

Fed Forum



Financial Globalization: Taking Your Business Elsewhere?

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Effects of financial globalization

- Financial integration is higher than ever
 - Increasing number of financial centers that can attract global business
 - Greater opportunities to “take your business elsewhere”
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Focus today:

- Changes in the geography of global financial business?
 - What are the most prominent markets of destination?
 - Impact for the U.S.?
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Why does it matter?

- **Stability issues**
 - Markets less affected by shocks to one financial center
 - Regulatory intervention more difficult
 - **Efficiency of capital markets**
 - Barriers removed, competition enhanced, liquidity improved
 - **Impact on the “local” economies**
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Two main take-aways

- Learning something new about key financial markets:
 - Corporate bond markets
 - Primary equity markets (IPOs)
 - Secondary equity trading
 - Focus on *measurement*
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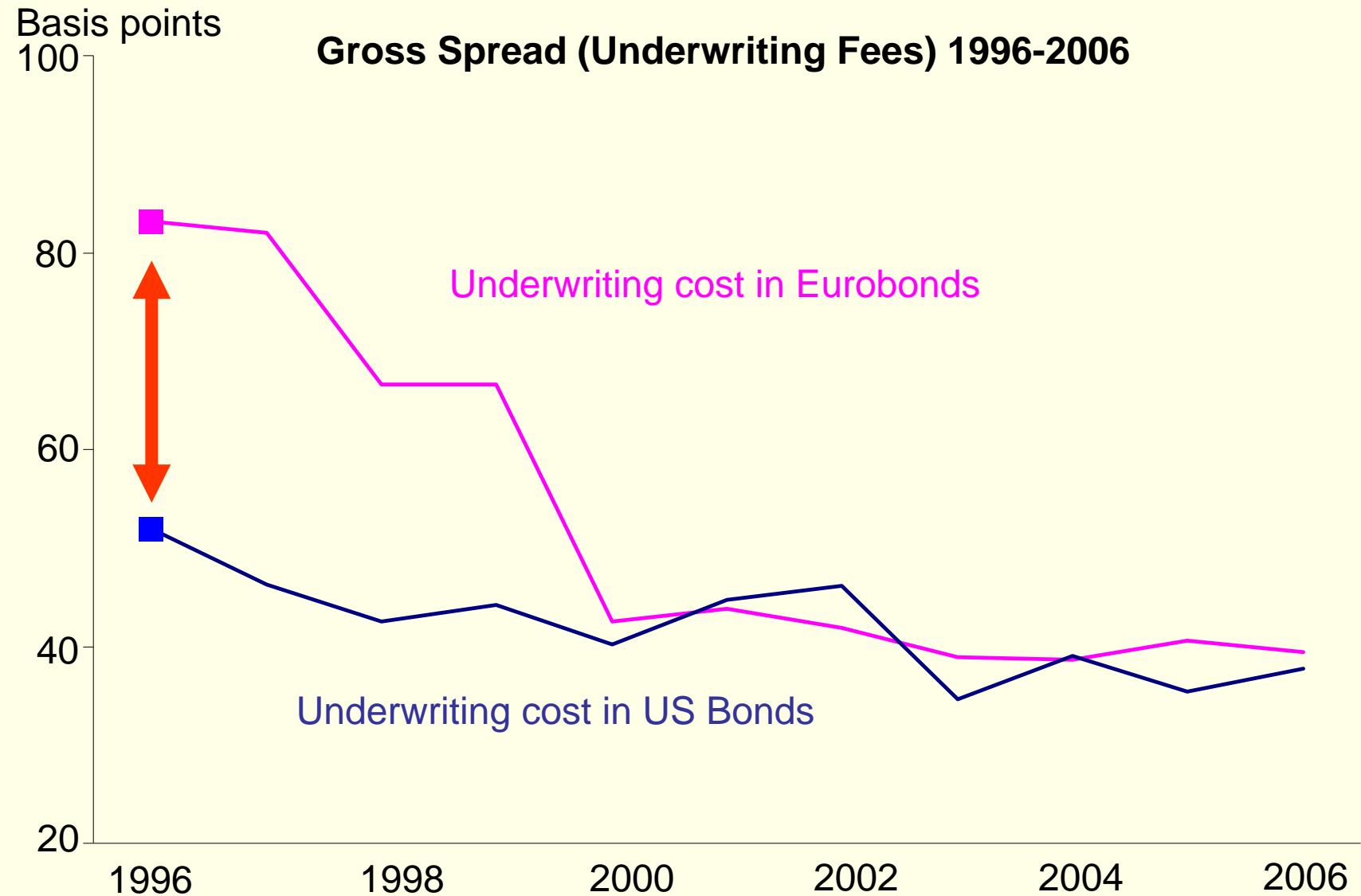
Bond issuance

- Global corporate bond market dominated by U.S. and Eurobond markets
 - Combined market share in 2006: more than 90% of global issuance
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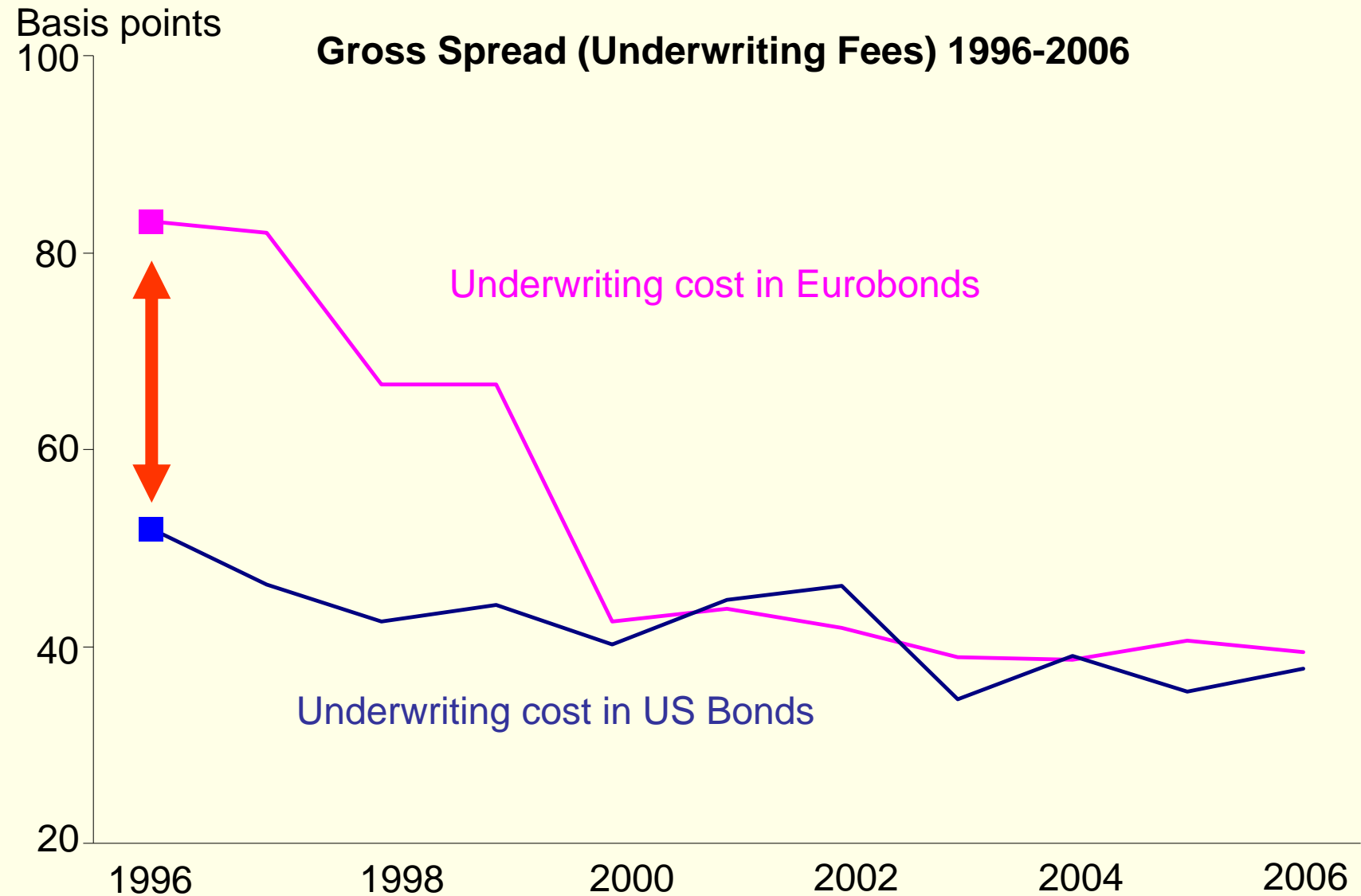
EMU made Eurobond issuing less costly

