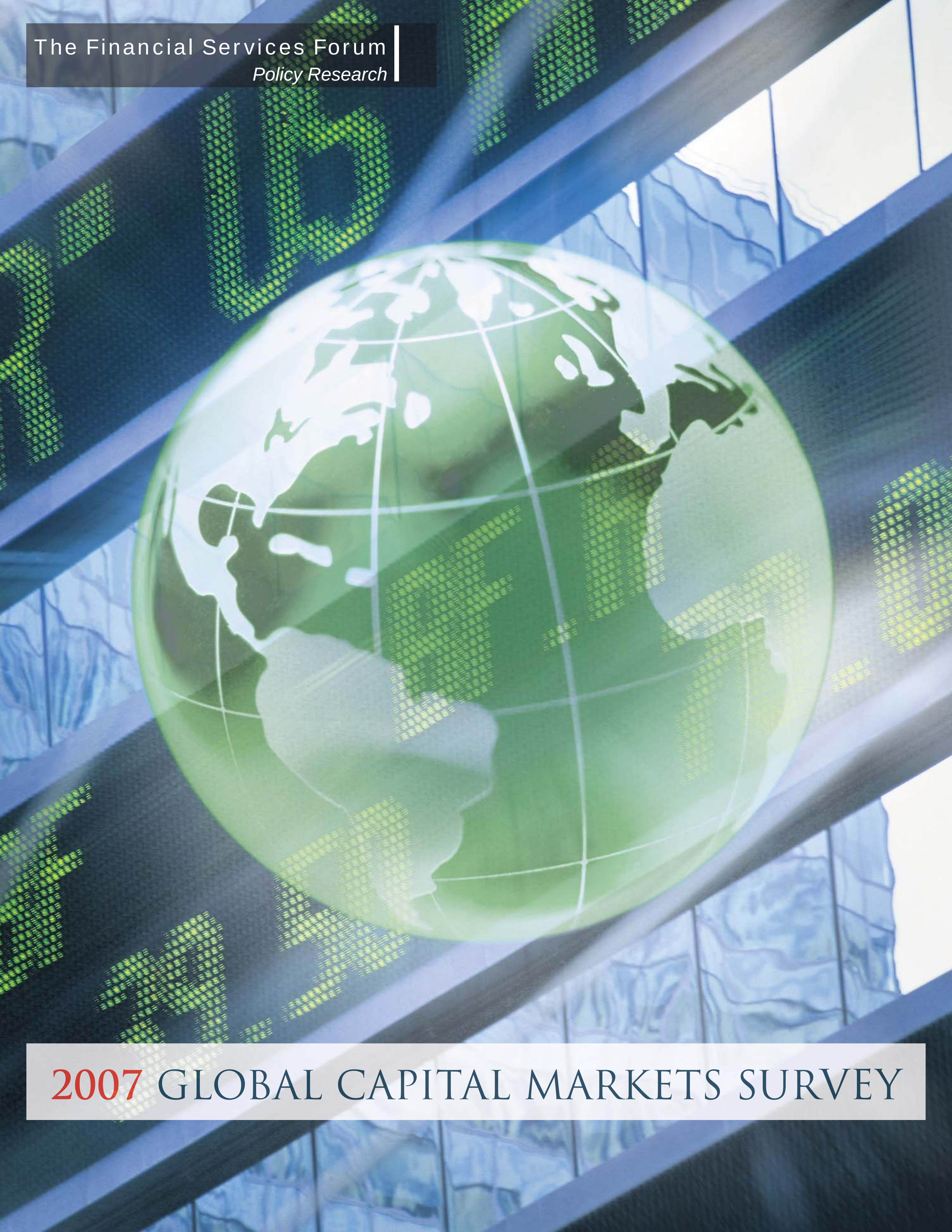
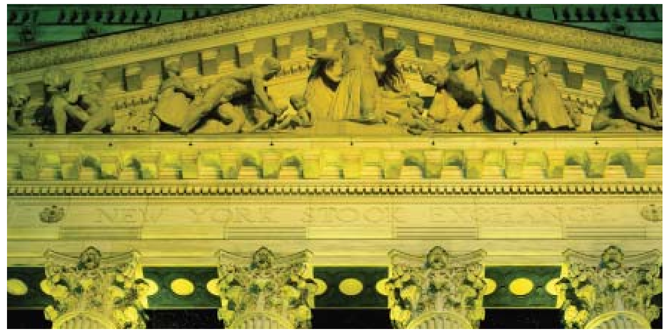
The Financial Services Forum
Policy Research



