Competitiveness of U.S. public equity markets called ‘weak’

By Editorial Staff *Thu, Nov 27, 2014*

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 average of 26.8% from 1996 to 2007.

Despite the record-breaking initial public offering of the Alibaba Group, U.S. capital market competitiveness showed continued historical weakness through the third quarter of 2014, according to the Committee on Capital Markets Regulation, a 35-member group directed by Hal Scott of Harvard.

“While the U.S. capital markets have strengthened in terms of domestic IPOs, the overall competitive landscape internationally continues to disappoint,” said Scott, the Nomura Professor and director of the Program on International Financial Systems at Harvard Law School. “Putting aside Alibaba, the competitiveness of our public markets is significantly worse.”

According to the CCMR release, “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.” They included:

- 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 U.S. 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, in a release.