- Reduced currency risk
 - Eliminated cross-country investment restrictions
 - A new “broader” market made it more attractive to non-Europeans
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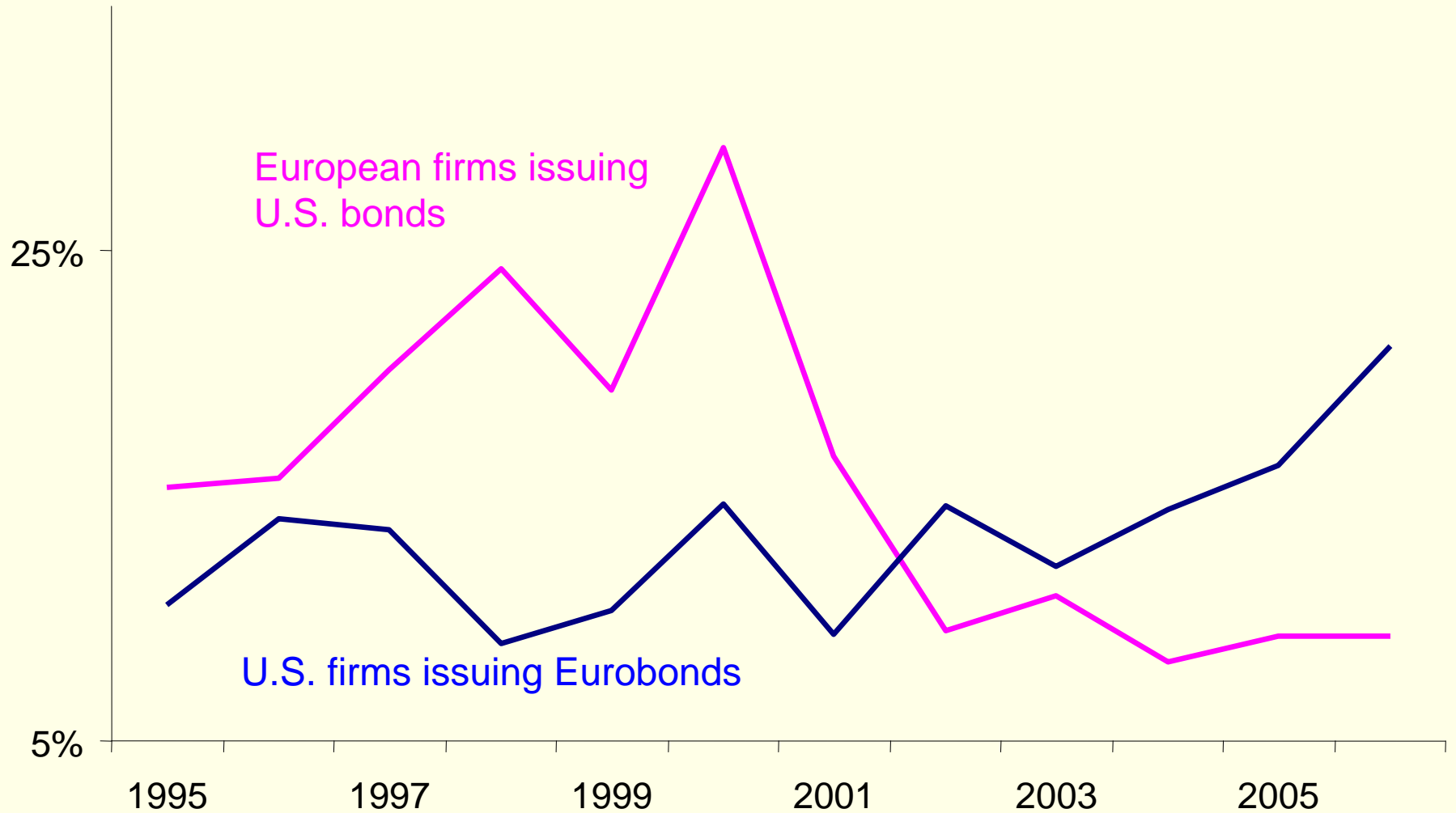
Eurobond much more costly...



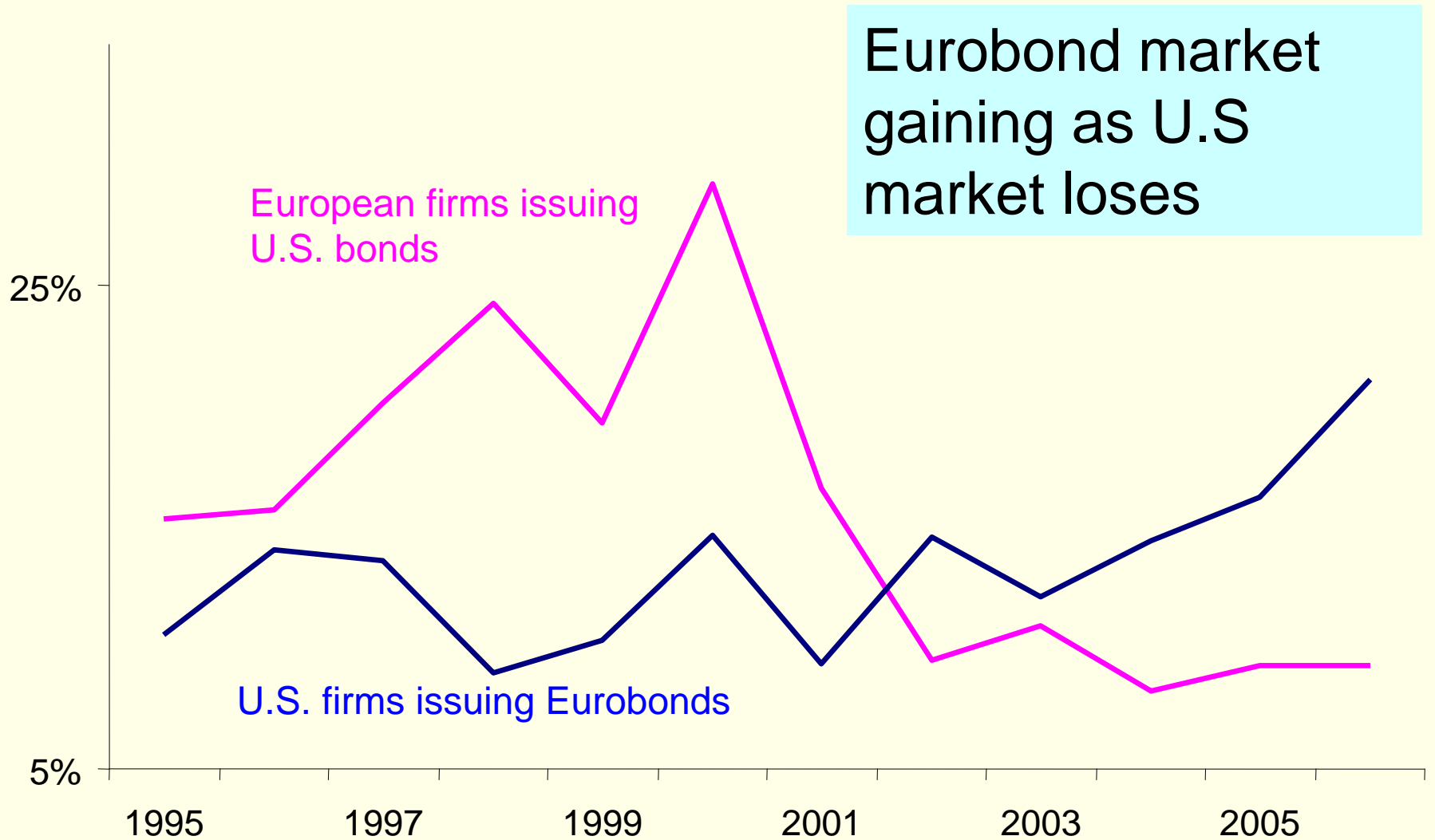
...but costs have converged



U.S. market losing EU firms ...