2007 GLOBAL CAPITAL MARKETS SURVEY

INTRODUCTION



For 75 years the U.S. capital markets have been the global gold standard and remain the largest, most liquid, and efficient in the world. U.S. capital markets currently account for 45 percent of global equities and more than half of the world's corporate debt securities.

Having the world's premier capital marketplace within its borders has yielded enormous benefits to the United States. The financial services industry accounts for 5 percent of U.S. private sector jobs and contributes $1 trillion, or more than 8 percent, to annual GDP.

More fundamentally, capital is the lifeblood of any economy's strength and well-being. Broad and liquid markets produce significant advantages for investors and issuers of securities alike. For investors – a group that includes more than half of all American households – benefits include a wider range of investment alternatives, highly efficient pricing, and greater liquidity. For issuers of securities, benefits include a larger shareholder base, enhanced corporate prestige, and a lower cost of capital – which translates directly into more research and risk-taking and, therefore, greater innovation, higher productivity, stronger economic growth, and faster job creation.

In recent years, however, more companies have turned to overseas markets to raise capital. In 2006, more capital was raised through initial public offerings (IPOs) on the Hong Kong Stock Exchange than on the New York Stock Exchange and NASDAQ combined.

According to the Committee on Capital Markets Regulation, the U.S. share of capital raised through IPOs and secondary offerings on global public markets has fallen from 28.8 percent in 2002 to 19.2 percent in 2007 (through October). In addition, more U.S. companies are choosing to list shares overseas rather than on U.S. capital markets. From 1996 to 2005, less than one percent of U.S.-domiciled companies went public overseas without also listing in the U.S. Through the third quarter of 2007, however, 9.2 percent of U.S.–based IPOs shunned U.S. markets in favor of an overseas listing.

This trend, and the contributing factors, have been the subject of intense debate in financial, academic, and public policy circles. Many point to regulatory burdens and excessive litigation in the United States, while others argue that globalization and larger, more liquid capital markets overseas are the principal drivers of IPO patterns.

To better understand what's happening and why, the Financial Services Forum commissioned a first-of-its-kind survey of senior executives at 334 companies based in the United States, United Kingdom, Germany, France, India, China, and Japan. The companies surveyed have either gone public, seriously considered listing in the United States, or de-listed from a U.S. exchange since the Sarbanes-Oxley Act was passed in 2002. We asked the executives why their company made the listing decision it did.

Their responses make clear that a number of factors are at play, including larger and more liquid capital markets overseas, a litigation environment in the United States perceived as being unfriendly to companies, regulatory burdens such as Sarbanes-Oxley, high listing fees on U.S. exchanges, and the costs associated with reconciling foreign accounting practices with U.S. standards. The results also reveal a great deal about what steps U.S. policymakers can take to preserve and enhance the competitive position of America's capital marketplace.

