Welcome to Capital Markets in 2025, a special report focusing on the changing dynamics in global Initial Public Offering (IPO) activity.

Over the past 10 years there has been a significant increase in cross-border capital market transactions, in particular IPOs. Indeed, the growth of the emerging economies has and will continue to have an impact on the global landscape of capital market transactions. Also high profile listings by Prada and L’Occitane have drawn a lot of attention, acting as testimonies to the perceived rise of the East.

As this report explores, companies from all over the world looking to go public will have more choice than ever before. In the emerging countries, it is apparent that while development of deep domestic capital pools and appropriate local regulatory infrastructure will take time, in the short to medium term, firms will continue accessing capital abroad, predominantly in the three global financial centres of New York, London and Hong Kong. Asia is however expected to become an increasingly attractive source of capital for them, effectively challenging developed marketplaces.

In addition, as the capital markets and stock exchanges in the developing economies become more sophisticated, companies from the West will be increasingly looking to these markets, with a view to tap into their growing wealth and the associated profile a listing may provide. Equally, the more traditional capital demand drivers, including private equity exits, deleveraging and spin-offs by diversified multinationals will continue generating cross-border capital market opportunities.

Where will the leading listing venues be in the future? Where will newly listed companies come from and what will they be looking for? What are the drivers of change in the IPO landscape? These are some of the questions asked in this report.

I would like to thank all the interviewees and companies taking part in the research for kindly giving their valuable time and insights. I hope that you find the analysis useful and interesting. If you would like to discuss any of the issues raised here please do not hesitate to contact me, or one of my colleagues.

Clifford Tompsett
Head of IPO Centre, PwC
These diverging economic expectations are likely to have profound implications for the development of equity capital markets. The shifting patterns of domestic growth, consumer demand and investment flows mean that an increasing number of the companies with a global outlook choosing to tap stock exchanges for capital will in future come from the emerging economies.

Where the companies from emerging markets once echoed their often small and illiquid local exchanges, aspiring rather to list in the global financial centres of London or New York, now local centres are emerging as sophisticated financial centres in their own right and competing successfully for more of their domestic listing business.

What does the rise of emerging market stock exchanges mean for the stock exchanges and service providers in the historically dominant financial centres of London or New York, now that the economic growth and increasing development of equity capital markets. The report that follows presents additional insights from industry experts and practitioners.

Key findings from the research include the following:

1. The economic growth and increasing financial sophistication of emerging markets means that competition between stock exchanges is intensifying.

Almost three-quarters (74%) of respondents said that emerging market companies will look to another emerging market for a listing. More than half of respondents believed that developed market companies, by contrast, will still prefer to be listed in another developed market.

Shanghai emerges as potentially the most attractive venue for foreign listings in 2025. More than half of respondents (55%) believe that Shanghai (which does not yet allow foreign listings) will be the exchange most attractive for foreign listers. London is seen as having only a small number of companies from emerging markets to list, whereas 55% of respondents believe that developed market exchanges will lose market share as a consequence, according to three-quarters of respondents.

The focus of IPO activity is shifting East. Companies from the East are expected to dominate the IPO pipeline by 2025. China is predicted to be home to more than half of new issuers by 2025 and also to raise the most capital by 2025. India comes second in terms of issuers, but third in terms of capital.

Of stock exchanges in the BRIC countries, Brazil and Russia lag China and India. While 38% of respondents think that Indian exchanges will be an important listing destination for foreign companies by 2025, just 11% of respondents believe that Russia will increase in popularity as a listing destination. Brazil, with 30% of the vote, lags respondents’ belief in India and especially China.

However, there are factors that could derail the shift to emerging markets. Developed markets still far surpass their emerging rivals in terms of size. The legal and regulatory environment, followed by political uncertainty, is seen as the factor most likely to derail the shift to emerging market exchanges. An uncertain regulatory environment is seen as the biggest concern for companies considering listing on an emerging market stock exchange, with more than half (56%) citing this as their major concern. Volatile political conditions and government intervention in markets were cited as major concerns by 33% and 27% of respondents, respectively.