... and losing U.S. firms as well

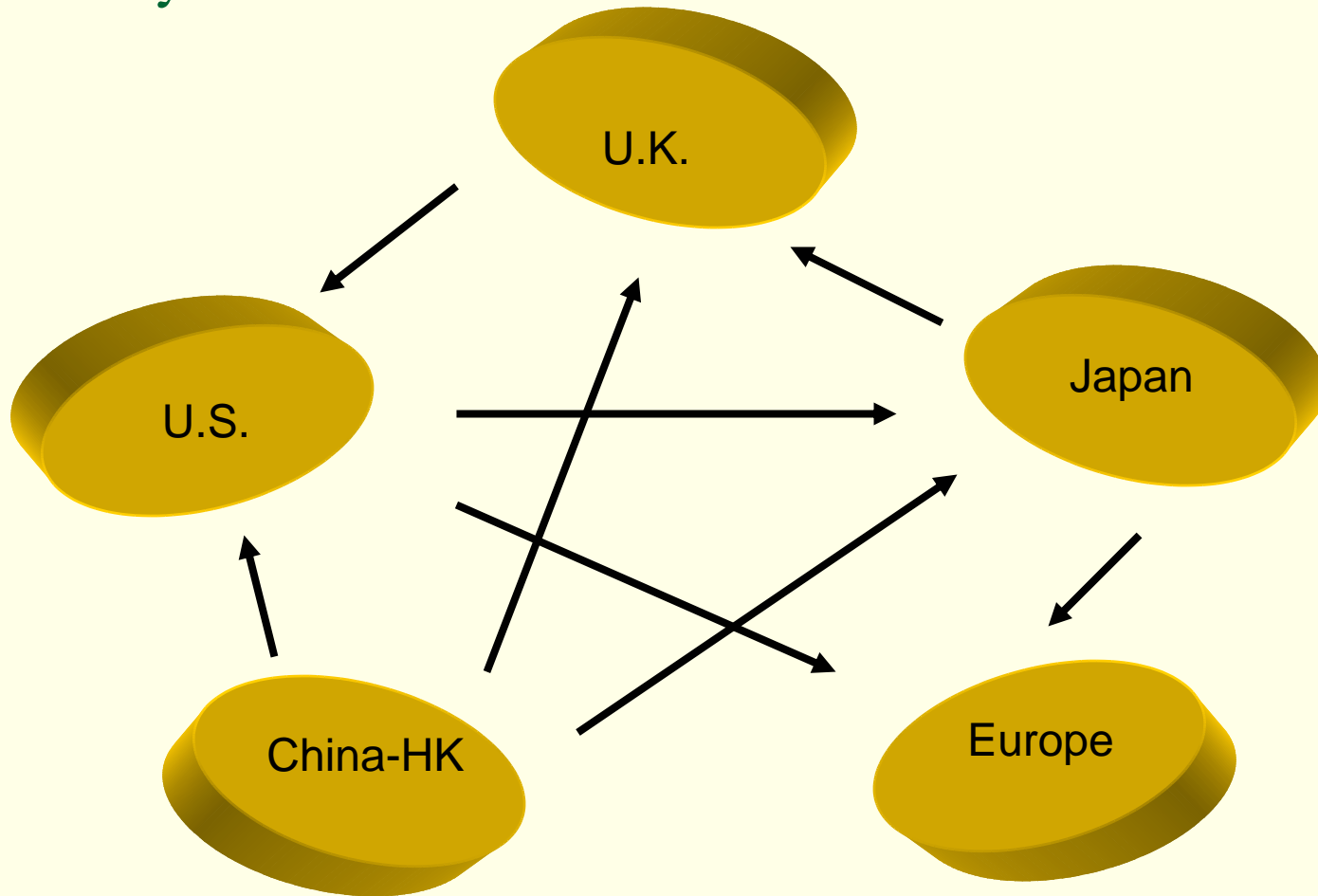


IPOs and secondary equity trading

- Most companies still issue on domestic exchanges
- More and more firms are choosing to go abroad

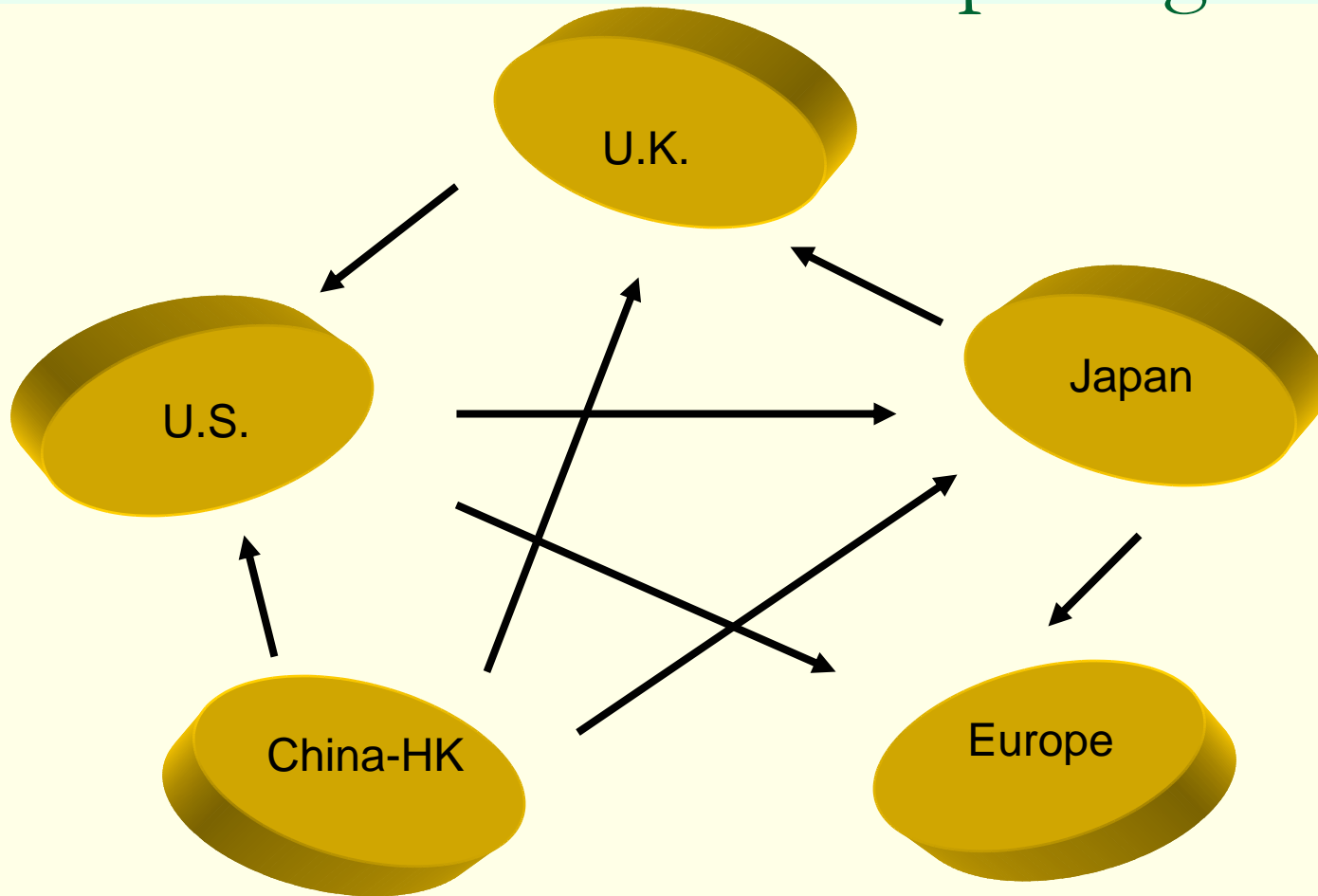


Growing network of cross-market IPO activity



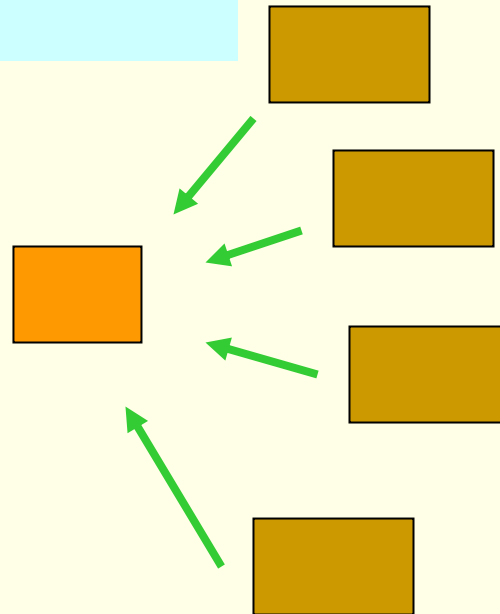
Network Analysis

to measure market “prestige”



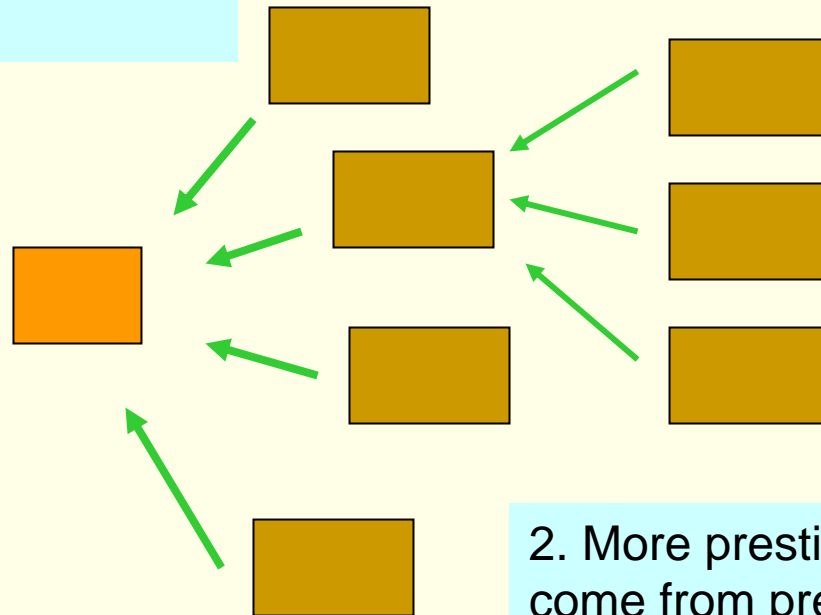
Measure based on three criteria:

