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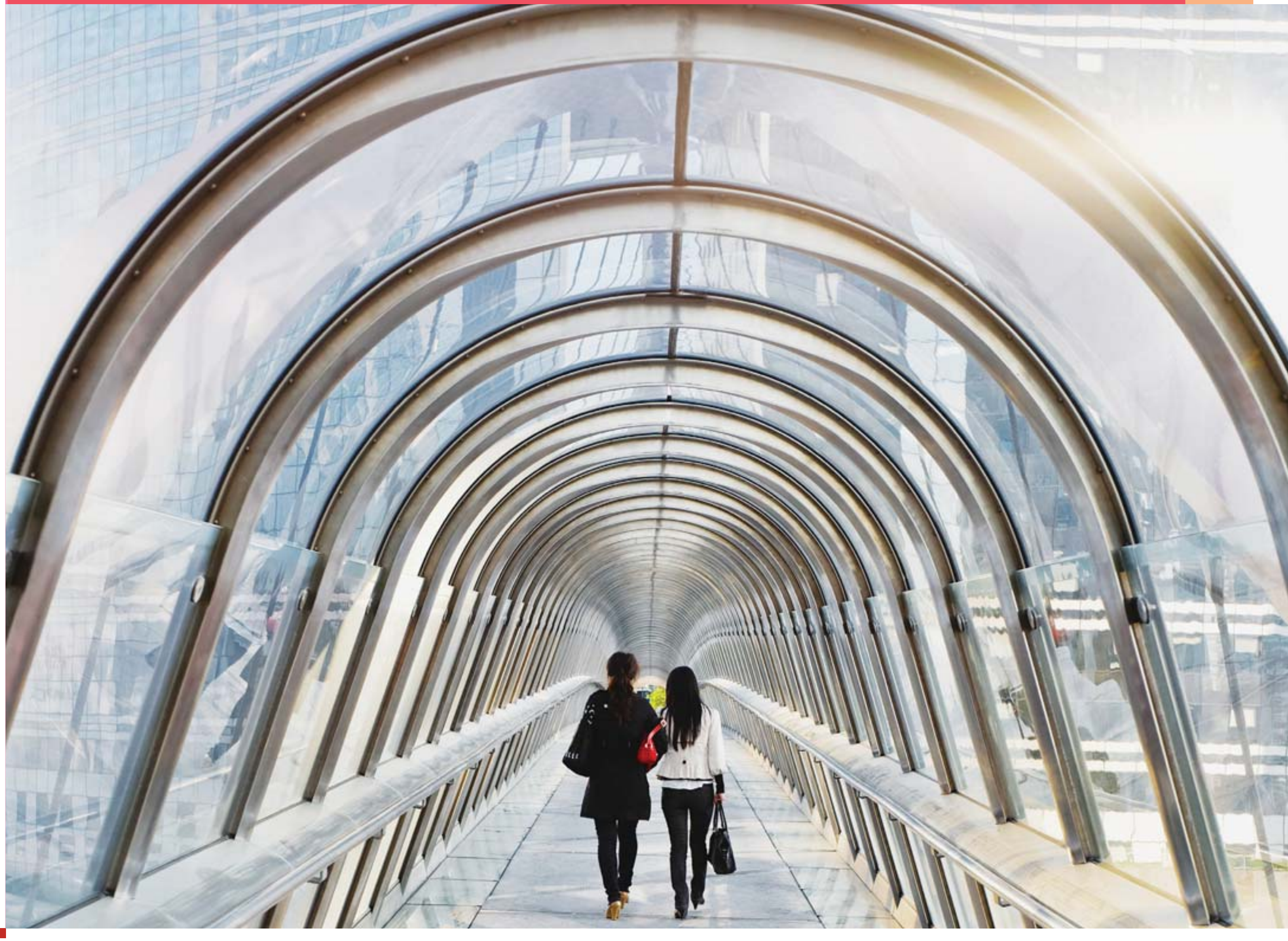
Capital markets in 2025
The future of equity capital markets



A PwC IPO Centre publication, assessing the choices ahead for global companies.

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Foreword

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

Executive Summary — The future of equity capital markets

Global growth is shifting East. The UN's World Economic Situation and Prospects 2011 report revealed the strikingly different outlooks for developing countries in the East, where growth continues to be strong, and for developed economies in the West, where growth remains stubbornly anaemic.

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 looking to tap stock exchanges for capital will in future come from the emerging economies.