The factors looked for by companies planning to list give incumbent exchanges an edge. Liquidity is by far the most important characteristic when choosing a stock exchange, followed by a stable investor base and good levels of coverage, initial listing and ongoing legal requirements, and infrastructure. Because of this, although 76% of respondents said that developed market exchanges will continue to play a global role for (IPOs) in 2025, 39% believe New York will continue to have a dominant role among issuers, followed by London (33%). The factors looked for by companies planning to list give incumbent exchanges an edge. In addition, there is also evidence that developed market, which respondents think that Indian exchanges will be an important listing destination for foreign companies by 2025. However, there are factors that could derail the shift to emerging markets. Developed markets still far surpass their emerging rivals in terms of size. The legal and regulatory environment, followed by political uncertainty, is seen as the factor most likely to derail the shift to emerging market exchanges.
The rise of emerging markets is best illustrated by the changing dynamics of the Asian stock exchanges. The combined market capitalisation of China’s Shanghai and Shenzhen equity markets has risen from US$400bn in 2005 to US$4trn at the end of Q4 2010. Taken together, these bourses surpassed the Tokyo Stock Exchange, the Asia Pacific region’s erstwhile stock-exchange giant, which stood at US$3.8trn at the same quarter-end. This growth has been fuelled by more than 500 IPOs in that five-year period, and the Shanghai Exchange is now home to some of China’s and indeed the world’s largest companies (see Figure 1).

---

**Table 1: Top IPOs in London, New York, Hong Kong and Shanghai**

<table>
<thead>
<tr>
<th>2011 (as at October 2011)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top three IPOs</strong></td>
<td><strong>Deal value (US$m)</strong></td>
<td><strong>Deal value (US$m)</strong></td>
</tr>
<tr>
<td>London</td>
<td>Glencore International Plc</td>
<td>10,045</td>
</tr>
<tr>
<td></td>
<td>Vailares Plc</td>
<td>2,127</td>
</tr>
<tr>
<td></td>
<td>Justice Holdings</td>
<td>1,660</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Prada Spa</td>
<td>2,456</td>
</tr>
<tr>
<td></td>
<td>Shanghai Pharmaceuticals Holding Co Ltd</td>
<td>2,064</td>
</tr>
<tr>
<td></td>
<td>Citic Securities Co. Ltd</td>
<td>1,827</td>
</tr>
<tr>
<td>New York</td>
<td>HCA Holdings Inc.</td>
<td>4,533</td>
</tr>
<tr>
<td></td>
<td>Kinder Morgan Inc</td>
<td>3,293</td>
</tr>
<tr>
<td></td>
<td>Nielsen Holdings NV</td>
<td>1,889</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Sinohydro</td>
<td>2,117</td>
</tr>
<tr>
<td></td>
<td>Sinovel Wind Group Co. Ltd</td>
<td>1,435</td>
</tr>
<tr>
<td></td>
<td>Pang Da Automobile Trade Co. Ltd</td>
<td>965</td>
</tr>
</tbody>
</table>

Source: PwC analysis
In addition to building local liquidity, many emerging exchanges have ambitions to create regional hubs and to attract foreign listings. This sits well with the changing focus of companies based in developed economies, which are looking to tap into the rising demand from emerging markets. An increasing number are seeing the value of building brand recognition through an IPO on the stock exchanges of their target markets.

High-end brands, such as Prada and Samsonite, recently listed in Hong Kong, will not be the last to target the rapidly growing middle classes of China and Asia. Such is this trend that, in the first half of 2011, foreign companies overtook Chinese enterprises to become the biggest participants in the Hong Kong Stock Exchange’s IPO market. Overseas companies raised HK$122.5bn, contributing to a record high of 70% of the total IPO capital proceeds in Hong Kong this year. A similar pattern has emerged in Singapore, where more than 40% of companies listed on the Singapore Exchange now originate from outside of Singapore.