1. More prestige if more foreign firms are coming in



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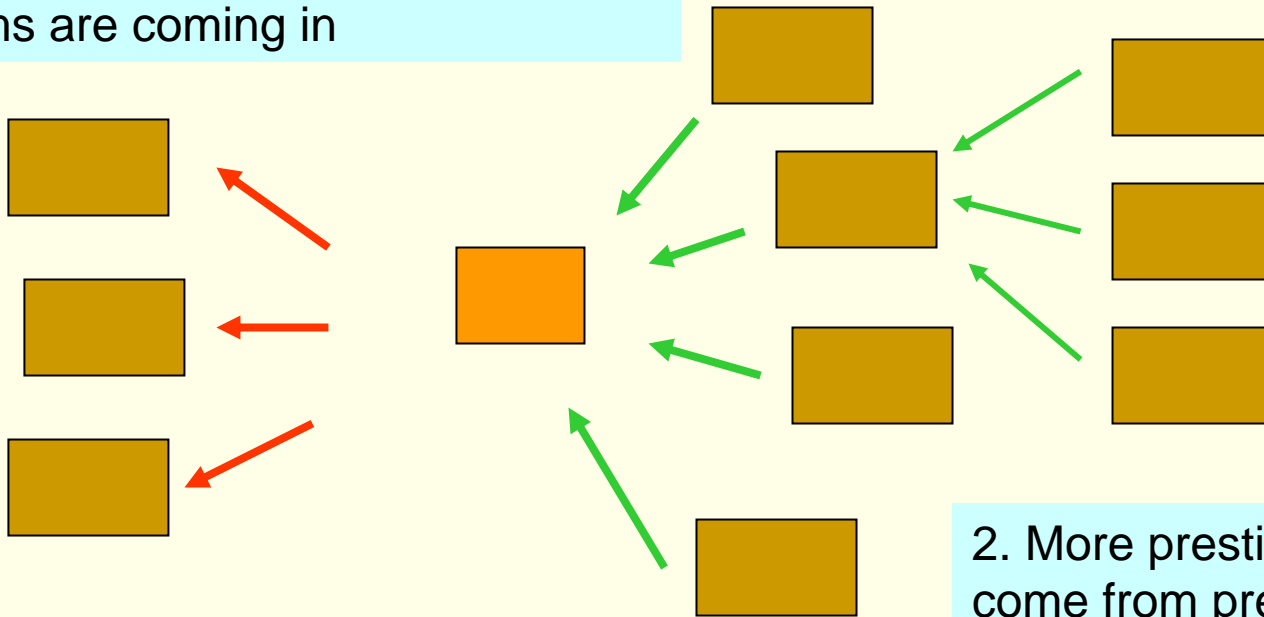
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2. More prestige if foreign firms come from prestigious markets

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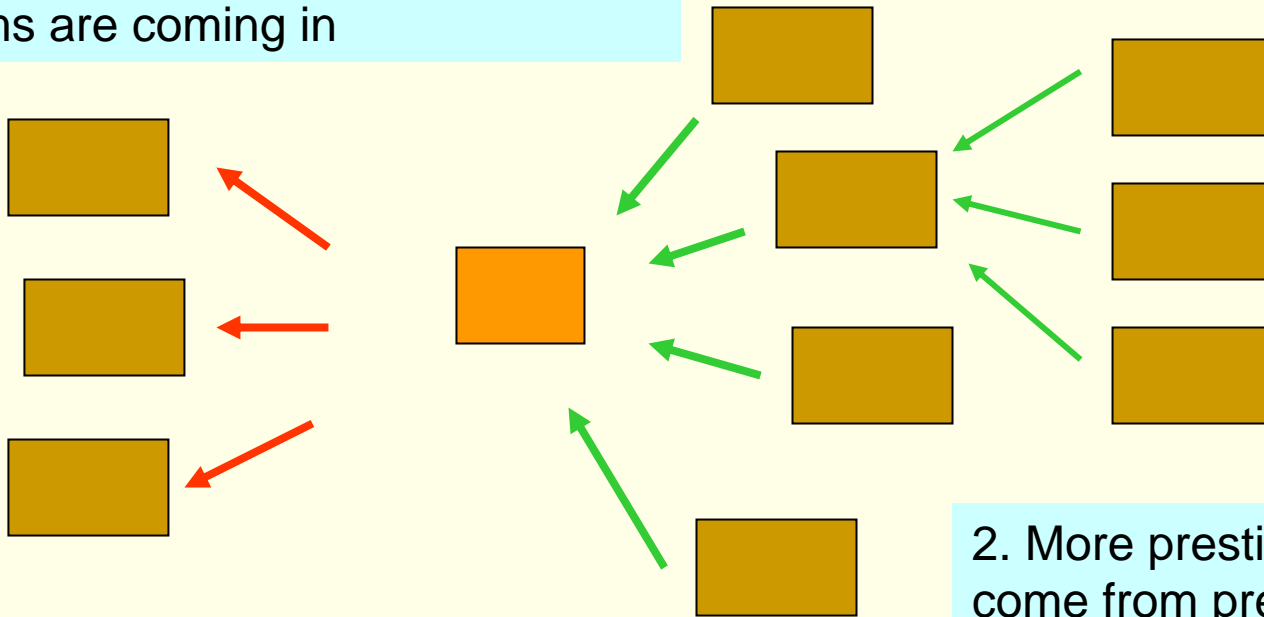


2. More prestige if foreign firms come from prestigious markets

3. Loss of prestige if domestic firms go to foreign markets

Google's Web Page Ranking uses similar algorithm !

