U.S. markets seen losing ground to global competitors

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U.S. capital markets again lost ground against global competitors last year, highlighting the need to streamline regulation and crack down on excessive securities litigation, industry experts said on Wednesday.

The United States received only 6.9 percent of the funds raised in global initial public offerings in 2007 and did not participate in any of the top 20 global IPOs, Harvard Law School Professor Hal Scott said at the U.S. Chamber of Commerce's second annual capital markets conference.

"We found U.S. public markets had increasingly become uncompetitive," said Scott, director of the private-sector Committee on Capital Markets Regulation.

In comparison, in 2000, about half of the value of global IPOs was raised in the United States, according to Scott's committee.

Scott also noted that many foreign companies in 2007 took advantage of a U.S. regulatory change that let them delist from U.S. exchanges. About 15 percent of U.S.-listed foreign companies left the U.S. markets in 2007, about three times the historical rate, he said.

Scott's committee is among several private-sector and federal government initiatives examining how to make U.S. capital markets more competitive as global rivals emerge and become more cost-efficient havens to do business.

The U.S. Treasury Department, which launched a broad review of financial services regulation last summer, is expected to issue recommendations in the next few weeks.

The various private and federal groups have been analyzing the auditing industry, financial reporting improvements, regulatory cooperation and litigation reform.

WANTED: SIMPLER REGULATION

Speakers at the Chamber of Commerce event on Wednesday said the market turmoil tied to risky subprime mortgages highlights the need for better regulatory coordination that would relieve the burdens that foreign companies face in complying with U.S. securities regulations.

"It would be presumptuous to suggest we could have prevented the current credit crisis by simply creating better regulation and better coordination," said Thomas Renyi, the chief executive of Bank of New York Mellon (BK.N: Quote, Profile, Research).

"It is safe, however, to surmise that the current system has exacerbated our problems," he added.
Renyi said there were dozens of different regulators involved in the mortgage crisis, all with different responsibilities, and none with the institutional capacity to talk to one another.

U.S. Treasury Secretary Henry Paulson said at the event that the Federal Reserve is working to ensure it receives information from other regulators that it needs for informed lending decisions.

"We suggest that the Federal Reserve, the SEC, and the CFTC continue their work of building a robust cooperative framework," Paulson said.

The pro-business event also criticized class-action securities litigation for hurting U.S. capital markets.

Over the past decade, about 20 percent of U.S.-listed companies have been defendants in class-action securities suits, according to University of Pittsburgh finance professor Kenneth Lehn. Such lawsuits disrupt high-growth industries and mainly benefit plaintiffs' lawyers, he said.

Alyssa Kelman, assistant general counsel for JPMorgan Chase & Co (JPM.N: Quote, Profile, Research), called for reducing the burdensome costs of lawsuit discovery and accelerating the court appeals process if a defendant wins a motion to dismiss.

"Securities litigation is, obviously, of tremendous concern to us," Kelman said.

Shareholders in recent days have sued the directors of failed investment bank Bear Stearns (BSC.N: Quote, Profile, Research), saying they violated their fiduciary duties in agreeing to a takeover offer from JPMorgan. Pension funds are also seeking emergency court action to stop the deal from going forward.

Chamber of Commerce CEO Tom Donohue said the credit crisis shows the need for a careful evaluation of capital markets.

"It would be a tragedy if the lesson Americans draw from the current crisis is that our capital markets are the cause of our economic problems," he said.