While developing Asia is emerging as the most popular region for future listings, other emerging markets are also developing increasingly dynamic equity markets. For the period from January to June 2011, Brazil’s BM&FBOvespa became the world’s tenth-largest exchange in domestic capitalisation terms, up by almost 35% in dollar valuation year on year. Latin American issuers raised US$21.2bn via 48 IPOs in the first half of 2011, the highest H1 volume on record and up 16% on the first half of 2010. In terms of electronic-order-book value, the National Stock Exchange of India is now the fourth-largest exchange by number of trades in equity shares. India’s primary markets are growing rapidly; in 2010 a total of 63 IPOs raised US$8.3bn for domestic companies, up from US$4.5bn raised by 36 IPOs in 2008.

The shift to emerging market exchanges has already begun, but what does that mean for their developed market counterparts, and what might derail this change?
The emerging markets engine

Survey respondents paint a very clear picture of the challenges facing developed markets. More than half believe that, by 2025, developed market companies will be looking to some degree to emerging market exchanges, rather than the established financial centres, for their IPOs, as they aim to tap into the vibrant growth of the world’s emerging economies.

Many believe that the shift has already begun, with 27% of respondents saying that Western companies are looking to list in emerging markets. This appears to fit with what many market participants are experiencing in practice.

“IPO volumes demonstrate that emerging markets already account for an increasing share of primary market activity”, says Matthew Westerman, Global Head of Equity Capital Markets (ECM) at Goldman Sachs. “Given the level of economic growth in those markets and the equitisation [the process of companies raising equity on public markets, instead of relying on bank debt] still to occur, it is difficult to see what will change that trend”.

IPO deal volumes confirm the trend. In 2004 emerging markets represented less than one-quarter of global IPO volume. By the end of 2010, that figure had rocketed to 67%. Emerging markets have accounted for 55% of global IPO volumes in the year to date.

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets. This is important because Hong Kong is our largest single market, representing around 18% of our revenue, and last year India was our most profitable market, contributing more than US$1bn to group revenue. We see the largest foreign banks in each market and having a local listing brings about enormous benefits in terms of brand awareness. It also enables us to tap into a new and emerging investor base”, says Mr Meddings.

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

There has already been a shift in emerging-market companies looking to the stock exchanges of emerging markets, rather than those of developed markets, for their IPOs. This is logical given the importance of building a brand in those markets that account for the largest and most rapidly growing share of the company’s revenue.

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

There has already been a shift in developed-market companies looking to the stock exchanges of emerging markets, rather than those of other developed markets, for their IPOs.

Survey respondents paint a very clear picture of the challenges facing developed markets. More than half believe that, by 2025, developed market companies will be looking to some degree to emerging market exchanges, rather than the established financial centres, for their IPOs, as they aim to tap into the vibrant growth of the world’s emerging economies.

Many believe that the shift has already begun, with 27% of respondents saying that Western companies are looking to list in emerging markets. This appears to fit with what many market participants are experiencing in practice.

“IPO volumes demonstrate that emerging markets already account for an increasing share of primary market activity”, says Matthew Westerman, Global Head of Equity Capital Markets (ECM) at Goldman Sachs. “Given the level of economic growth in those markets and the equitisation [the process of companies raising equity on public markets, instead of relying on bank debt] still to occur, it is difficult to see what will change that trend”.

IPO deal volumes confirm the trend. In 2004 emerging markets represented less than one-quarter of global IPO volume. By the end of 2010, that figure had rocketed to 67%. Emerging markets have accounted for 55% of global IPO volumes in the year to date.

Standard Chartered, a UK-headquartered bank that earns most of its revenue from emerging markets, is dual-listed in London and Hong Kong. Last year, it became the first and so far only foreign company to launch Indian Depository Receipts (IDR—a tradable financial instrument representing Standard Chartered’s publicly traded securities, but traded on the Indian market). Richard Meddings, Group Finance Director at the bank, says it is a logical move, given the importance of building a brand in those markets that account for the largest and most rapidly growing share of the company’s revenue.

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).

“Listing is a public demonstration of our long-standing commitment [to these markets] and it generates strong goodwill with the government and regulators in those markets.”