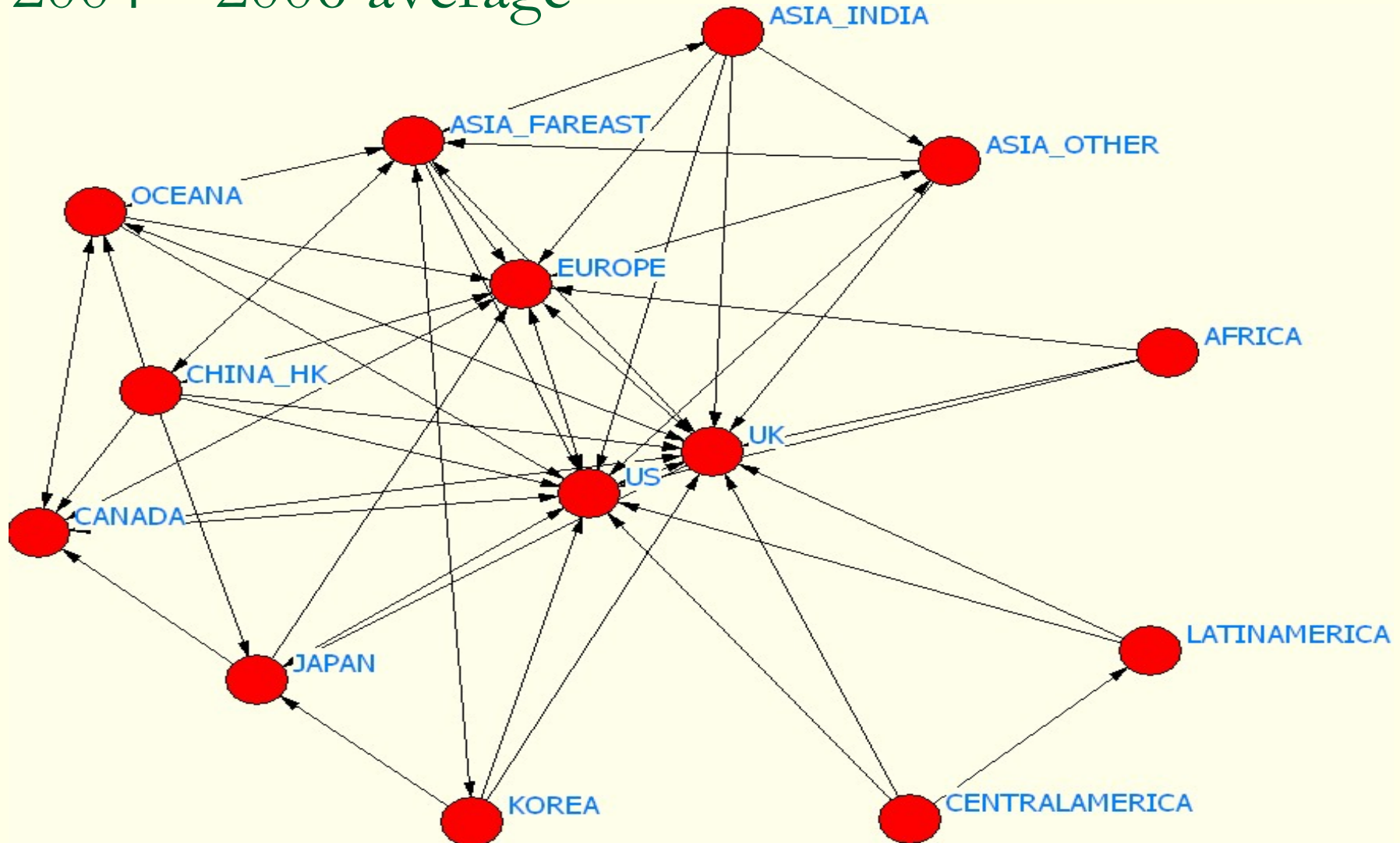
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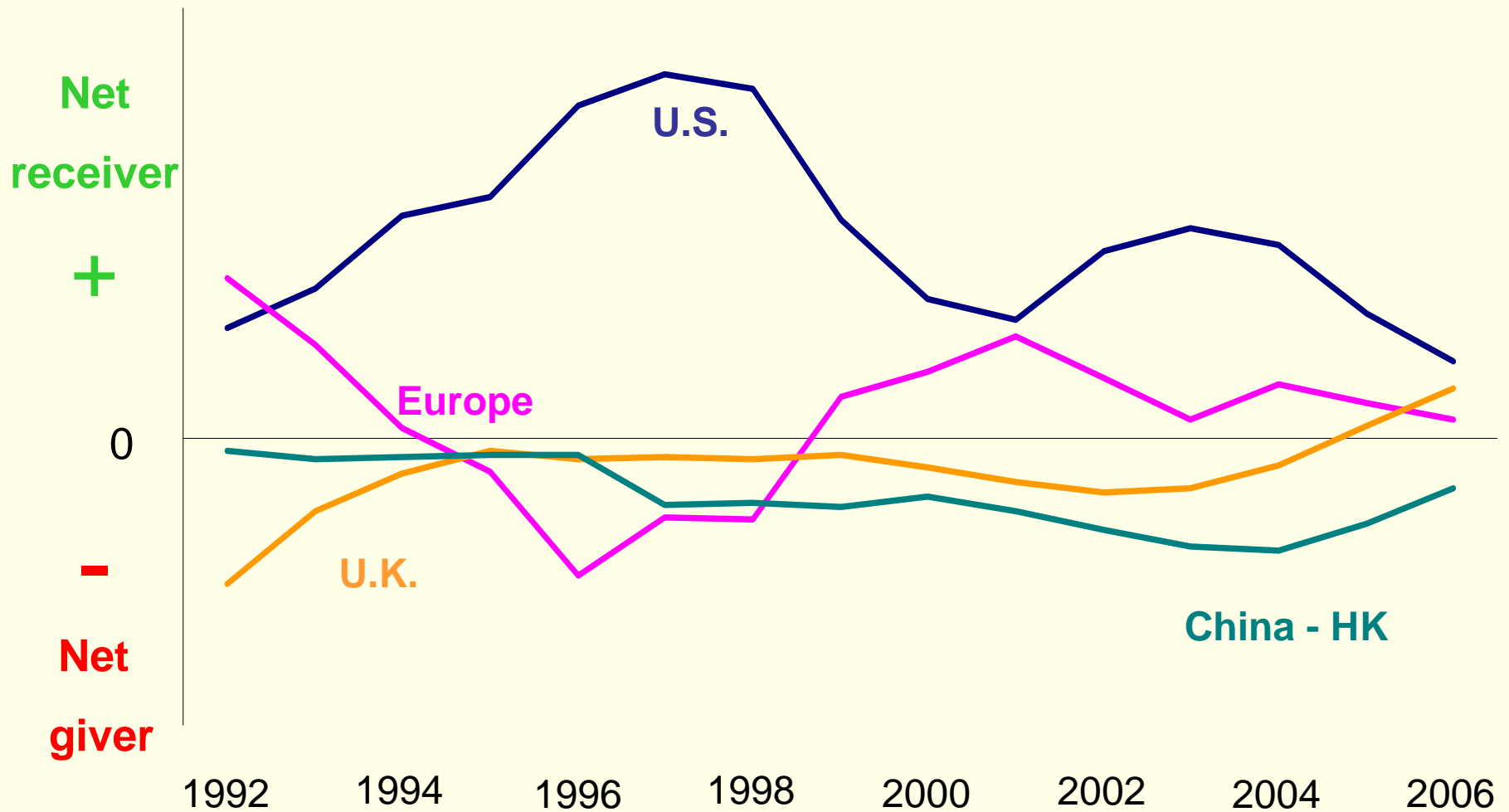
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Actual network of cross-exchange IPO issues, 2004 – 2006 average

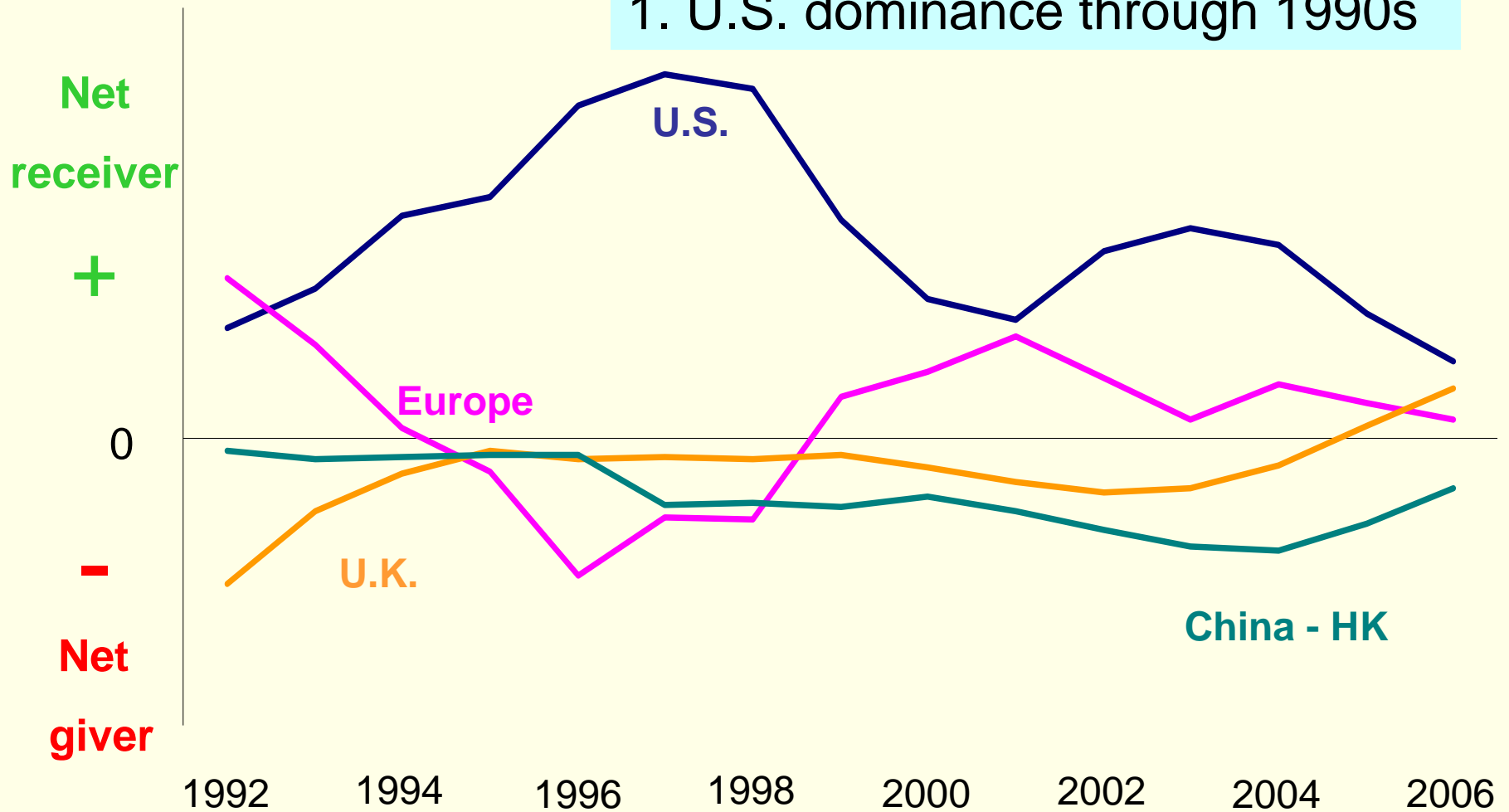


Rankings in market prestige. IPOs.