Where the companies from emerging markets once eschewed 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 the developed markets? And what are the implications for companies from both emerging and developed markets that are deciding on which exchange to list?

In August 2011 the Economist Intelligence Unit (EIU) conducted a survey on behalf of PwC[1] to ask almost 400 senior managers at companies from across the globe for their views on which factors are shaping the development of equity capital markets. The report that follows presents the highlights of the survey findings, along with additional insights from industry experts and commentators.

Key findings from the research include the following:

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 or investments) will be the exchange most companies will consider by 2025.

With competition from emerging markets set to increase, developed market exchanges face a challenge to their dominance. Almost four in ten (39%) respondents believe New York will continue to play a global role for (IPOs) in 2025, and 27% believe that London will. Also, those incumbent exchanges that underestimate competition from emerging exchanges will lose market share as a consequence, according to three-quarters of respondents.

[1] "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

The focus of IPO activity is shifting East.

Companies from the East are expected to dominate the IPO pipeline by 2025. China is predicted by around 80% of respondents to be the home of most 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 outstrip 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 market, followed by a sizeable investor base and good analyst coverage, initial listing and ongoing legal requirements, and infrastructure. Because of this, although 76% of respondents said that developed market exchanges will have to work harder to attract companies from emerging markets to list, almost one in five also believes that developed market stock exchanges have clear advantages over emerging market exchanges, which are difficult to overcome.

The legal and regulatory environment, followed by political uncertainty, is seen as the factor most likely to derail the shift to emerging market exchanges.

Introduction

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 equities markets has risen from US$400bn in 2005 to US$4trn at the end of Q4 2010[1]. 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).

[1] World Federation of Exchanges

Figure 1 Top IPOs in London, New York, Hong Kong and Shanghai

	2011 (as at October 2011)		**2010**		**2009**	
	Top three IPOs	Deal value (US$m)	Top three IPOs	Deal value (US$m)	Top three IPOs	Deal value (US$m)
London	Glencore International Plc	10,045	Essar Energy	1,874	Gartmore Group Ltd	551
	Vallares Plc	2,127	Vallar	1,049	Tata Steel	500
	Justice Holdings	1,660	Mail.Ru Group	916	Max Property Group	309
Hong Kong	Prada Spa	2,456	AIA Group Ltd	20,465	China Minsheng Banking Corp Ltd	4,027
	Shanghai Pharmaceuticals Holding Co Ltd	2,064	Agricultural Bank of China Ltd (HK portion)	11,873	China Pacific Ins Group Co. Ltd	3,575
	Citic Securities Co. Ltd	1,827	United Company RUSAL Ltd	2,237	China Longyuan Power Group Corp Ltd	2,593
New York	HCA Holdings Inc.	4,533	General Motors Company	15,774	Banco Santander (Brazil)	7,035
	Kinder Morgan Inc	3,293	Swift Transportation Company	806	Verisk Analytics Inc.	1,876
	Nielsen Holdings NV	1,889	Smart Technologies Inc.	660	Shanda Games Ltd	1,044
Shanghai	Sinohydro	2,117	Agricultural Bank of China (Shanghai portion only)	10,399	China State Construction Engineering Corp.	7,342
	Sinovel Wind Group Co. Ltd	1,435	China Everbright Bank Company	3,293	Metallurgical Corp of China (Shanghai portion only)	2,779
	Pang Da Automobile Trade Co. Ltd	965	Huatai Securities	2,295	China Shipbuilding Industry Co.	2,157

Source: PwC analysis

"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".

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[2]. A similar pattern has emerged in Singapore, where more than 40% of companies listed on the Singapore Stock Exchange now originate from outside of Singapore[3].

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[4]. 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[5]. 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[6].

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?

[2] Hong Kong Stock Exchange data.
[3] Singapore Stock Exchange data.
[4] World Federation of Exchanges.
[5] Dealogic data.
[6] National Stock Exchange of India data.