Richard Meddings – Group Finance Director, Standard Chartered

China emerges as a winner

More than three-quarters of respondents (78%) believe that China will be the home of most new issuers by 2025, and 80% believe it will also be the domicile to raise the largest pool of equity capital. India comes second in terms of issuers (voted for by 59% of respondents), but third in terms of capital (39%).
The strength of China is already evident. In the first half of the year, Chinese issuers led the IPO nationality ranking with US$47.7bn via 302 deals, followed by US issuers, who raised US$26bn via 77 IPOs.8

Survey respondents also expect the Shanghai Stock Exchange to be the biggest beneficiary of the move to emerging markets. Even though the exchange has yet to open to foreign listings, more than half of respondents (55%) believe Shanghai will be the most popular destination for foreign listings by 2025. The intention to introduce foreign listings was announced more than two years ago, but until now it has remained on the drawing board. Market commentators argue that Beijing’s policymakers are wary of the fact that stock markets around the world have suffered large falls amid equity-market volatility this year and are waiting for the right window of opportunity to launch.

Standard Chartered’s Mr Meddings says the bank hopes to be one of the first foreign companies to list. “We are actively looking to list in Shanghai once it opens. We’re working very steadily with the relevant regulatory authorities in China. We’re one of the leading international banks in China and it is a big and growing market for us. But in relative terms, we’re very small, as it’s difficult for all international banks to be noticeable in market share; so, building that brand awareness is very important and one of the ways to do that very effectively is via listing. Again, it is a demonstrable commitment by us to China, and it changes in a subtle way the nature of the conversation that you have with the various regulatory authorities and governments".9

Despite Hong Kong already having a set of foreign listings, only 27% of respondents believe Hong Kong will continue to be a major beneficiary of international listings. Given that a significant proportion of this derives from the listing of mainland Chinese companies, survey results suggest that Hong Kong’s major attraction has been its proximity to the mainland Chinese market and that this may be undermined as Shanghai becomes international.

Not all BRICs are the same

India also scores well with survey respondents, with more than 38% believing that the country’s exchanges will be important listing destinations for foreign companies by 2025. This contrasts with just 11% of respondents voting for Russia. The reason for India’s relative popularity could be the perception that the country is about to embark on an extended growth cycle. Russia, conversely, may fail to attract foreign companies because of its perceived government-dominated business structures and poor corporate governance practices.10

Less than one-third of respondents believe Brazil will be a major foreign listing destination in 2025. This sentiment mirrors the current flow of investment funds, says Joe Reece, global head of equity capital markets at a Swiss bank, Credit Suisse, who argues that the difference between Asia and Latin America is related both to the size of the overall economy and to the perception of “investable wallet” (assets available to invest).

Institutional investors have more capital directed towards Asia-Pacific, and to China specifically, than they do towards Latin America, because there is a perception that there are more opportunities to put capital to work [in Asia-Pacific]; but I am pretty bullish over the long term on Brazil’s capital-market opportunities”, says Mr Reece. “It has a very constructive government, a very healthy group of corporates, and we are starting to see more cross-border investment into and out of Brazil than we have seen historically. This bodes well for longer-term capital market activity in that country”.11

Certainly, neither Brazil nor Russia has matched China in terms of IPO volumes this year. So far, Brazilian companies have raised US$4.4bn via 11 issues and Russian companies have brought in US$4.7bn via eight issues, compared to the US$47.7bn raised by Chinese companies through 302 IPOs.8

8 Dealogic data.
9 2010 Emerging Market FTSE by BNY Mellon.
10 Capital Markets in 2025.
11 Capital Markets in 2025.
‘South-south’ solidarity

As trade and investment between emerging markets increases, many economists believe that so-called ‘south-south’ integration will intensify. Most of those surveyed agreed, with 78% of respondents saying that, by 2025, emerging market companies will look to another emerging market (instead of a developed market for a secondary listing (home country is still seen as the preferred choice for a primary listing)). More than half of respondents believed that developed market companies, by contrast, will still prefer listing in another developed market.

In terms of primary market activity, this kind of integration is already evident among developed exchanges that have adopted consolidation programmes—for example the London Stock Exchange (LSE) merger with Borsa Italiana in 2008 and the merger of NYSE Group and Euronext in 2007. In Latin America, the Integrated Latin American Market (MILA), which connects the stock exchanges of Bogotá (Colombia), Lima (Peru) and Santiago (Chile), aims to develop the importance of the listing venues of individual economies by pooling resources and liquidity. Drawing on the experience of the Nordic model, where exchanges provide equal access to each other’s markets, the virtually integrated exchange hopes to create critical mass and liquidity, promote trading between markets, encouraging more companies to consider IPOs in the knowledge that they can tap investors in all three Andean countries.

