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Statement No. 86

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**Statement of the Shadow Financial Regulatory Committee
on**

SEC Listing Requirements for Foreign Firms

June 1, 1992

The New York Stock Exchange (NYSE) has recently made a proposal that would permit the trading on U.S. exchanges of a limited number of large foreign firms. The Shadow Financial Regulatory Committee endorses this proposal as a way of relaxing the burdensome Securities and Exchange Commission (SEC) restrictions on the trading of foreign securities in the United States.

SEC regulations continue to restrict the trading of foreign securities in the United States, however, putting at risk the position of the United States as a preeminent global capital market. The most onerous of these restrictive regulations is the requirement that foreign companies may not sell or list their securities on U.S. exchanges or NASDAQ unless they agree to reconcile their financial statements to U.S. generally accepted accounting principles (U.S. GAAP).

The practical impact of the SEC requirement is that very few foreign companies sell or list their securities in the United States. Although there are over 2,000 foreign companies that apparently meet NYSE listing standards, only 155 are traded on a U.S. exchange or NASDAQ. Some foreign firms trade in the United States without reconciling to U.S. GAAP, but only if their securities trade in the "pink sheets" -- an illiquid segment of the over-the-counter market where there are few quotes and no last-sale reporting, and where investors face much higher costs and spreads.

The NYSE proposes that about 200 of the largest and best-known foreign companies be allowed to sell and list their securities in the United States without having to reconcile their financial statements to U.S. GAAP. These companies all meet substantial revenue and market capitalization requirements and are traded actively outside the United States. The NYSE proposes that they be allowed to file in the United States their independently-audited, home-country financial statements so long as these include a written explanation of the material differences between home-country accounting practices and U.S. GAAP.

The Committee endorses this proposal as a reasonable first-step in reconciling U.S. disclosure standards with global competitive realities. On December 16, 1991, the Shadow Financial Regulatory Committee issued a statement (No. 78) calling for the Securities and Exchange Commission to reduce regulatory obstacles to the listing of foreign companies on U.S. stock exchanges.

The proposed step would have several benefits. It would be consistent with recent SEC proposals to lessen the regulatory burden of disclosure for emerging U.S. companies. It would also bring U.S. regulatory practices more into line with those of other major capital markets. U.S. companies may now issue stocks and list them on exchanges in Japan and in Europe without conforming to local rules of accounting, even though U.S. financial statements are not prepared in accordance with Japanese or European principles.

Nor would exempting world-class foreign companies from U.S. GAAP reconciliation undermine investor protection in the United States. There is little reason to expect that requiring foreign companies to file additional U.S. GAAP reconciliations (in most cases long after their home-country documents have been made public) will be of value to U.S. investors. Academic studies have generally found that such filings have had no material impact on the price of a stock.

No one is protected by preventing U.S. investors from trading foreign issues on major U.S. markets. Retail customers, who trade foreign securities in the illiquid pink sheet market, are forced to pay higher spreads. Institutional investors, who go overseas, are forced to incur the additional costs of foreign custody and clearance and settlement arrangements.

U.S. regulatory policy should not put U.S. financial markets at a disadvantage. Competitive markets now exist in many foreign financial centers, such as London, Tokyo, Frankfurt, and Paris, and trading can quickly shift to these markets if cost differences exist. Regulations that raise trading costs but serve no valid social purpose need to be eliminated. The Committee believes that U.S. GAAP reconciliation requirements exemplify this kind of harmful regulation. It is the Committee's hope that the SEC will continue to examine this issue with a view towards eliminating such harmful regulations.