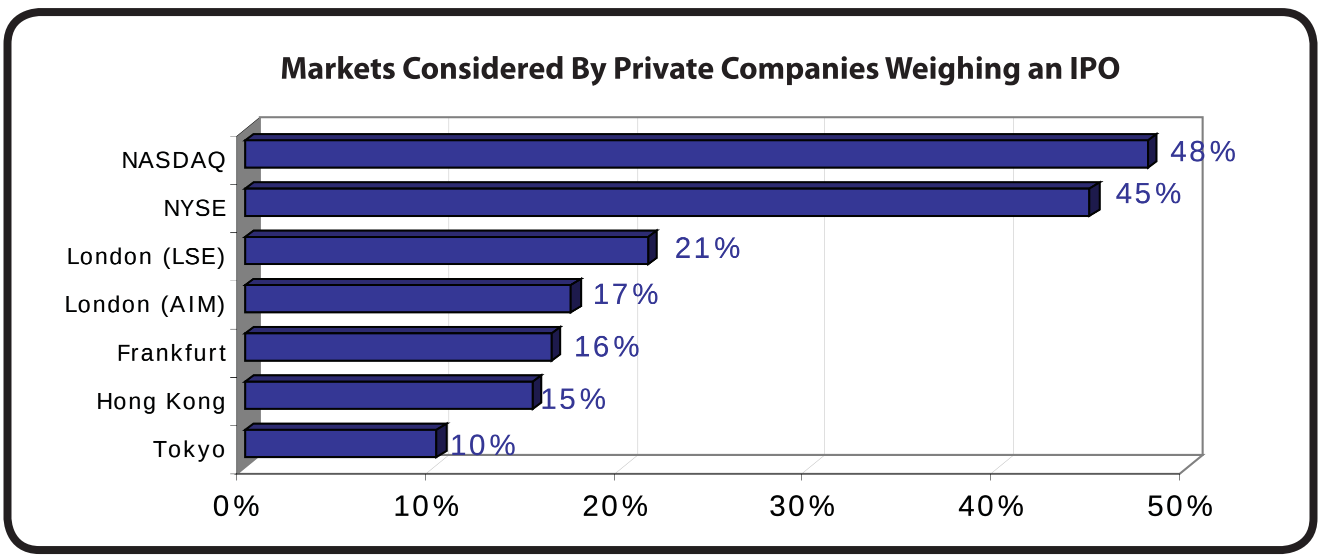
American Capital Markets Still Generate Interest, But…

Extraordinary size, liquidity, efficiency, sophistication, and oversight have made the United States the capital marketplace of choice for 75 years. These attributes continue to inspire unrivaled interest among companies considering a public offering.

The Financial Services Forum's 2007 Global Capital Market Survey found that 41 percent of the companies surveyed who went public on a foreign exchange in the last four years considered a U.S. listing before deciding to list elsewhere. Of the private companies who said they have considered an IPO, 48 percent said they considered listing on NASDAQ and 45 percent said they considered the New York Stock Exchange.

Despite this continuing interest, data show that fewer and fewer foreign companies are actually listing in the United States and dozens are de-listing from U.S. exchanges.

> "The American stock market is the most strategic and most prestigious place in the world."
>
> - Survey respondent, French company listed in the U.S.



Growing Competition to U.S. Capital Markets

With the growth of capital markets overseas, foreign companies no longer have to look to the United States to find adequate capital. The Forum's survey found that the availability of plentiful capital outside the United States was the single most important factor in the decision of foreign companies who considered a U.S. listing but in the end decided to list overseas. Simply stated, New York is no longer the only game in town.

Larger overseas capital markets mean it's easier for foreign companies to raise investment capital closer to home. The fact that 5 out of the top 20 IPOs came from China in 2006 helps explain why the Hong Kong Stock Exchange attracted 19 percent of global IPO dollars that year, a larger share than any other exchange. Indeed, over the last few years, the number of IPOs from the emerging economies of Brazil, Russia, India, and China has risen three-fold, from 90 in 2002 to 279 in 2006.