So far, the exchange has suffered from low trading volumes and disagreements over tax harmonisation, but supporters believe that, as investors, intermediaries and issuers get more comfortable with the new entity, volumes will take off. Asset managers are already creating MILA funds. Singapore Exchange (SGX) is also trying to create a deep pool of regional liquidity, and is doing so by pitching itself as a gateway to Asia. “Our strategy to focus on foreign listings is partly born of necessity, because we don’t have a large domestic pool of companies, but it also mirrors the strategy of Singapore as a financial centre, which is to view Singapore as a hub or a gateway for buyers and sellers of equity”, says Gan Seow Ann, president of SGX.

As Asia-Pacific’s population of high-net-worth individuals (defined as having investable assets of US$1m or more) grew to 3.3m in 2010–exceeding the world’s second-biggest market after North America, the opportunity for companies to get closer to that market of retail investors is a big draw. Mr Gan adds: “In terms of foreign listings, we target pan-Asian companies or global companies with an Asian theme or an Asian component in their business. We offer access to a deep pool of liquidity, with US$1.4trn in assets under management here. Pan-Asian funds in particular have grown tremendously over the last few years”.

The Asian gateway policy has gained significant traction. According to data from SGX, of over 750 listed companies in Singapore, more than 300 are foreign companies; this represents just over 40% of total market capitalisation on the exchange. Around half (151) of the foreign companies listed on SGX are Chinese. Other emerging market exchanges still see the greatest benefits in tying up with developed market players. The Brazilian exchange, Bovespa, for example, has a preferred strategic partnership with the Chicago Mercantile Exchange. Bovespa now owns a 5% stake in the US derivatives exchange and the pair are jointly developing a multi-asset-class electronic trading platform.
Our strategy to focus on foreign listings is partly out of necessity, because we don’t have a large domestic pool of companies, but it also mirrors the strategy of Singapore as a financial centre, which is to view Singapore as a hub or a gateway for buyers and sellers of equity.

Gan Seow Ann — President of Singapore Exchange.

“Liquidity is by far the most important characteristic when choosing a market on which to list.”

“London also has the highest proportion of foreign investment in its listed companies. This makes for a hugely liquid market.”

“74% of respondents say that by 2025, emerging market companies will look to another emerging market instead of a developed market for a secondary listing.”

Other emerging market exchanges still see the greatest benefit in tying up with developed market players.

“Liquidity is by far the most important characteristic when choosing a market on which to list.”
Political and legal uncertainty could derail the rise

A stable legal and regulatory framework and consistent government policy are seen as prerequisites for the shift towards gaining traction in foreign jurisdictions in terms of listings. Almost one-third of survey respondents cited the legal and regulatory environment as the most likely development to derail the rise of emerging market stock exchanges. This was followed closely by political uncertainty, cited by 29% of respondents.

In Brazil, for example, investors have grumbled about government meddling in markets. The recent and abrupt increases in tax on foreign investments in the equity market, such as a 6% financial operations tax, have sparked fears of an unstable regulatory regime and many have argued that such moves could reduce faith in Brazilian markets.

In a recent interview with Dow Jones Newswires, Edemir Pinto, chief executive of a Brazilian exchange group, BM&FBovespa, criticised government moves, including the so-called IOF financial-transaction tax, designed to curb an appreciation of the Brazilian real, arguing that it has little effect on the currency, but could derail the country’s financial markets. “[It] gives the investor that the rules are clear and that they have little effect on the currency, but could derail the country’s financial markets. “[It] gives the [National Monetary] Council the power to control and change the rules. It is important for the foreign investor that the rules are clear and that they don’t keep changing”, Mr Pinto told Dow Jones.

The legal and regulatory environment of emerging markets had little effect on the currency, but could derail the country’s financial markets. “[It] gives the investor that the rules are clear and that they have little effect on the currency, but could derail the country’s financial markets. “[It] gives the [National Monetary] Council the power to control and change the rules. It is important for the foreign investor that the rules are clear and that they don’t keep changing”, Mr Pinto told Dow Jones.

