FOREIGN LISTING LOCATION: A STUDY OF MNCs AND STOCK EXCHANGES IN EIGHT COUNTRIES

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Abstract. This study aims to enhance our understanding of multiple listings by addressing the where question related to foreign listings. It examines factors that influence firms’ choices of foreign stock exchanges. Based on a sample of 459 internationally traded MNCs, with at least one foreign listing on one of nine major stock exchanges (in eight countries) at year-end 1992, we find strong evidence that foreign listing locations are significantly influenced by 1) financial disclosure levels, and 2) the level of exports to a given foreign country.

INTRODUCTION

Over the last two decades an increasing number of firms have listed their shares on foreign stock exchanges. Between 1981 and 1991, trading in foreign stocks by U.S. investors increased more than 1,400% from $19 billion to $273 billion per year. During the same period, foreign trades in U.S. stocks increased to over $400 billion per year.\(^1\) By year-end 1989, foreign stocks accounted for 14% of total world stock trading volume.\(^2\) In the first half of 1993, sixty-three new stock issues valued at $5.35 billion and 509 bond issues worth $47.95 billion were sold by foreign firms in the U.S. financial markets.\(^3\) At last count Sony was listed on nineteen different stock exchanges around the world.

However, not all stock exchanges have had equal appeal. By year-end 1992, only 198 foreign firms had listed on one of the two major U.S. exchanges (NYSE and AMEX). In contrast, 956 foreign firms were listed in London, 468 in Frankfurt, and 252 in Zurich, despite the fact that the U.S. exchanges are far larger in terms...

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of market value and volume of shares traded. Between 1987 and 1992, the U.S. exchanges added only 77 new foreign listings, compared with 372 new listings in London and 260 in Frankfurt. In 1990, foreign companies’ stocks accounted for 30% of the total volume of equity traded on the London stock exchange whereas only 4.4% of the turnover on the NYSE was from foreign companies. Referring to U.S. securities markets, several economists recently expressed concern that “current SEC rules handicap one of the service industries in which the United States is, so far, successfully holding its own against foreign competition”. They warned that “such regulations can also harm the international competitiveness of the U.S. securities industry if they prevent U.S. exchanges from making markets in many of the largest corporations in the world” [Baumol and Malkiel 1993, pp. 19-20].

Discussions with professionals actively involved in foreign listings4 suggest that accounting and regulatory disclosure requirements are important considerations in exchange listing decisions. Accounting regulators and policymakers around the globe are facing difficult choices regarding appropriate disclosure standards for foreign firms listing within their jurisdictions. The task of protecting domestic investors from misleading financial disclosures must be balanced against providing these same investors reasonable access to foreign capital and investment opportunities. The competitiveness of domestic stock exchanges often hangs in the balance.

Recently, this debate has become particularly heated in the United States, with the Securities and Exchange Commission (SEC) and the New York Stock Exchange on opposite sides of the issue. Several articles have commented on the public nature of a dispute between the NYSE and the SEC over disclosure requirements for foreign listers [Torres 1990, 1991; Jarrell 1992]. The NYSE chairman, Mr. Donaldson would like reporting requirements relaxed for foreign firms listing on the NYSE, while Mr. Breeden, who recently concluded his term as SEC chairman, was primarily concerned about preventing U.S. investors from being misled by financial statements that are not reconciled to U.S. GAAP. Early indications are that under its current chairman, Mr. Arthur Levitt, Jr., the SEC may be more sympathetic to the concerns of the US securities industry.

This study extends previous research on foreign listings in several major respects. First, it examines the foreign stock exchange listings of 459 internationally traded firms from eight countries. Most of the earlier studies on foreign listings have used considerably smaller samples from a single country [Howe and Kelm 1987; Alexander, Eun and Janakiramanan 1988; Freedman 1989; Howe and Madura 1990; Lee 1991; Diltz and Lau 1992; Foerster and Karolyi 1993]. With two exceptions [Alexander, Eun and Janakiramanan 1988] whose sample consisted of just thirty-four non-U.S. firms and Foerster and Karolyi [1993] who looked at forty-nine Canadian firms), all these studies only contained U.S. firms in their sample. Consequently their conclusions may not be as globally generalizable as those from this study. Second, by using 1992 data, it provides empirical evidence on the effects of the highly publicized regulatory changes of the early 1980s in foreign listing and regulatory requirements in the U.S., Japan and other countries.