COMMITTEE ON CAPITAL MARKETS REGULATION

CONTINUING COMPETITIVE WEAKNESS IN U.S. CAPITAL MARKETS

Committee Study Shows Weakness in the Competitiveness of US Primary Markets

CAMBRIDGE, Mass., November 26, 2014—U.S. capital market competitiveness showed continued historical weakness through the third 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. "

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. Moreover, "bonding" to a lower standard of governance is not the way to restore the competitiveness of the public market. Excluding Alibaba's historic listing, a number of additional key measures of market competitiveness showed continued weakness, including:

- **U.S. share of global IPOs by foreign companies sits at 9.0%**, continuing the trend of foreign companies avoiding U.S. equity markets. This measure remains far below the historical average of 26.8% (1996-2007).

- **Foreign companies that did raise equity capital in the United States through the third quarter of 2014 did so overwhelmingly via private rather than public markets**. Approximately 84% 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 stands significantly higher than the historical average of 66.1% (1996-2007).

- **Cross-listing activity in the U.S. by foreign companies for non-capital raising purposes remained low.** Activity through the third quarter of 2014 suggests only 3 foreign companies will cross-list in the U.S. this year for purposes other than capital raising (such as bonding to US standards), fewer than in any year since 2008, and well below the historical average of 17 cross-listings per year.

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 2013 are available at www.capmktsreg.org.

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