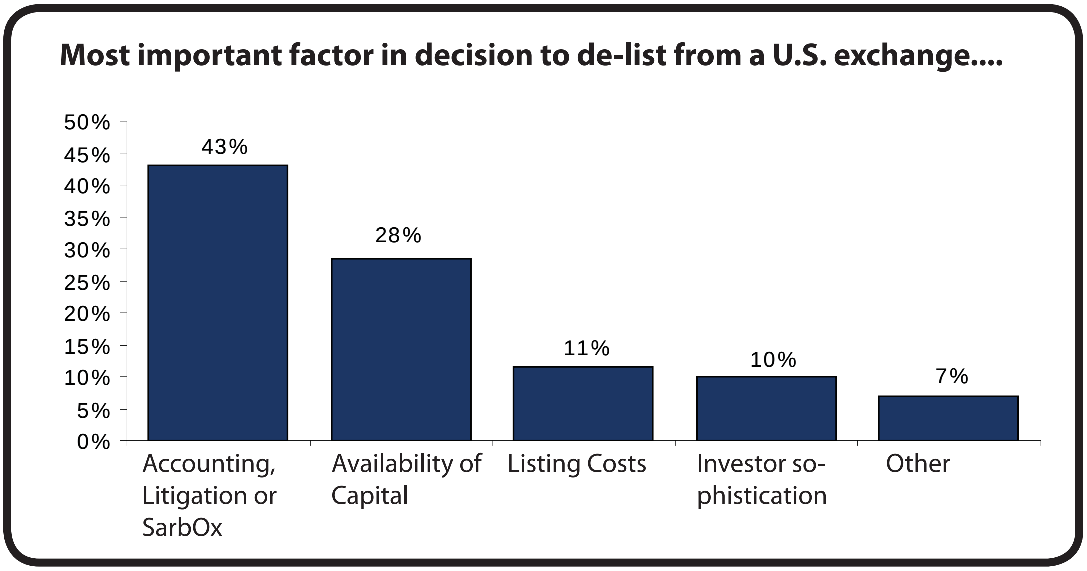
The real challenge for U.S. markets is that when companies do decide to list outside of their home country, they are increasingly looking to non-U.S. markets. Listings in London by foreign-based companies increased 85 percent in 2006, making London the world's top cross-border capital marketplace.

The availability of capital outside of U.S. exchanges was the single most important factor in the decision of foreign companies who weighed a U.S. listing but decided in the end to list overseas.

By contrast, the Committee on Capital Markets Regulation found a significant drop in the U.S. share of cross-border IPOs. Through September of 2007, only 10 percent of these cross-border IPOs listed on a U.S. exchange, well below an average of 21 percent over the period 1996-2005.

In 2006, 16 Chinese companies listed on London's exchanges. Only 9 listed on the NYSE and NASDAQ.

- Source: Ernst and Young



A Bridge Too Far

Excessive Litigation, Incompatible Accounting Regimes, and High Regulatory Burden Deter U.S. Listings

Rapidly growing emerging economies and larger, more liquid capital markets overseas are the principal factors driving global IPO trends. While no doubt a source of concern for U.S. exchanges, such competition is healthy and a positive development. Growing emerging market economies mean larger markets for U.S. goods and services – including financial services – and open and competitive global capital markets are essential to provide the capital that U.S. and foreign companies need to grow and create jobs at their full potential.

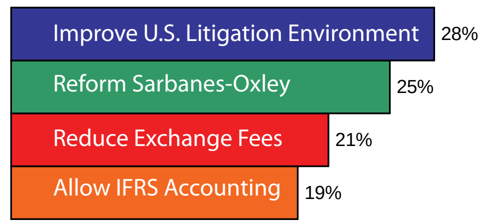
At the same time, the Forum's survey identified several problematic issues that are significantly undermining the appeal of U.S. capital markets in the face of heightened global competition: an unfriendly litigation environment, burdensome regulations, and the requirement -- which the Securities and Exchange Commission (SEC) voted to remove in November -- that international accounting practices be reconciled to U.S. Generally Accepted Accounting Principles (GAAP).