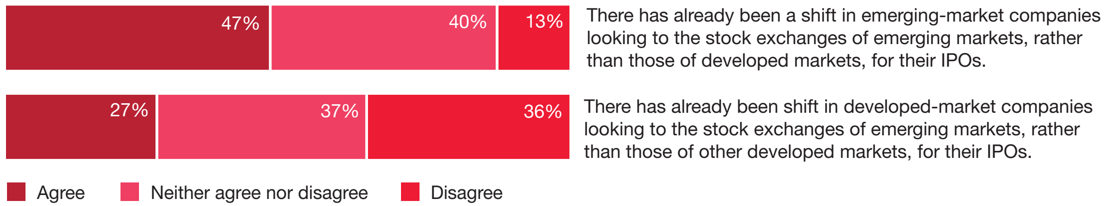
Figure 2 Stock Exchange overview

Stock exchanges	2011 (as at June 2011) Market cap of exchange (US$bn)	2011 No. of IPOs	2011 IPO Value (US$bn)	2010 Market cap of exchange (US$bn)	2010 No. of IPOs	2010 IPO Value (US$bn)	2009 Market cap of exchange (US$bn)	2009 No. of IPOs	2009 IPO Value (US$bn)
NYSE EURONEXT (US)	13,791	49	24.21	13,394	87	30.88	11,838	36	17.55
NASDAQ OMX	4,068	37	5.56	3,889	81	8.16	3,239	33	7.65
London Stock Exchange	3,750*	57	14.98	3,613*	122	14.1	2,796	25	2.38
Tokyo Stock Exchange	3,655	13	0.3	3,828	22	16.4	3,306	19	0.63
Shanghai Stock Exchange (Shanghai A)	2,804	24	8.8	2,716	28	26.9	2,705	9	18.3
Hong Kong Stock Exchange	2,712	48	24.0	2,711	114	57.8	2,305	73	32
Toronto Stock Exchange (TSX Group)	2,231	32	1.36	2,170	67	5.57	1,677	24	1.74
Deutsche Borse (Frankfurt Prime)	1,622	10	1.75	1,430	23	3.23	1,292	5	0.07
BM&FBOVESPA	1,553	10	4.17	1,546	11	5.82	1,337	6	13.15
Bombay Stock Exchange	1,506	22	0.78	1,632	63	8.28	1,307	20	4
India – National Stock Exchange	1,471	22	0.78	1,597	58	7.93	1,225	20	4
Australian Securities Exchange	1,444	42	0.51	1,454	72	7.86	1,262	47	2.4
Korea Exchange	1,200	32	2.54	1,092	96	7.6	835	67	2.64
MICEX	1,023	1	0.78	949	6	0.93	736	1	0
Singapore Stock Exchange	669	9	7.01	647	31	5	481	23	2.33

* London Stock Exchange Group, incorporating London Stock Exchange and Borsa Italiana.
Source: PwC IPO Watch; Dealogic.

The emerging markets engine

Figure 3 Do you agree or disagree with the following statements?



Source: Economist Intelligence Unit.

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[7].

[7] Credit Suisse, October 2011.

"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 are the largest foreign bank 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.

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 … and it generates strong goodwill with the government and regulators in those markets"

Richard Meddings – Group Finance Director, Standard Chartered

Figure 4 From which countries will most issuers originate in 2025? Which countries will see the most capital raised?

	Most issuers	Most capital raised
Brazil	32%	28%
China	78%	80%
Germany	11%	9%
India	59%	39%
Japan	4%	5%
Mexico	3%	2%
Russia	12%	11%
Saudia Arabia	2%	7%
South Korea	4%	5%
UAE	3%	6%
UK	11%	15%
United States	53%	57%
Other	1%	1%

Source: Economist Intelligence Unit. Note: Percentages do not add to 100% as respondents were able to select up to three countries.

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".

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, contrastingly, may fail to attract foreign companies because of its perceived government-dominated business structures and poor corporate governance practices[9].

Less than one-third of respondents believe Brazil will be a major foreign listing destination by 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".

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 bought 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 IPOs by BNY Mellon.

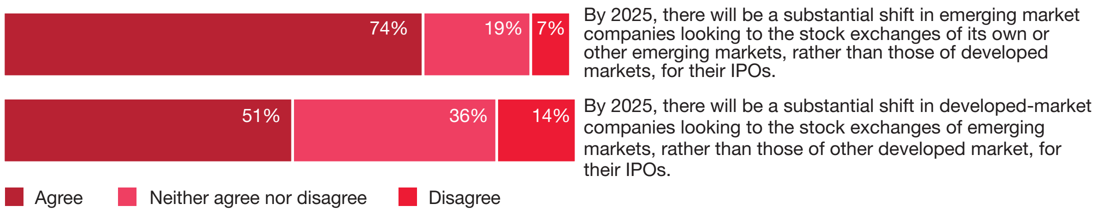
Figure 5 Which of the following exchanges do you think issuers consider (beyond their home exchange) when planning an IPO?

