3	5	7	11	9	9	5
9. % of Foreign Companies Delisting from the NYSE	1997-2007: 6.3%	5.0%	4.2%	6.0%	5.8%	5.3%	6.0%	3.8%
10. U.S. Share of Global Market Capitalization	1990-2007: 42.7%	36.0%	32.4%	31.5%	33.0%	35.0%	37.9%	41.4% (41.1%)
11. U.S. Share of the Value of Global Share Trading	1990-2007: 50.6%	58.2%	50.2%	48.3%	48.8%	47.5%	42.6%	36.0%
12. ADR Trading Volumes as a % of Ordinary Share Trading Volumes in Home Markets	2001-2007: 17.9%	18.3%	18.5%	22%	20.9%	11.0%	47.8%	10.8%
13. U.S. % of Global Total of M&A Advisory and Equity/Debt Capital Market Underwriting Revenue by Client-Parent Nationality	1996-2007: 49%	41%	37%	40%	40%	45%	47%	50%

Note: data in parentheses excludes Alibaba