

Testimony before the House Committee on Financial Services
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

“Americas Capital Markets: Maintaining a Lead in the 21st Century”

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Good Morning Mr. Chairman and members of the subcommittee. My name is Maria Pinelli and I am the Americas Strategic Growth Market Leader for Ernst & Young LLP, a global leader in professional services with over 107,000 people in 140 countries.

I am here today to present the key findings from Ernst & Young’s 3rd Annual Global IPO Report, prepared from Thompson Financial data and with the input of 22 Ernst & Young Partners and their teams around the world. This report entitled, “*Accelerating Growth: Global IPO Trends 2006*” reviews IPO activity and trends in 2005 and offers insights for companies planning to IPO in markets around the world.

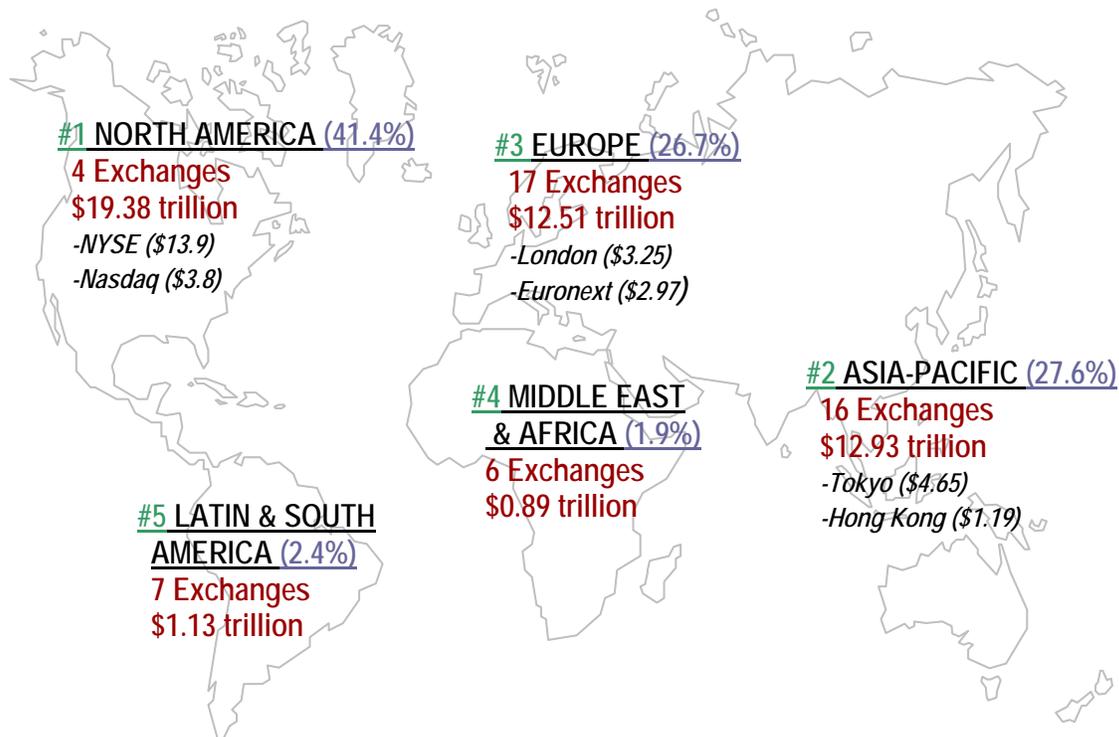
Our report highlights three key trends, which I will discuss in further detail:

1. Globalization of the capital markets continues. Although the US is the dominant player in the global capital markets, there are 50 exchanges around the world, thereby increasing global IPO competition.
2. The five largest IPOs in 2005 were the result of large State Owned Enterprises (“SOEs”) being privatized. We will see this trend continue in the future, driven by emerging capital markets such as China and Russia.
3. The US maintains its reputation as a safe, transparent economy—a factor which results in a higher valuation premium for listing companies.

Globalization of the Capital Markets Today

The global capital markets consist of over 50 exchanges worldwide with a total market capitalization of \$46.8 trillion.¹ To put it in perspective, this is almost 4 times the \$12.4 trillion GDP of the US.²

Stock Exchanges* by Region & Market Capitalization



*World Federation of Exchanges members

Source: World Federation of Exchanges, 22 March 2006.