	Now	In 2025	Difference % points
Australian Securities Exchange	5%	7%	+2
Bovespa (Brazil)	5%	29%	+24
Deutsche Borse	17%	8%	-9
Hong Kong Stock Exchange	27%	27%	–
Indian exchanges (Bombay Stock Exchange and National Stock Exchange of India)	5%	38%	+33
London Stock Exchange	72%	27%	-45
NYSE	74%	39%	-35
NASDAQ	46%	18%	-28
Russian exchanges (MICEX and RTS)	1%	11%	+10
Shanghai Stock Exchange	4%	55%	+51
Singapore Exchange	6%	14%	+8
South Korea Exchange	2%	3%	+1
Tokyo Stock Exchange	12%	3%	-9
Toronto Stock Exchange	5%	4%	-1

Source: Economist Intelligence Unit.
Note: Percentages do not add to 100% as respondents were able to select up to three exchanges.

As trade and investment between emerging markets increases, many economists believe that so-called 'south-south' integration will intensify.

Figure 6 Do you agree or disagree with the following statements?



Source: Economist Intelligence Unit Survey.

'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 74% 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

[10] 2011 Merrill Lynch and Capgemini Asia-Pacific Wealth Report.
[11] Singapore Stock Exchange data.

integrated exchange hopes to create critical mass and liquidity, promote trading between markets and 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 Stock 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 Europe's for the first time and placing the region as the world's second-biggest market after North America[10]. 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 listings and around 47% of total market capitalisation on the exchange. Around half (151) of the foreign companies listed on SGX are Chinese[11].

Other emerging market exchanges still see the greatest benefit 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.

“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”

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 Stock Exchange.

"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.

Challenges remain for emerging markets

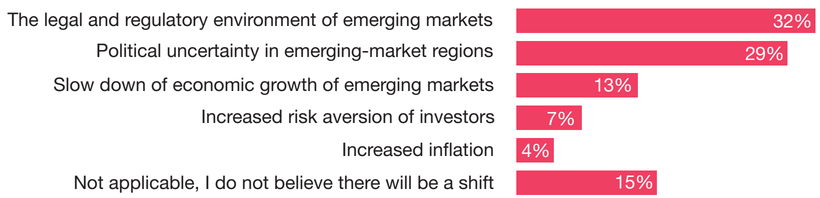
Political and legal uncertainty could derail the rise

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 [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.

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?



Source: Economist Intelligence Unit Survey

"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".

Consistent regulation is key

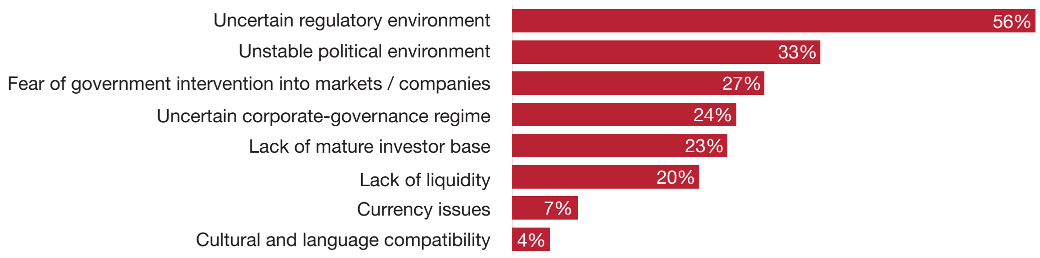
For companies looking to list on an emerging market stock exchange, the same fears apply, with 56% citing an uncertain regulatory environment as their primary concern. Volatile political conditions and fear of government intervention in markets were also cited by 33% and 27% of respondents, respectively.

Despite survey respondents' belief that China—and Shanghai in particular—will be the biggest 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 significant influence on the allocation and pricing of financial resources through administrative intervention, regularly instructing domestic banks to lend, for example, and setting interest rates centrally. This can affect the assessment of risk, reduce pricing flexibility and generally limiting the beneficial effects of market discipline.

Similarly, the country still has an opaque and unpredictable legal and regulatory system. According to the World Economic Forum's *Global Competitiveness Report 2010-11*, government bureaucracy, policy instability and corruption are among the top five most problematic factors for doing business in China. Without the establishment of an independent judiciary 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 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 8 What are the main concerns with listing on an emerging market stock exchange? Select up to two.