According to the survey, 43 percent of companies who de-listed from a U.S. exchange cited accounting standards, Sarbanes-Oxley, or the litigation environment in the United States as the most important factor in their decision to go private. And 39 percent of responding companies who have considered a U.S. listing over the past four years report that one of these three factors was the most important consideration. Nearly a third of foreign companies surveyed who considered a U.S. listing cited excessive regulation as the primary reason they chose to list overseas.

A Hostile Litigation Environment

Since the 1930s, the United States has required extensive financial disclosures by publicly listed companies backed up by one of the most robust enforcement regimes in the world. Indeed, vigorous enforcement of investor protections and the ability of shareholders to seek legal redress for wrongdoing has helped make U.S. capital markets the global gold standard. Having said that, it is also true that U.S.-listed companies face the potential of extraordinary litigation costs that companies listed abroad do not.

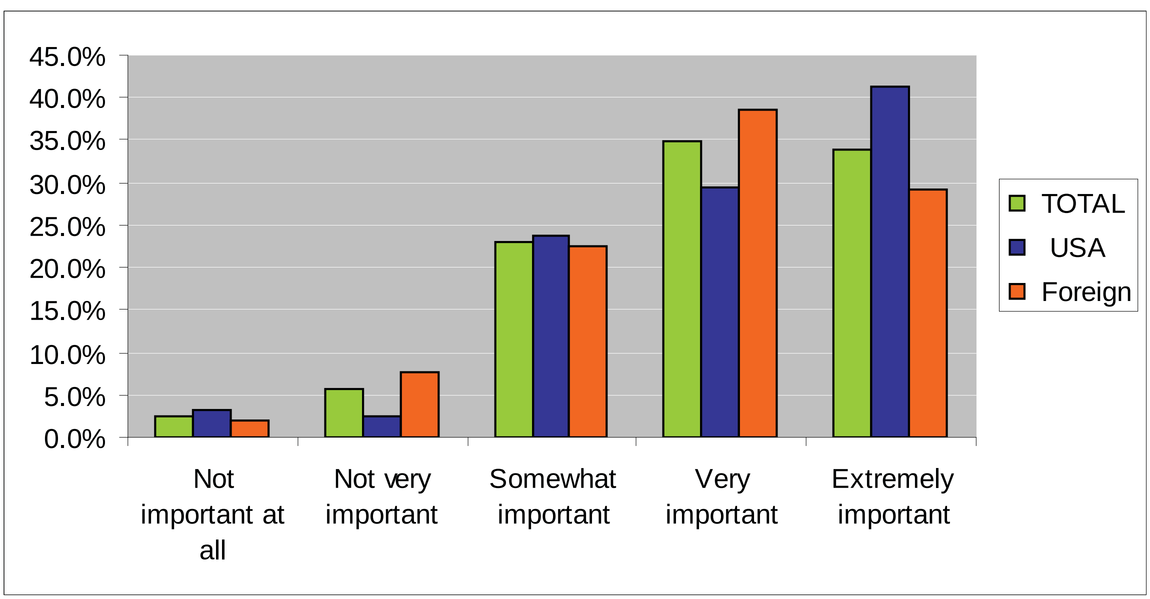
U.S. Public Companies:
Which of the following is the most important thing the United States could do to make U.S. markets more competitive?



Securities class action settlements in 2006 totaled $10.6 billion (not counting the Enron-related settlements of approximately $7.1 billion), up 255 percent from 2004, up more than 500 percent since 2000 (not including the $3.1 billion Cendant settlement),[1] and up an astonishing 7,000 percent since 1995.[2]

1 Cornerstone Research
2 Committee on Capital Markets Regulation

Importance placed on litigation environment in listing decision



While many of these claims are legitimate, the sheer number of cases and the staggering settlement amounts illustrate the growing impact of the tort system on the U.S. economy.