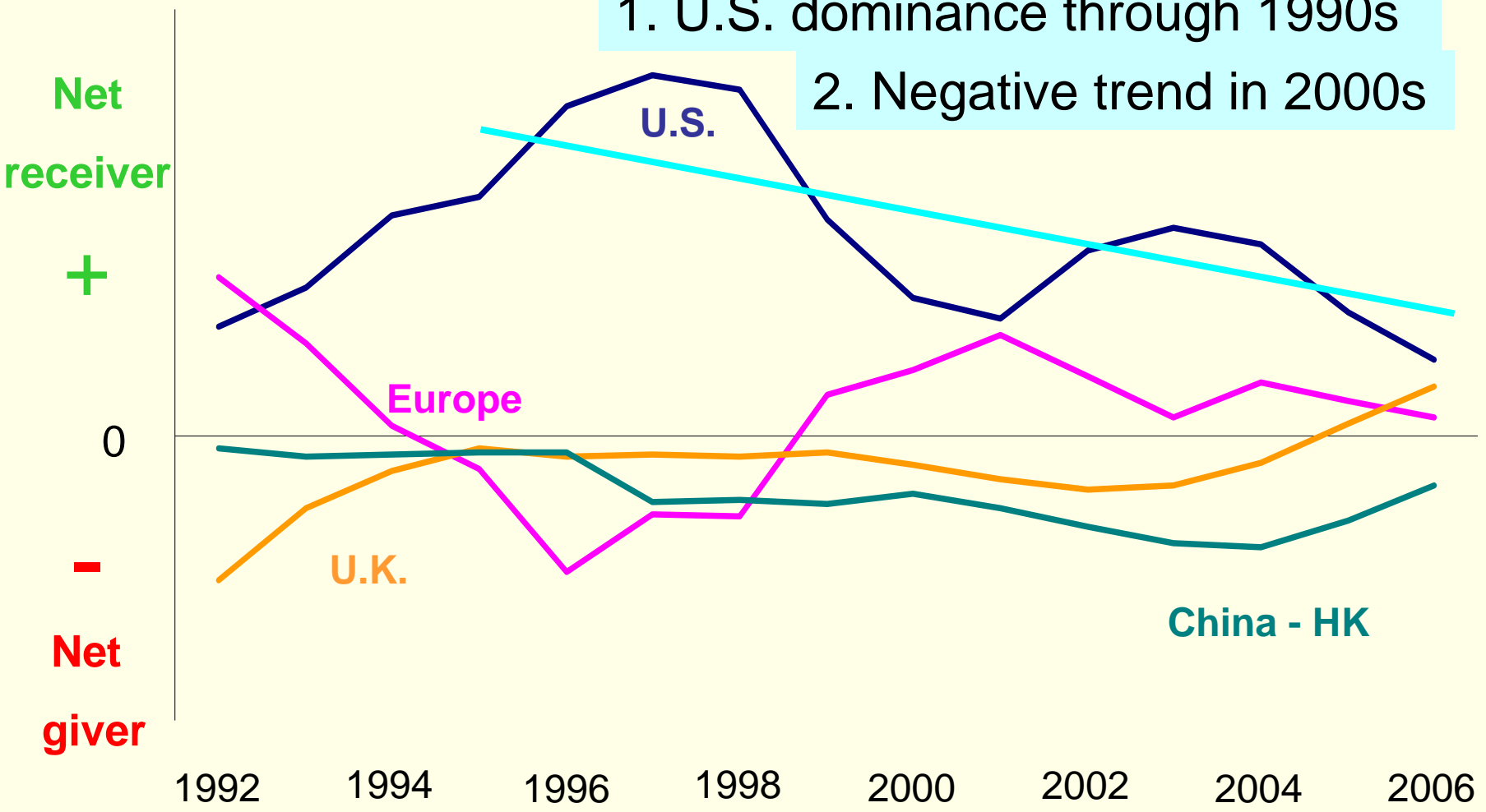
Rankings in market prestige. IPOs.

1. U.S. dominance through 1990s

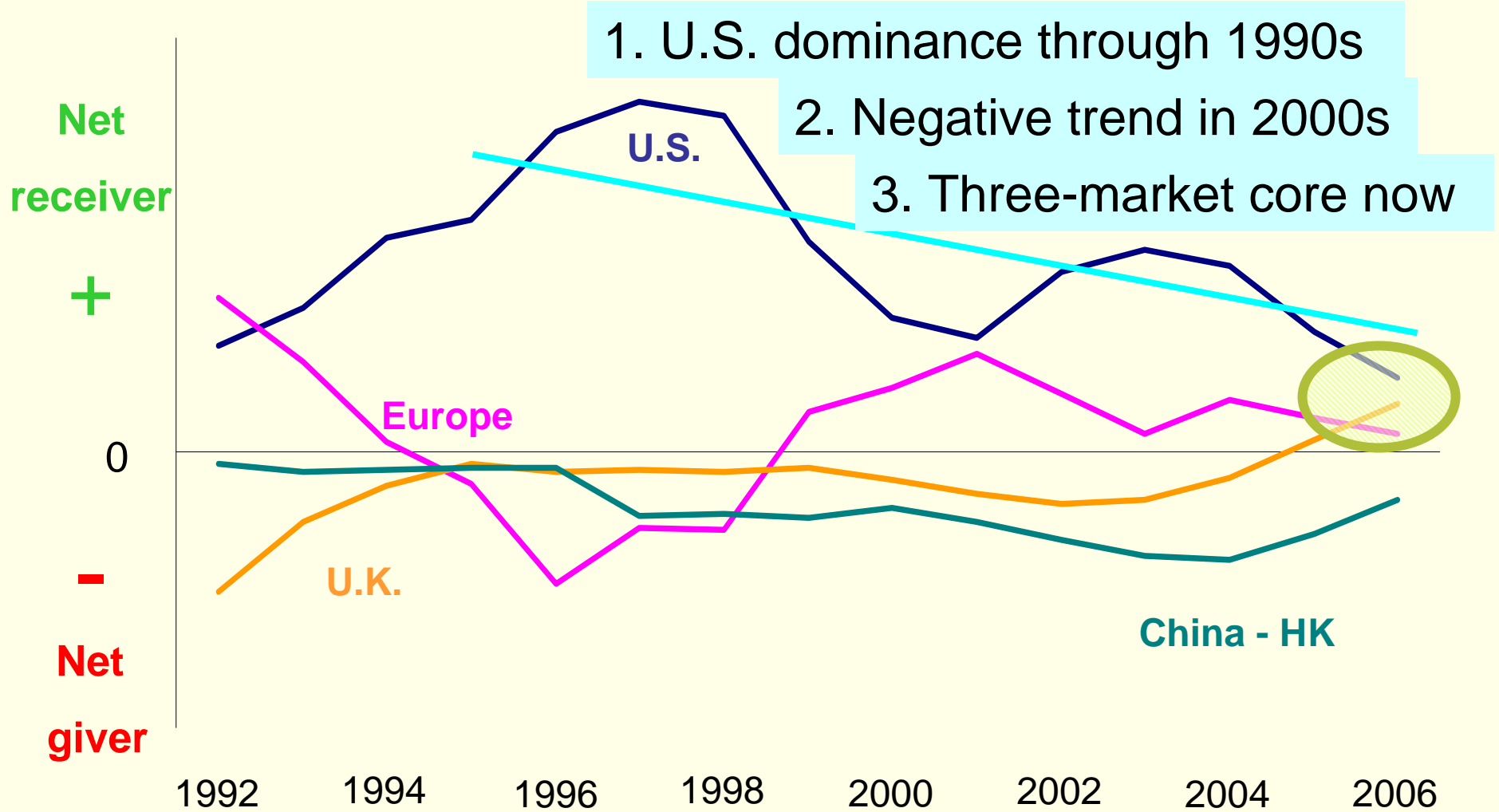


Rankings in market prestige. IPOs.