Consistent regulation is key

For companies looking to list on an emerging market stock exchange, the same fears apply, with 56% citing an uncertain regulatory environment as their primary concern. Volatile political conditions and fear of government intervention in markets were also cited by 33% and 27% of respondents, respectively.

Despite survey respondents’ belief that China—a country that has been a beneficiary of capital allocation to emerging markets, many market participants observe that China suffers from policymaking and legal and regulatory uncertainties. Market discipline as it is understood in Western markets does not yet exist. The government in Beijing continues to exercise increased government transparency, many argue that, notwithstanding China’s huge growth, an internationally competitive financial centre will be difficult to achieve.

Credit Suisse’s Mr Reece agrees that the historical stability and consistency of regulatory oversight is important, and that this has been one of the great strengths of jurisdictions such as those of the US and the UK. “Most CEOs find it more comforting to list on an exchange or exchanges where there is a long track record. We don’t have that in markets like China yet, for example, where the economy has quite a long history, but the capital markets are very young”, he says. “Political and regulatory uncertainty will always weigh into the decision-making process, and increased government transparency, many argue that, notwithstanding China’s huge growth, an internationally competitive financial centre will be difficult to achieve.

Credit Suisse’s Mr Reece agrees that the historical stability and consistency of regulatory oversight is important, and that this has been one of the great strengths of jurisdictions such as those of the US and the UK. “Most CEOs find it more comforting to list on an exchange or exchanges where there is a long track record. We don’t have that in markets like China yet, for example, where the economy has quite a long history, but the capital markets are very young”, he says. “Political and regulatory uncertainty will always weigh into the decision-making process, and increased government transparency, many argue that, notwithstanding China’s huge growth, an internationally competitive financial centre will be difficult to achieve.

“Political and regulatory uncertainty will always weigh into the decision-making process, and companies need to assess this as part of the broad range of factors used to select a domicile in which to list, but it’s a factor for consideration, not a deterrent”.

Figure 7. If you believe that there will be a shift by 2025 in companies from developed countries looking to emerging market stock exchanges for their IPOs, what would be most likely to derail this shift?

- Fear of government intervention into markets/companies: 27%
- Lack of mature investor base: 20%
- Increased political uncertainty: 23%
- Slowdown of economic growth of emerging markets: 19%
- Lack of liquidity: 15%
- Increased risk aversion of investors: 4%
- Not applicable, I don’t believe there will be a shift: 13%
- Increased inflation: 13%
- Cultural and language compatibility: 10%
- Other: 10%

Source: Economist Intelligence Unit Survey.
companies need to assess this as part of the broad range of factors used to select a domicile in which to list, but it’s a factor for consideration, not a deterrent*.

While developed markets have historically benefited from stable political and regulatory environments, many commentators argue that this reputation has been undermined since the financial and sovereign debt crises.

Developed markets’ advantage

Currently, London is home to the largest number of foreign listings globally (20.4% of listings were international as at March 2011)13. The survey found that both London and New York are currently perceived to be the exchanges companies are most likely to consider for a cross-border listing. However, both are expected to lose some of their dominance by 2025 as other exchanges grow in prominence.

Some survey respondents believe London will suffer because of its reliance on foreign listings, which will naturally diminish as other financial centers grow in sophistication. Other respondents believe that the UK’s ties to the EU, with its continuing economic problems and what is perceived to be an increasingly strict regulatory regime, will make it harder for London to compete internationally.

The New York Stock Exchange is not expected to lose out to the same extent, owing to the inherent size of the US market and dominance of its economy. Survey respondents are far more confident that it will continue to play a global role for IPOs, with 39% suggesting it will still be a key listing destination in 2025.

Developed markets will have to work harder in the future to attract companies from emerging markets to list. Stock exchanges in developed markets that underestimate the competition from emerging market exchanges will lose market share to them.

Most companies will continue to consider their home market first when choosing a stock exchange for their IPO.