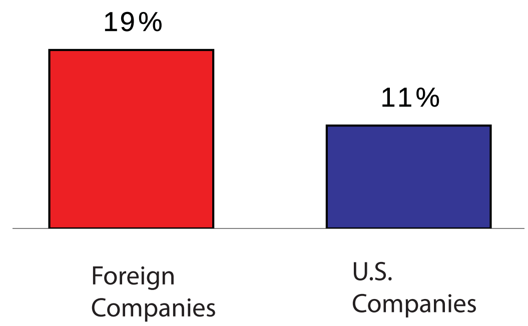
The Forum's survey confirms that the U.S. litigation environment is a significant concern for many companies. One out of three companies in the survey that considered going public in the United States rated litigation as an "extremely important" factor in their decision, and nine out of 10 companies who de-listed from a U.S. exchange in the last four years said the litigation environment played some role in that decision.

American public companies – many of whom have experienced the cost of America's litigious culture first hand – say that legal reform should be at the top of any meaningful competitiveness agenda. One out of four U.S.-listed public companies cited litigation reform as the most significant step the U.S. can take to improve the attractiveness of U.S. capital markets.

Foreign companies, who face little or no threat from excessive lawsuits in their home markets, are especially wary of the U.S. litigation environment. One out of five foreign companies considering an IPO cited the litigation environment as the most important factor in their decision, as compared to one out of ten U.S. companies.

The U.S. litigation environment is of special concern to foreign companies...

Litigation environment most important factor in IPO decision.



Burdensome Regulations: Sarbanes-Oxley

While the SEC and Public Company Accounting Oversight Board have issued new rules intended to reduce the burdens of complying with Sarbanes-Oxley, the law continues to be a concern for many companies and a deterrent to listing in the United States. Executives at 39 percent of responding foreign-listed firms who had considered a U.S. listing report that reforming Sarbanes-Oxley is the most important step U.S. policymakers can take to make American capital markets more competitive.

Allowing IFRS Accounting Standards Removes a Hurdle for Foreign Companies

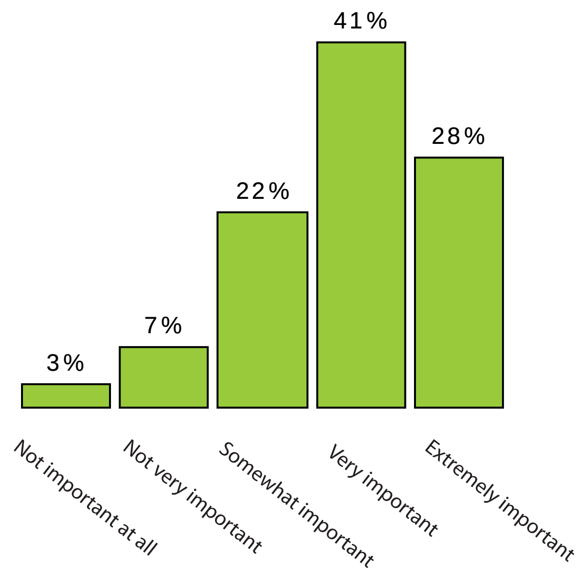
Among the highest hurdles for foreign companies considering a U.S. listing has been the incompatibility of International Financial Reporting Standards (IFRS) – the accounting standard applied in 108 countries around the world – with U.S. GAAP. The difficulty and expense of reconciling the two standards often proved a deal-breaker for many foreign firms. The survey shows that the SEC's decision to allow the use of IFRS accounting standards by foreign companies listed in the U.S. will enhance the competitiveness of U.S. capital markets.

One out of five foreign companies who considered a U.S. listing in the last four years but chose instead to list overseas said that accounting standards were the most important factor, and nearly every foreign public company in the study that decided against a U.S. listing reported that accounting standards played a role in that decision. One-third of the executives interviewed at these companies said that allowing foreign companies to use IFRS would be the most significant step the United States could take to make American markets more attractive.

The SEC's decision to allow the use of IFRS accounting standards by foreign companies listed in the U.S. will enhance the competitiveness of U.S. capital markets.

