

# NEWS

## SECURITIES AND EXCHANGE COMMISSION

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### THE INTERNATIONALIZATION OF SECURITIES MARKETS: A BALANCED APPROACH

An Address by  
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I am very pleased to have the opportunity to meet with you today to discuss the "internationalization of securities markets." I approach this subject, however, with some degree of trepidation because the SEC has not historically been in the forefront of discussions concerning international matters.

Since its creation almost 50 years ago, the SEC has been charged with maintaining the integrity of the American securities markets. In large part, we have met that responsibility by requiring corporate issuers to fully disclose to investors material facts about their businesses and their securities. The consensus view, which I strongly share, is that this system of investor protection, through full and fair disclosure, has been effectively administered by the SEC. The investor confidence which it has engendered is a cornerstone of the world's best securities markets.

Nevertheless, in the past, the SEC has focused primarily on domestic concerns -- U.S. investors, U.S. issuers and U.S. markets. Such an approach may have been justifiable when the U.S. markets dominated world capital markets and the mobility of capital across national borders was severely limited. Today, however, the U.S. securities market is to a degree an international securities market, and it is my firm belief that it will become even more so in the future.

In this connection, as many of you may already know, I have assumed a major role at the Commission in overseeing international

securities matters. Accordingly, in the international area, I recently have been coordinating the SEC's efforts to ascertain the current issues, examine the relevant policy concerns, and formulate possible approaches for the Commission.

My involvement in international matters during the past year and a half has forced me to grapple with difficult regulatory problems engendered by the internationalization of the world's capital markets. Notwithstanding the complexity of these problems, I have come to believe that the emerging global phenomenon, whereby increasing numbers of corporations are crossing national boundaries to issue and sell their securities in order to raise capital, is a vital economic development in today's world.

I firmly believe that the free flow of capital between countries will stimulate world commerce, promote the efficient allocation of world resources, and ultimately redound to the economic benefit of all countries. Because of this conviction, I think the SEC should encourage the internationalization of the securities markets by reducing unnecessary regulatory impediments to foreign issuers seeking access to the United States markets. And, I believe it is important for securities regulators in other countries to adopt a flexible approach to the problems of U.S. issuers so that U.S. companies can have greater access to capital markets outside of this country.

This simple common sense proposition, however, belies the complexity of the underlying issues, some of which I will discuss today.

First, how will increased foreign access to U.S. capital markets effect American investors, American corporations and the American securities industry?

Second, to what extent can the SEC help to ensure fair treatment of U.S. companies doing business abroad?

#### Impact of Increased Foreign Access

In discussing the predictable impact of enhanced access by foreign issuers to U.S. capital markets, the issue is not whether U.S. investors will purchase foreign securities, but where they will purchase such securities. Let's look at history. From 1970 to 1980 American investment in foreign stocks increased from 6.4 billion dollars to 18.9 billion dollars. Similarly, American investment in foreign bonds rose from 13.2 billion dollars to 43.2 billion dollars during that same period. These trends suggest that foreign investment will continue to increase as Americans seek higher returns on their investments and more international diversification of their portfolios.

I believe that, on balance, individual investors particularly would benefit if foreign issuers could more readily sell their securities in the United States. American investors would benefit from the availability of more information about foreign

issuers, because SEC disclosure requirements, even if modified to accommodate some of the concerns of foreign issuers, would continue to be significantly more rigorous than those of other countries. American investors would also benefit from increased professional analysis of such information, because a larger U.S. market for foreign offerings would encourage the U.S. brokerage firms to devote more resources to coverage of such issues.

An enhanced foreign presence in U.S. markets would benefit American investors in more tangible ways as well. It would, for example, be less expensive and more expeditious to purchase the securities of foreign issuers in U.S. markets rather than in foreign markets. At the same time, a U.S. market (with perhaps an exchange listing) could greatly enhance the liquidity of these foreign securities. This is precisely what the Amsterdam Stock Exchange has done through its American Shares Amsterdam System ("ASAS") to facilitate trading in U.S. securities. ASAS shares now represent over half the total volume of all foreign shares traded on the Dutch exchange.