* World Federation of Exchanges, quoted by the London Stock Exchange

Dominance of developed markets challenged

Currently, London is home to the largest number of foreign listings globally (20.4% of listings were international as at March 2011)13. The survey found that both London and New York are currently perceived to be the exchanges companies are most likely to consider for a cross-border listing. However, both are expected to lose some of their dominance by 2025 as other exchanges grow in prominence.

Some survey respondents believe London will suffer because of its reliance on foreign listings, which will naturally diminish as other financial centers grow in sophistication. Other respondents believe that the UK’s ties to the EU, with its continuing economic problems and what is perceived to be an increasingly strict regulatory regime, will make it harder for London to compete internationally.

The New York Stock Exchange is not expected to lose out to the same extent, owing to the inherent size of the US market and dominance of its economy. Survey respondents are far more confident that it will continue to play a global role for IPOs, with 39% suggesting it will still be a key listing destination in 2025.

However, developed markets still far outstrip the
size of their emerging rivals. Amid all the talk of emerging market growth, the reality is that, as of the end of June, the NYSE had a domestic-market capitalisation of US$13.79trn, compared with Shanghai’s US$8trn, according to the World Federation of Exchanges. Similarly, while Hong Kong may be growing as a regional centre, it still has only 23 international companies listed, compared with 593 listed in London as at the end of June 2011*.  

Incumbent international financial centres, such as New York and London, benefit from huge depth of institutional liquidity, and the kind of infrastructure and pools of human capital built organically over a long period of time. Traditionally, these characteristics have been seen to bestow significant advantages and to be difficult to replicate. This means that developed markets are still attracting the bulk of foreign listings from markets like India, says Rick Thompson, head of listings at the London Stock Exchange. "The aspiration by many Indian entrepreneurs is still to have a London listing. They want to list, with 62% of respondents citing this as the

Liquidity is king

Figure 11 What are the most important factors when choosing a stock exchange/market for an IPO? Select up to three.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity / turnover velocity</td>
<td>36%</td>
</tr>
<tr>
<td>Initial listing and ongoing legal requirements</td>
<td>28%</td>
</tr>
<tr>
<td>Infrastructure (availability of service providers; eg. underwriters)</td>
<td>24%</td>
</tr>
<tr>
<td>High valuations</td>
<td>23%</td>
</tr>
<tr>
<td>Sector focus of exchange – eg. technology, mining etc.</td>
<td>22%</td>
</tr>
<tr>
<td>Speed of listing process</td>
<td>20%</td>
</tr>
<tr>
<td>Peer-group performance</td>
<td>18%</td>
</tr>
<tr>
<td>Cultural or language compatibility</td>
<td>18%</td>
</tr>
<tr>
<td>Index inclusion</td>
<td>15%</td>
</tr>
<tr>
<td>Close proximity to country of incorporation / main ops / HQ</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit Survey

Liquidity is by far the most important characteristic when choosing a market on which to list, with 62% of respondents citing this as the most important element of a market. A sizeable investor base and good analyst coverage were cited by 38% of respondents, and listing and ongoing legal requirements by 36%.

To date, developed market exchanges are much more liquid than emerging market exchanges, benefiting from deep pools of local and international capital. According to data from Citibank, by the end of 2010, Asian institutional investors held US$1.65trn in assets, a four-fold increase over the levels seen only five years ago. However, this is far outstripped by the UK, which has US$8.5trn in assets under management (up 17% on the previous year), representing 8.2% of global funds, and the US, which has a huge US$35.6trn in assets (or 44.9% of global funds) under management**.

Ms Pierce believes that the single capital pool represented by London is a huge draw for foreign companies. "Listing in London allows companies to tap into the largest pool of international equity
Emerging markets command the lion’s share of global growth and have risen in terms of their importance in IPO markets. However, for the moment at least, in overall equity capital markets volume, the Americas—of which by far the largest proportion is the US—continue to drive the most business. In the first half of the year, the Americas saw the highest ECM volume of any region, up 46% from the same period last year to US$178.8bn. The US accounted for a full US$135.4bn of this deal flow, up 56% year on year and the highest-ever first-half volume since 200817. Asia-Pacific, in contrast, was the only region to record a decrease in issuance in the first half of 2011, with deal volume down by 12%, to US$125.5bn17.