Ninety-seven percent of the foreign companies surveyed who considered listing in the U.S. but decided to do their IPO overseas said that accounting standards played at least a somewhat important role in that decision.

Foreign Companies:
How important are compatible accounting standards?



Conclusion

As foreign markets grow larger, more liquid and sophisticated and as alternative forms of raising capital such as private equity proliferate, U.S. capital markets face greater competition. In many ways, this is a healthy and beneficial trend – a natural result of higher rates of economic growth overseas, particularly among developing nations. Continuation of this growth and development around the world will yield benefits to the U.S. economy and American workers – benefits associated with expanding markets for U.S. goods and services.

Nevertheless, the benefits that accrue to American investors and issuers, and to the U.S. economy more generally, of being one of the world's great capital marketplaces are significant, and every effort should be made to preserve and enhance the competitive position of the American markets. The Financial Services Forum's 2007 Global Capital Market Survey makes clear that the top three policy imperatives in this regard are litigation reform, reducing onerous regulations, and allowing foreign companies to report financial information using IFRS.

For the U.S. to be more competitive, "litigation needs to be more rationalized."

- Survey participant at a public company listed in London

To make the U.S. more attractive to IPOs "improve American judicial environment and give Chinese enterprises better...investment environment."

- Survey participant at a Chinese public company.

Financial Services Forum
2007 Global Capital Markets Survey

Companies were selected for this study based on three criteria: 1) public companies who have had their IPO in the last four years, 2) de-listed companies who have decided to become private after being listed on a United States exchange in the last four years, and 3) prospects who have seriously considered listing on a United States exchange in the last four years. The 334 interviews included both C-level and other senior executives who report to highest levels of a company. Companies were located in the United States, United Kingdom, Germany, France, India, China, and Japan. The online survey was conducted between May and July 2007 to measure perception of United States market competitiveness versus foreign exchanges, since the inception of the Sarbanes-Oxley Act.

	Total	US Companies	Foreign Companies
	n=334	n=132	n=202
Title			
CEO	42%	50%	36%
CFO	17%	13%	19%
COO	15%	8%	20%
Other Executives	23%	29%	18%
Company Size			
Less than 500	28%	25%	30%
500-4999	42%	45%	40%
5000+	30%	37%	46%
Company Revenue			
Less than $120 mil.	37%	43%	32%
$120-$500 mil.	45%	37%	51%
$500 mil. +	18%	20%	17%
Company Type			
Public-Listed on US Exchange	19%	40%	17%
Public-Listed on Foreign Exchange	30%	7%	33%
De-listed	22%	23%	22%
Prospect	29%	30%	28%

Other Resources:

Ernst and Young, "Globalization: Global IPO Trends Report 2007."

The Committee on Capital Markets Regulation, "The Competitive Position of the U.S. Public Equity Market." (December 4, 2007)

Cornerstone Research and the Stanford University Securities Class Action Center, "Securities Class Action Settlements: 2006 Review and Analysis."

U.S. Chamber of Commerce Center for Capital Market Competitiveness www.uschamber.com/ccmc

www.financialservicesforum.org

About The Financial Services Forum

The Financial Services Forum is a non-partisan financial and economic policy organization comprised of the chief executive officers of 20 of the largest and most diversified financial institutions. The Forum works to promote policies that enhance savings and investment in the United States and that ensure an open, competitive and sound global financial services marketplace.

The Forum's three primary missions are to:

- Educate the public about the importance of robust capital markets;
- Encourage a competitive global marketplace; and
- Shape the national and international regulatory dialogue.

As a group, the Forum's member institutions employ more than 2 million people in 175 countries and hold combined assets of more than $19 trillion -- an amount greater than the annual economic output of the United States, Germany, and China combined.

The Forum was founded in 2000 and has been called "perhaps the country's most powerful trade association," by *Time*.