In addition to improved disclosure and lowered transaction costs for American investors, increased entry by foreign issuers into the U.S. would benefit the American economy by generating business for the securities industry and the service industries related to it. Also, greater foreign entry into our markets

would increase employment and income in major U.S. financial centers, and increase tax revenues for both the federal government and the states.

While it may be more debatable, I also believe that an enhanced foreign issuer presence will not be of significant detriment to American companies. The primary concern of American companies has been that increased foreign access will divert critically needed capital away from American industries.

I am persuaded, however, that this argument is grossly exaggerated.

First, during the past decade, the net international flow of capital clearly has been toward, rather than away, from the American companies. Between 1971 and 1980, net purchases of United States stocks by foreigners were almost ten times the net purchases of foreign stocks by Americans. Similarly, net purchases of U.S. bonds by foreigners were twice as high as net purchases of foreign bonds by Americans.

Thus, with respect to net capital flows, efforts to discourage an international marketplace and increased protectionism could impair sales of securities by American companies more than sales by foreign companies. Because U.S. companies increasingly have pursued international financing alternatives, efforts to restrict foreign activities in the United States could stimulate a backlash of restrictive actions abroad.

Second, limited steps to ease foreign access to our markets is not likely to result in foreign issuers obtaining a commanding share of the U.S. capital markets. The equity capital raised in the U.S. by foreign issuers between 1976 and 1980 comprised only 1% to 2% of the total capital raised in the United States equity market, except in 1977 when the figure was 6.1%, as a result of a 250 million dollar equity offering made in the U.S. by British Petroleum. Similarly, between 1976 and 1980, foreign issuers attracted no more than 3.2% of the debt capital raised in the United States.

Moreover, foreign investors historically have accounted for a significant portion of foreign securities sales in the United States. Indeed, it has been estimated that foreign purchases of a foreign offering in the U.S. may range from 20% to 50% of the total offering. In other words, the distinctly American capital raised by foreign issuers here appears to be small. Thus, even if the amount of foreign securities offerings in the United States doubled, it would divert only a modest amount of uniquely American capital.

Third, even if there is a small incremental loss of U.S. capital to foreign issuers, such a reallocation of capital may, nevertheless, be consistent with, and aid, American economic growth. When a foreign company chooses to abandon the relatively unregulated foreign markets for the highly regulated American ones -- it often does so in order to increase its corporate presence here. Many foreigners have existing American operations

and desire American shareholders; and others plan to commence operations here with the proceeds from their offering by investing in plant, equipment and employee training, all of which aid our economy.

Finally, it seems clear that, in the long run, we would not benefit American companies by "protecting" them from the increased competition of a world securities market. Indeed, we cannot. Just as our multinational corporations must compete in the world marketplace for raw materials and customers, so, too, we must recognize the world competition for capital. Closing our doors would not preclude competition -- it would merely shift the competitive arena to another trading forum such as the Eurodollar market.

#### How Can the SEC Help American Companies Doing Business Abroad?

Having concluded that there are benefits to be gained by increased foreign access to the American markets, the converse is also clearly true. American companies have much to gain by an increased access to foreign capital markets. The constellation of issues raised by this matter goes well beyond the jurisdiction of the SEC. Nevertheless, the Commission can help. While we do not have authority to require changes in foreign regulations and to require that foreign countries and regulators treat U.S. companies with the same deference that foreign issuers seek from



the SEC, we are not without influence.