- 1. U.S. dominance through 1990s
- 2. Negative trend in 2000s



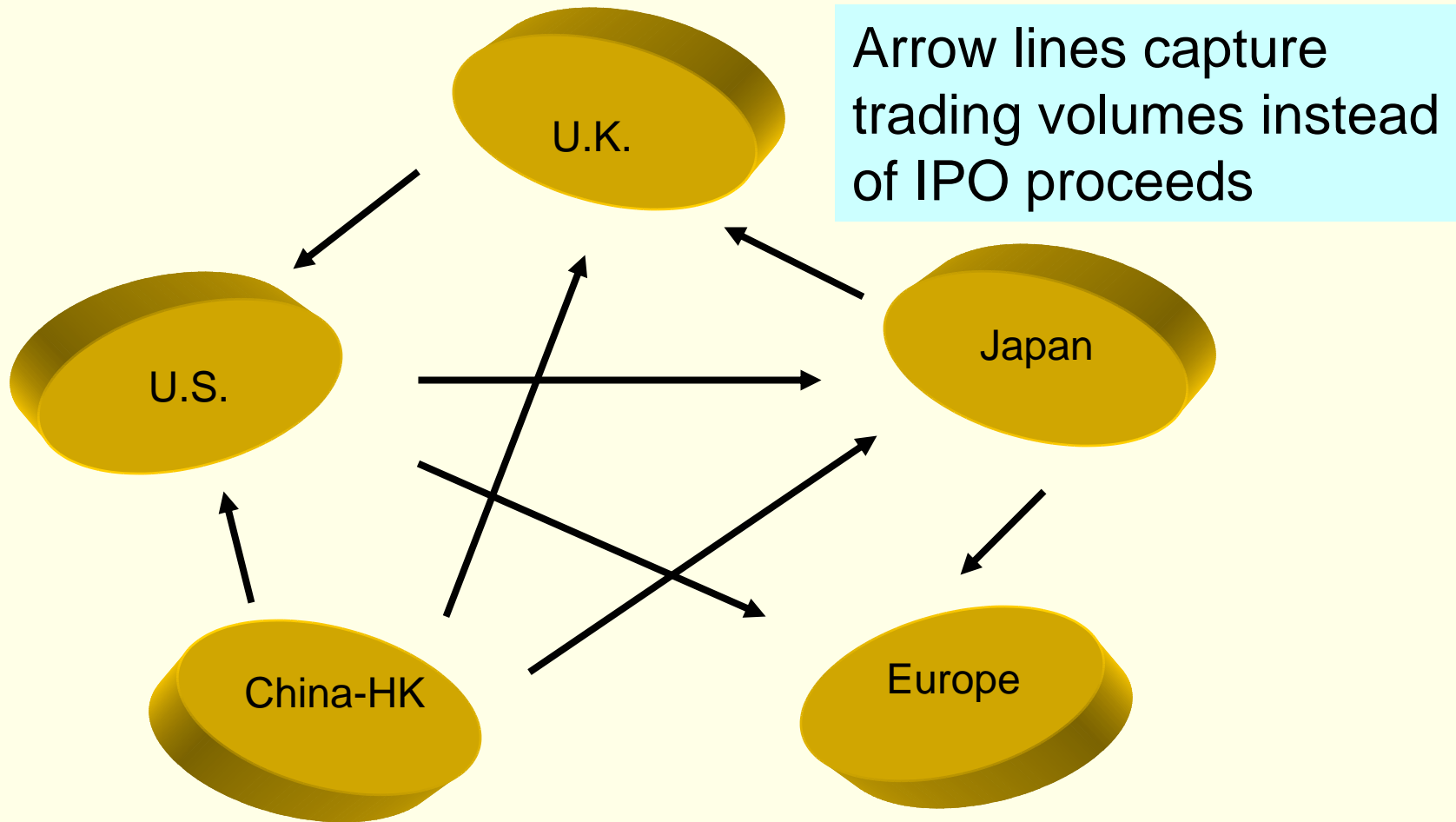
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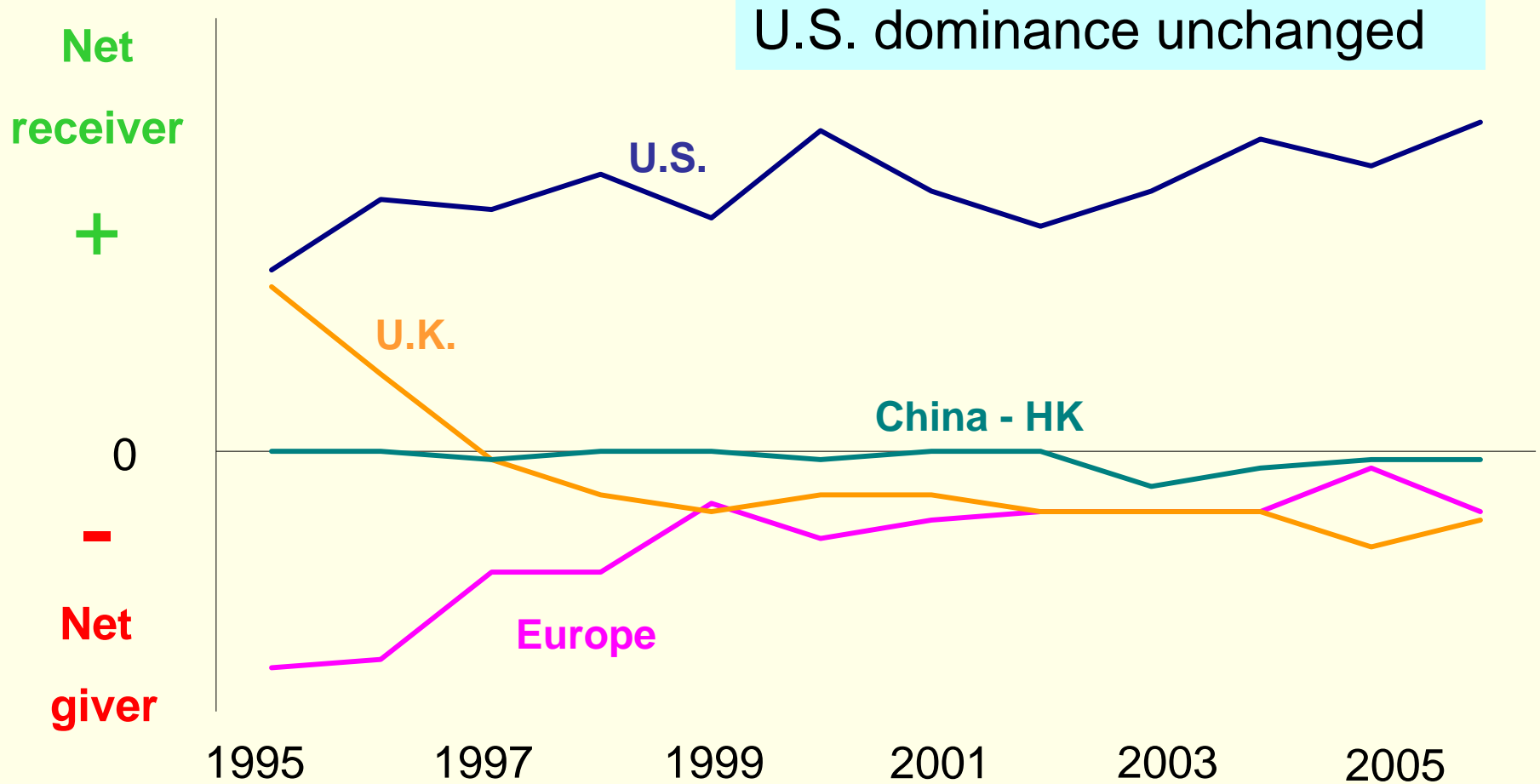
IPO activity only part of the story

- IPOs are one-time events
 - A dominant exchange should provide an efficient and liquid environment for subsequent trading
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Same **network** analogy applies



Rankings in market prestige. Secondary trading.



Summary

- U.S. bond market has lost part of its dominance
 - U.S. stock exchanges share top rankings in global IPO activity with London and other European exchanges
 - U.S. stock exchanges still leaders in overall trading activity of global listings
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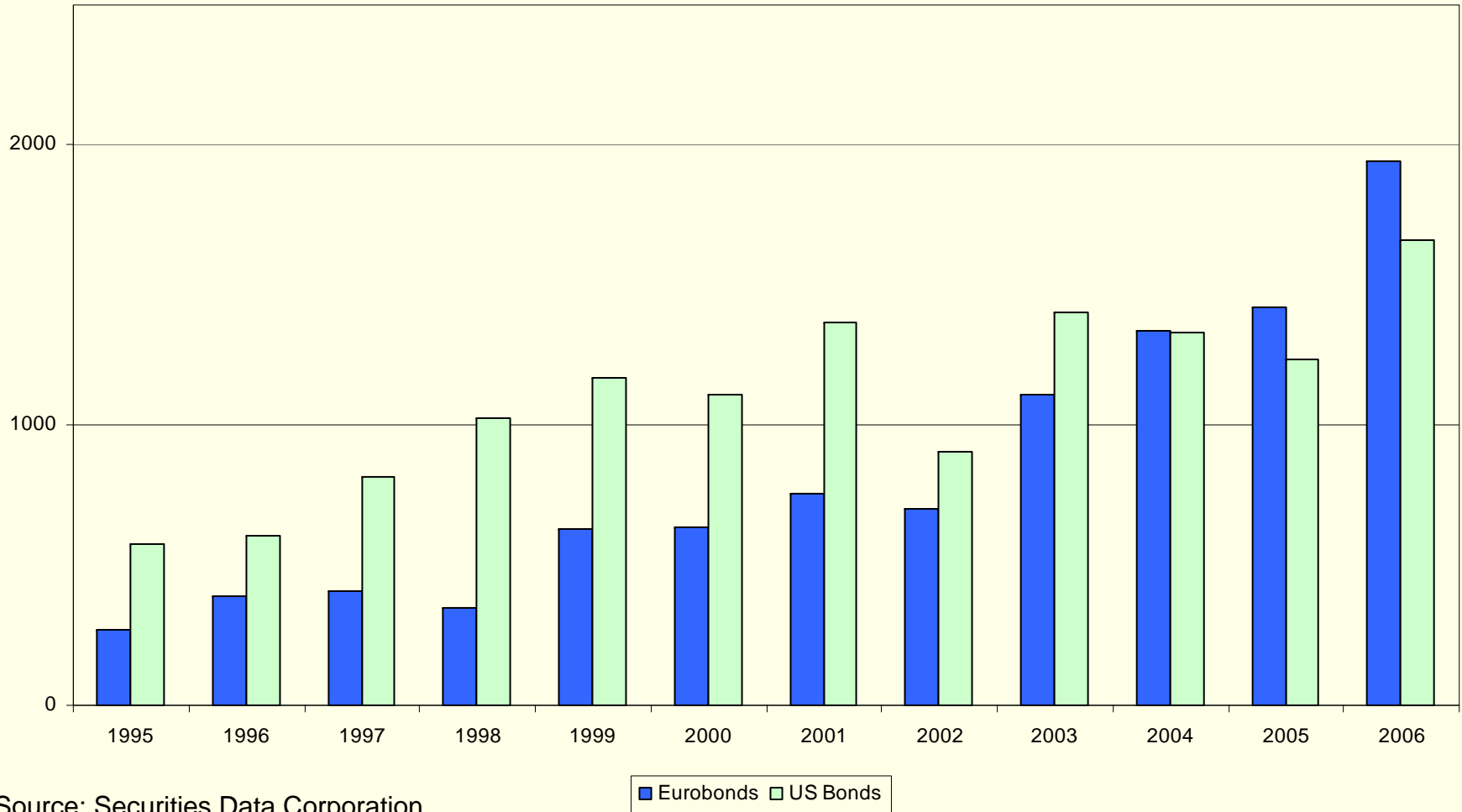
Open questions

