CONTINUING COMPETITIVE WEAKNESS IN U.S. CAPITAL MARKETS

Committee Study Shows Weak Start to 2014 in U.S. Primary Markets

CAMBRIDGE, Mass., May 11, 2015—U.S. capital market competitiveness showed even greater signs of weakness in the first quarter of 2015, when measures of aversion to U.S. public equity markets remained at levels not seen since the 2007-2008 financial crisis.

"The competitive landscape of U.S. equity capital markets has started 2015 with a whimper," said Prof. Hal S. Scott, Director of the Committee on Capital Markets Regulation. "Foreign companies are choosing to raise capital outside U.S. public markets at unprecedented rates."

While the overall U.S. IPO market did see renewed signs of strength in the first quarter, increasing 41% in volume over the first quarter of 2013 ($11 billion versus $7.8 billion), foreign issuers accounted for relatively little of that activity. In fact, a number of key measures of market competitiveness showed dramatic declines over previous years, including:

U.S. share of global IPOs by foreign companies decreased to historical low 2.9%, lower than the 26% for 2014 which was itself buoyed from 8% by the Alibaba IPO. This continues a disturbing pattern of nearly continuous annual declines from the 1996-2007 average of 26.8%.

Foreign companies that did raise equity capital in the United States in the first quarter of 2014 did so overwhelmingly via private rather than public markets. Almost 97% of initial offerings of foreign equity in the United States were conducted through private Rule 144A offerings rather than public offerings. This measure of aversion to U.S. public equity markets is at its highest level ever and stands significantly higher than the historical average of 66.1% (1996-2007).

U.S. share of equity globally raised in public markets sits near the lowest level since 2010. Equity markets in the U.S. captured only 32.4% of primary and secondary offerings so far this year, down from a recent high of 49.8% in 2012. This reflects a continued preference by issuers to avoid the United States equity capital markets.

There was zero cross-listing activity in the U.S. by foreign companies. If cross-listings followed the historical average of 17 per year, at least 4 companies should have cross-listed in the first quarter. The low number of companies seeking to list in the U.S. without raising capital provides further evidence that the regulatory climate is not attractive to companies wishing to associate themselves with more rigorous standards of conduct.

The CCMR believes that the policy recommendations in its 2006 *Interim Report* remain essential to the restoration of U.S. competitiveness. "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 2012 are available at www.capmktsreg.org.

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