For example, let us examine the recent initiatives taken by the Japanese. In January 1982, the Japanese permitted Dow Chemical to issue 100 million dollars of yen-based debt securities in the Japanese Samurai market, which was only the second such yen-dominated offering by a U.S. issuer since World War II. In order to make the Dow offering possible, the Japanese Ministry of Finance made a concerted and deliberate effort to accommodate some of the particular needs of Dow. Indeed, since the Dow deal, NCR corporation and Procter & Gamble have made similar offerings.

In addition, the Japanese have changed their rules to permit American broker-dealers and other foreign securities firms to become members of the Tokyo Stock Exchange. I must state parenthetically, however, that this change may be more apparent than real -- seats on the Tokyo Exchange cost approximately 5 million dollars, and, perhaps even more importantly, there are only 83 seats on the Exchange and none are for sale. On a more positive note, however, the Japanese have begun to increase the discounts on commissions for American broker-dealer branch offices located in Japan from 50% to 73%.

To be sure, these efforts by the Japanese to accommodate U.S. companies are, in large part, a response to the 18 billion dollar American trade deficit with Japan, and to pressure by the U.S. government to reduce barriers for U.S. companies

seeking to do business in Japan. Even so, it is my impression that the Japanese are also trying to improve their posture with the SEC. They appear to believe that by accommodating U.S. issuers and broker-dealers seeking to do business in Japan, they will engender modification of some SEC disclosure requirements, such as full segment reporting, which have long been considered an anathema to Japanese companies.

The lesson of this experience is that there must be other situations where the SEC could negotiate reduced entry barriers for various sectors of the United States financial community seeking to do business abroad. For example, perhaps we could be helpful to United States broker-dealers whose ability to establish a presence abroad and compete on an equal footing with foreign broker-dealers may be somewhat restricted by foreign laws. American broker-dealers, to date, have not been offered memberships on the Australian or London Stock Exchanges. In countries such as France and Italy, it is difficult, largely as a result of foreign exchange controls, for U.S. broker-dealers to sell the securities of American companies to French or Italian customers.

In Canada, before a foreign broker-dealer can establish a business, the Foreign Investment Review Agency must certify that the proposed operation will be of significant benefit to Canada. Finally, in Germany, all Deutsche mark offerings must be managed by a German institution.

Because these and many other restrictions placed upon the American financial community are part of complex regulatory schemes which may disadvantage, as well as in some ways benefit, U.S. companies, it is incumbent upon the Commission to determine which laws actually erect significant barriers to American business, and then to seek to exercise its influence to alleviate some of these barriers. A low keyed expression of our views, coupled with a continued willingness to review other nations' problems with our regulations, seems entirely consistent with the Commission's new international posture. Indeed, such an approach may be the best way to ensure that SEC initiatives benefit the American economy as well as American investors.

The Commission's role would be a lot easier if all inter-country investment relationships were as strong and durable as those existing between the U.S. and the Netherlands. Today, the United States is the largest foreign investor in the Netherlands and the Dutch in turn are the largest foreign investors in our country.

There are more U.S. equities listed on the Amsterdam Stock Exchange than on any other exchange outside the United States. The listing of U.S. Steel on the Amsterdam Exchange in 1901 was not the first venture into American securities. The Dutch were instrumental as long as a century ago in the development of our country's railroads. At one point, nearly 200 railroad stocks

were quoted on the Dutch Exchange. And, of course, if we trace back the Netherlands' first financial instruments in this country we reach a government loan made to the Continental Congress in 1782. The internationalization of capital markets was around even then.

### Conclusion

In conclusion, I believe that the Commission can no longer avoid its growing international responsibilities. At a time when the internationalization of the world's capital markets is in process, the vital question is whether the United States financial markets will continue to play a leading world role. Accordingly, we ultimately must reconcile our system of regulation to an increasingly interdependent world. If such a reconciliation is pursued in a thoughtful and deliberate fashion, I believe it will benefit the U.S. economy while maintaining a high level of investor protection. We have a lot of work ahead of us, but with such programs as the Dutch ASAS system, the first steps have been taken in developing a truly international securities market.