- How will international ranking continue to evolve in the future?
 - Are U.S. regulatory agencies losing “control” of markets?
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Reference Slides

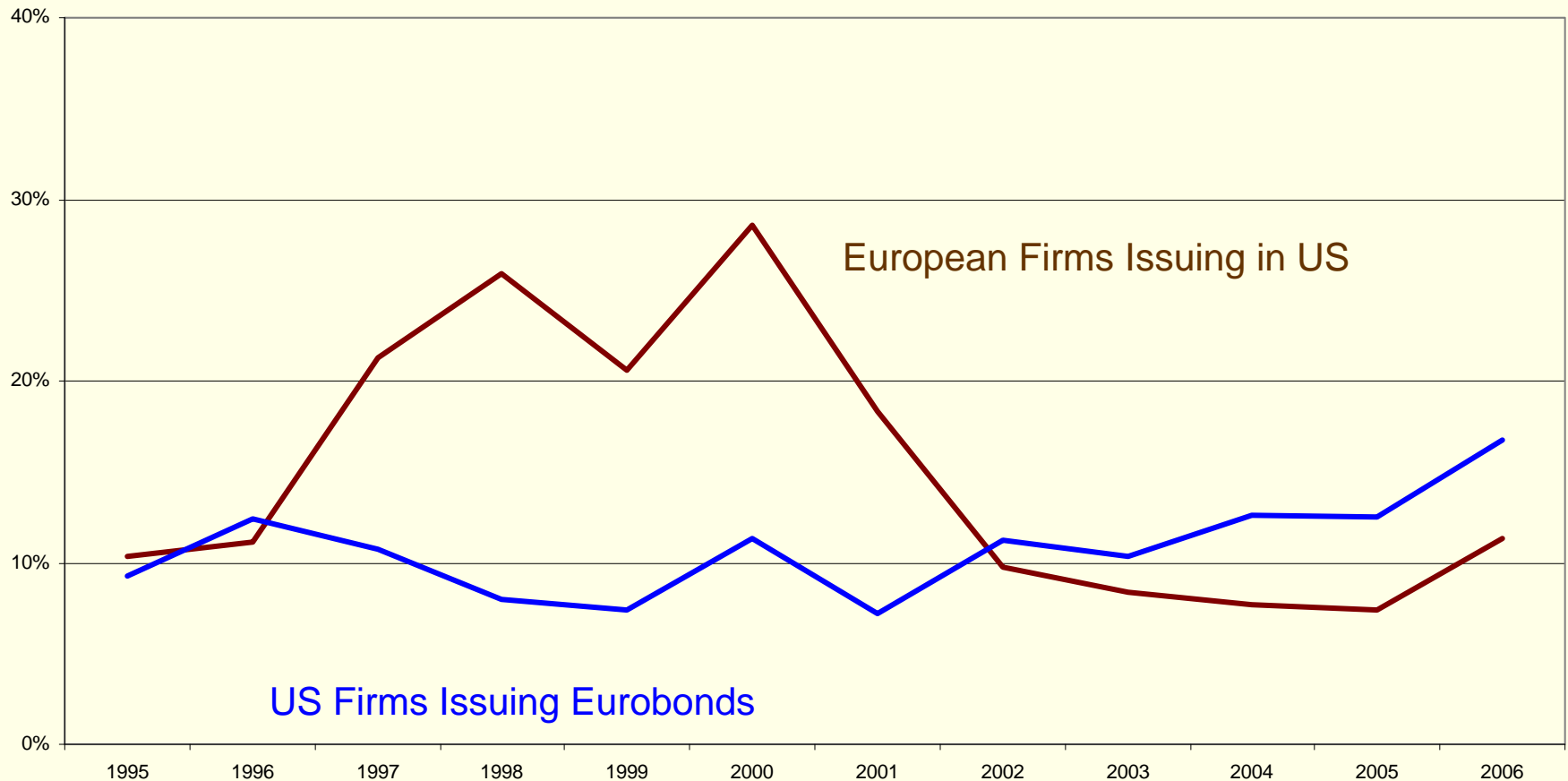
U.S. Bond and Eurobond Corporate Market Issuance

\$ billions



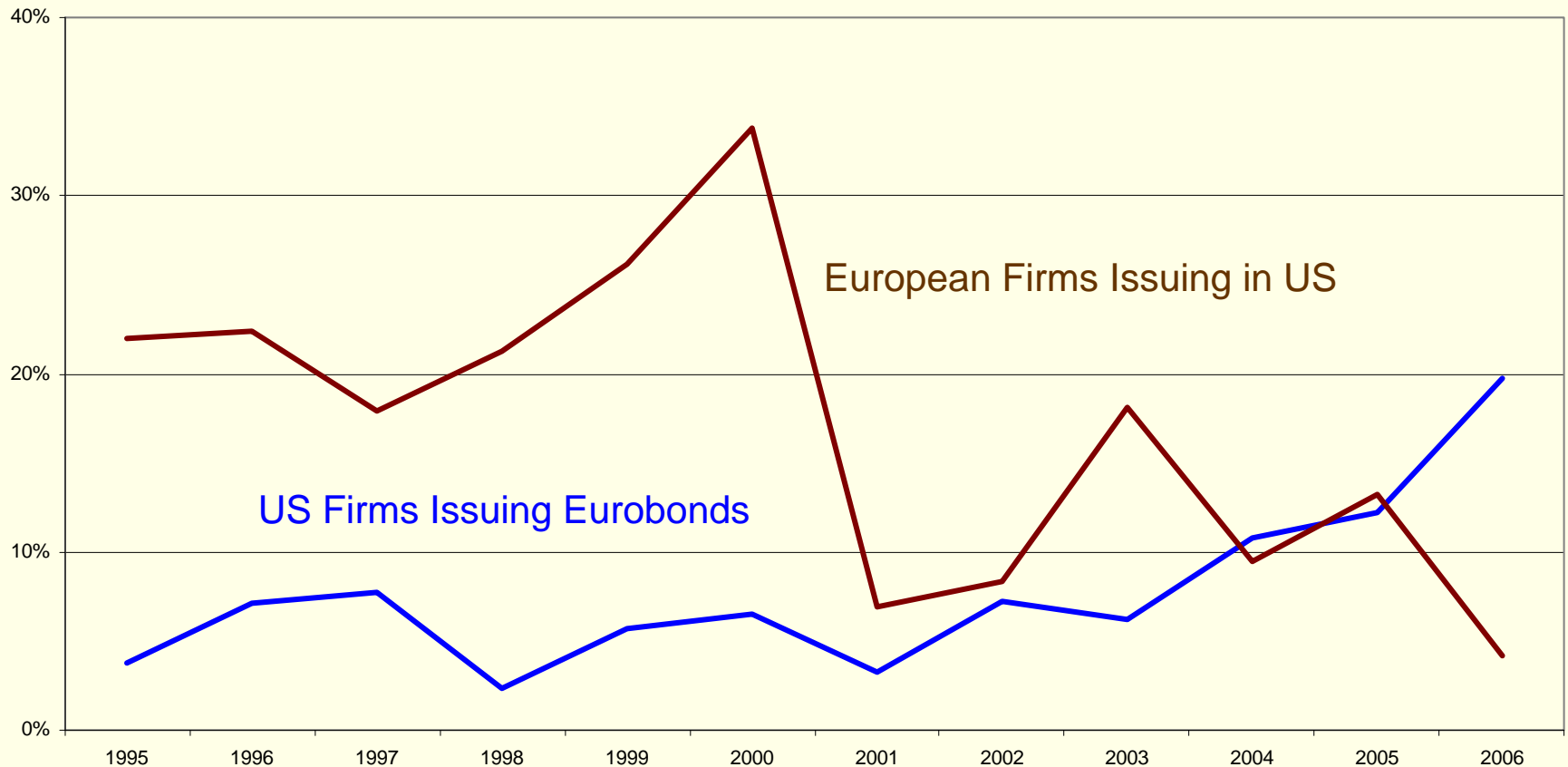
Source: Securities Data Corporation

Market Share of Investment-Grade Bond Issuers From Different Regions



Source: Securities Data Corporation

Market Share of Below-Grade Bond Issuers From Different Regions



Source: Securities Data Corporation

Prestige of IPO Listings Across Regions, Adjusted for Turnover