Source: Economist Intelligence Unit Survey.

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

Figure 9 Which of the following exchanges do you think issuers consider (beyond their home exchange) when planning an IPO?

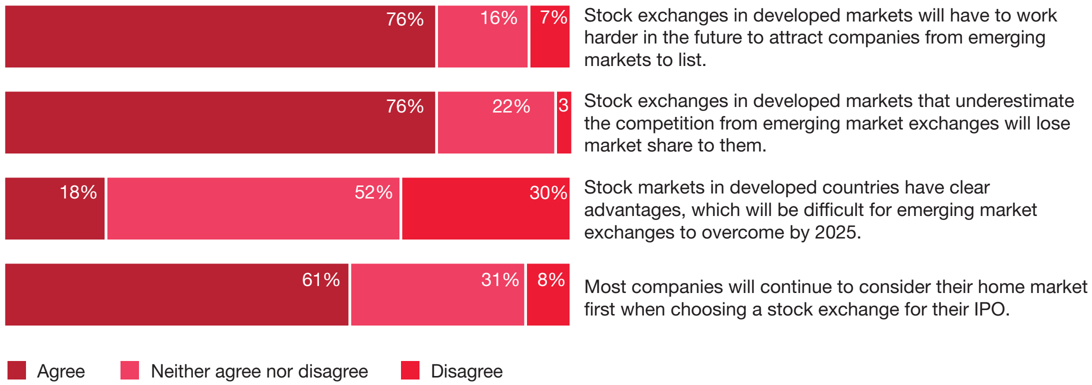
	Now	In 2025	Difference % points
Australian Securities Exchange	5%	7%	+2
Bovespa (Brazil)	5%	29%	+24
Deutsche Borse	17%	8%	-9
Hong Kong Stock Exchange	27%	27%	–
Indian exchanges (Bombay Stock Exchange and National Stock Exchange of India)	5%	38%	+33
London Stock Exchange	72%	27%	-45
NYSE	74%	39%	-35
NASDAQ	46%	18%	-28
Russian exchanges (MICEX and RTS)	1%	11%	+10
Shanghai Stock Exchange	4%	55%	+51
Singapore Exchange	6%	14%	+8
South Korea Exchange	2%	3%	+1
Tokyo Stock Exchange	12%	3%	-9
Toronto Stock Exchange	5%	4%	-1

Source: Economist Intelligence Unit.
Note: Percentages do not add to 100% as respondents were able to select up to three exchanges.

[13] World Federation of Exchanges, quoted by the London Stock Exchange

Developed markets' advantage

Figure 10 Do you agree or disagree with the following statements?



Source: Economist Intelligence Unit Survey.

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 centres 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.

“There is not necessarily a direct correlation between this economic shift and the impact on equity capital markets”. **Tracey Pierce** – Director of Equity Primary Market LSE.

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$2.8trn, according to the World Federation of Exchanges. Similarly, while Hong Kong may be growing as a regional centre, it still has only 23[14] international companies listed, compared with 593 listed in London as at the end of June 2011[14].

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 for an Indian investment bank, Religare, who argues that Indian companies still see a lot of cachet in a London listing. “In 2010, 73% of international money raised by Indian companies was raised through London”, he says. “The aspiration of many Indian entrepreneurs is still to have a London listing. They like the institutional nature of London’s investor base and the resilience this gives the market”.

However, survey respondents believe those historical advantages will be increasingly difficult to defend. Only 19% of respondents believed that the advantages of developed market stock will be difficult to supersede, while 30% think that the young exchanges in emerging markets will be able to catch up or overtake their developed market counterparts. However, more than half of respondents are unsure of how the new exchange landscape is going to shape up.

There was much greater agreement that the challenge will be ever greater for today’s leading exchanges, with 76% of respondents agreeing that developed markets will have to work harder to persuade companies from emerging markets to list, and that those which underestimate competition will lose market share as a consequence.

Tracey Pierce, head of listings at the London Stock Exchange, is fully aware of the challenges, but believes London can defend its share of equity capital markets business. There may be a shift in terms of economic strength and a reallocation of capital from developed to emerging markets, but Ms Pierce says it is important to differentiate between where the growth is, where the capital is required, where capital is being raised and where those shares are traded. “There is not necessarily a direct correlation between this economic shift and the impact on equity capital markets”, she says.