It is also too early to write off Europe, the Middle East and Africa, in spite of the sovereign crisis and growth concerns, which have undermined market confidence. While Asia-Pacific (excluding Japan) IPO volume was US$47.3bn, down from US$48.3bn in the same period in 2010, and EMEA came in lower than that, its IPO volume was US$80bn in the first half, boosted by Q2 volume of US$25.5bn, the highest quarterly total since Q4 2007.

But the trend is clear. Credit Suisse’s Mr Reece thinks there will be a growing appetite among larger-cap companies to have dual listings. “As long as there is sustainable volume to be had on more than one exchange, there are benefits to having local shareholders”, he says. “Larger capitalised companies with emerging market-centric activities will increasingly look at whether it makes sense to have a dual listing from an investor standpoint, or to have a listing where they have relevant operations”.

Goldman’s Mr Westerman says the key lesson is that the world has changed. “It’s clear that companies operate in an increasingly multi-polar world. Corporates—particularly those with a compelling emerging markets story—have many more options in terms of listing than they used to”, he says.

**Conclusion**

London and New York have other benefits, too. The depth of the financial services industry in these cities, such as the expertise of legal services and the strength of private equity funds, are important for market activity and a big advantage for developed markets” – Joe Reece, Global Head ECM Credit Suisse.
Based on the findings of this report, we can expect major changes in the dynamics within capital markets over the coming years. On the one hand, if the emerging regions do continue to grow and build their financial presence we are likely to see a shift in market infrastructure, human capital and investment activity to the ‘East.

On the other hand, stock exchanges from both the developed and emerging economies are already starting to look at the end game. Consolidation among Western exchanges continues to develop combined order books and a broader access to capital. And we are starting to see emerging market exchange groups build scale through joint initiatives and greater levels of integration.

However, many scenarios are possible. In particular, market participants are aware that there are major factors that could derail any shift to the ‘East’, or at least limit the extent of any shift. These include:

• Whether appropriate regulatory environments will evolve
• Whether political conditions will remain stable and the perceived intervention by government
• Whether a robust and defined market infrastructure will develop
• Whether sufficient liquidity is available.

Going public is one of the most significant transformations most companies are likely to go through and it can seem to be a daunting task. Choosing the right market to list on is one of the many decisions the company will have on its agenda but has the most long-term implications.

And as this report demonstrates companies will have more and more options. A key learning that companies should always consider is that ‘one market does not fit all’. Once the decision to list has been made there are indeed a number of factors to consider in the choice of a listing venue. These include the stage in your company’s development, both in terms of business life cycle and corporate maturity, the fit between your desired investor base and the exchange, the benefits of being included in an index, the commitment to ongoing regulatory requirements, and many more.

The most successful companies looking to IPO are assessing the choices available to them and are making informed decisions when considering where to conduct their listing, choosing the market that best serves their immediate intentions and their continued growth ambitions.

Capital markets in 2025: The future of equity capital markets is a PwC report, written by the Economist Intelligence Unit. It examines the increasing competition from emerging market stock exchanges, the effect that is having on incumbent exchanges and the priorities and concerns for companies looking to list.

A survey of 387 executives at companies from around the world and across a range of sectors. The sample was senior, with half from the C-suite or board level.

The EIU are editors of this report.

In-depth interviews with:
- Gan Seow Ann, President of the Singapore Exchange.
- Richard Meddings, Group Finance Director of Standard Chartered.
- Tracey Pierce, Head of Listings at the London Stock Exchange.
- Joe Reece, Global Head of Equity Capital Markets at Credit Suisse.
- Rick Thompson, Head of Listings for an Indian investment bank, Religare.
- Matthew Westerman, Global Head of Equity Capital Markets at Goldman Sachs.

The PwC point of view

About this report
Contacts

PwC London
Clifford Tompsett
+44 (0) 20 7804 4703
clifford.tompsett@uk.pwc.com

PwC Hong Kong
Kennedy Liu
+852 2289 1881
kennedy.liu@hk.pwc.com

PwC United States
Neil Dhar
+1 (312) 298 2711
neil.dhar@us.pwc.com