Ms Pierce maintains that most international companies will still want to list in a global financial centre and that, in general, this still means London or New York. Equally, she says, the increase in share trading volumes on the LSE—annual share turnover is US$246trn[15] —in emerging markets companies demonstrates that those companies will still gain significant benefit from a listing in London.

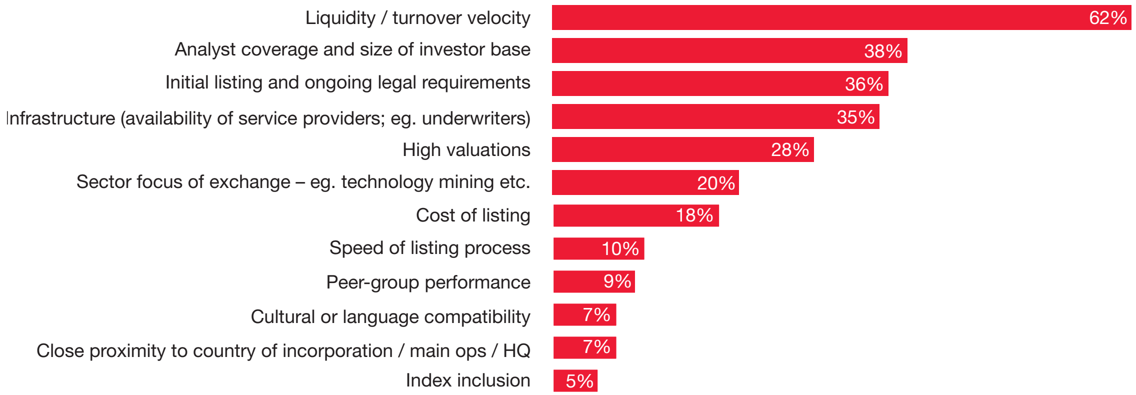
“Many emerging market companies list in London via depository receipts that trade on our international order book. In 2009 the IOB accounted for 5% of our trading volumes. Today, trading in those depository receipts on the IOB accounts for 20% of our trading volumes”, she says. “This shows a considerable increase in demand for these high-growth emerging market stocks, and also that investors like the confidence that a London listing provides, both in terms of the quality of the regulatory model and the trading infrastructure”.

[14] World Federation of Exchanges.
[15] TheCityUK.
[16] Dealogic data.

"The aspiration by many Indian entrepreneurs is still to have a London listing. They like the institutional nature of London's investor base and the resilience this gives the market".
Rick Thompson — Head of Listings, Religare

Liquidity is king

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



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 Citi, by the end of 2010, Asian institutional investors held US$1.6trn 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$6.5trn 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[16].

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 assets in the world. There is upwards of

"London also has the highest proportion of foreign investment in its listed companies. This makes for a hugely liquid market". **Tracey Pierce** – Director of Equity Primary Market LSE.

US$1.9trn of equity assets under management in London, of which US$1.4trn is invested in international equities. London also has the highest proportion of foreign investment in its listed companies. This makes for a hugely liquid market", she says.

London and New York have other benefits. Credit Suisse's Mr Reece says that the depth of the financial services industry in these cities, including the expertise of legal services and the strength of private equity funds, are important for market activity and a big advantage for developed markets.

"Private equity and other players, such as hedge funds, are critical to the vibrancy of a capital market. Private equity, for example, is a big consumer of the public equity markets in terms of IPOs and follow-ons; the industry's balance sheet or remonetisation trades still drive capital markets volume and that's not going to change any time soon", says Mr Reece. "Private equity is not so well grounded in parts of emerging Europe and it's virtually non-existent in Asia-Pacific. I do see private equity moving to Asia, Africa and Latin America, but so far there is nowhere near the depth of private equity communities found in markets like New York and London".

Goldman's Mr Westerman agrees that the breadth of financial infrastructure is important. "The broader financial services infrastructure—such as investment banks' analysts and sales and trading operations, law firms, institutional investors and the private equity industry—are so far still concentrated in developed markets, such as New York and London and this means that they continue to be vibrant and deep markets", he says.

[17] Dealogic data.

"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

Conclusion

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$178.6bn. 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 2008[17]. 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$125.5bn[17].

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$30bn in the first half, boosted by Q2 volume of US$25.9bn, 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.

PwC point of view

Based on the findings of this report, we can expect major changes in the dynamics within capital markets over the coming years. On 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 end, 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 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 most long-term implications

And as this report demonstrates companies will have more and more options. One of the key learning's that companies should always have 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.

About this report

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 Stock 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.

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