6 exchanges dominate the global capital markets - NYSE, Nasdaq, London, Euronext, Tokyo & Hong Kong, which collectively represent 64% of the total global market capitalization.

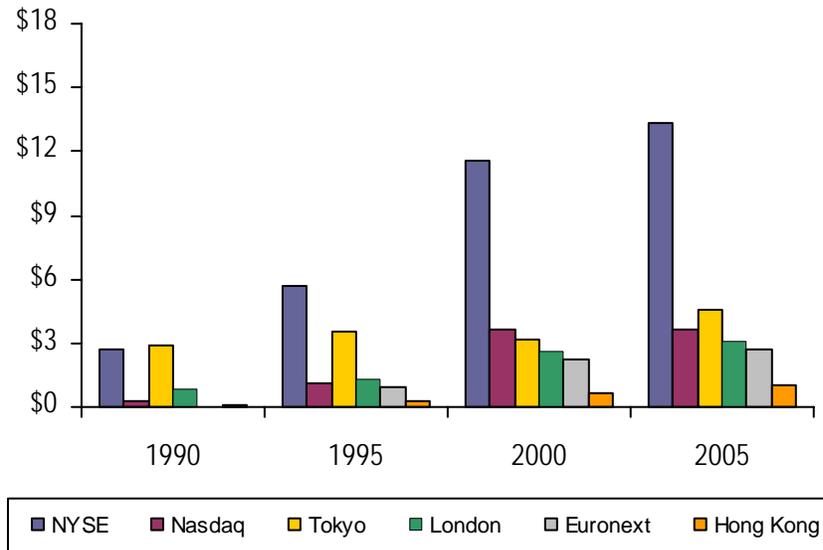
The US maintains the leading market share for 2005. The NYSE and Nasdaq represent 38% of the global market capitalization. Of the 50 global exchanges, the NYSE alone

¹ See Appendix A

² The World Factbook. 20 April 2006. www.cia.gov/cia/publication/factbook/rankorder/2001rank.html

remains the single largest exchange, representing 30% of the total market capitalization. This compares to the market capitalization of 28% in the entire Asia-Pacific region and 27% in Europe. In addition to the US claiming a dominant share of total market capitalization, US exchanges also experienced significant growth. For the ten year period from 1995 to 2005, the NYSE grew almost 200% and Nasdaq grew almost 250%.

Stock Market Capitalizations by Exchange (\$trillion)



Source: World Federation of Exchanges

In spite of this US growth, much attention and focus has been generated from the growth of the local exchanges such as the Hong Kong Stock Exchange, which has increased 135% in the same period.

% Change in Market Capitalization 1995 – 2005		
1	Nasdaq	247.1%
2	Tokyo	210.7%
3	NYSE	198.6%
4	Hong Kong	135.4%
5	London	127.1%
6	Euronext	29.0%

IPO Activity in 2005: US Maintains the Lead

2005 was a very strong year for the global IPO markets. The total capital raised in global IPOs rose by over one third from \$124 billion in 2004 to \$167 billion in 2005, which is the largest amount raised in one year since 2000.

US domiciled companies raised \$33.1 billion, \$32.6 billion of which was on US exchanges, maintaining its global lead. The US also had the largest total number of IPOs, with 210 listings.

2005 By Number of Listings		
1	United States	210
2	Australia	169
3	Japan	157
4	United Kingdom	117
5	China	114

2005 By Total Amount Raised (\$B)		
1	United States	\$33.1
2	China	\$22.3
3	France	\$18.3
4	Australia	\$10.1
5	United Kingdom	\$8.1

Competition for IPOs among exchanges is accelerating and non-US exchanges are engaging in highly aggressive marketing campaigns to attract new listings. These local exchanges are businesses competing for a share of a \$46.8 trillion market. For example, the London Stock Exchange has a sales office in Hong Kong dedicated to attracting Asian companies. In addition, the Alternative Investment Market (AIM)³ is aggressively marketing to international companies, including those in the US. They highlight the cost, litigation and compliance differences between AIM and Nasdaq.

³The Alternative Investment Market (AIM) is a sub-market of the London Stock Exchange, specifically tailored to smaller, growing companies. AIM was launched in 1995 and more than £24 bn (\$42 bn) has been raised for over 2,200 companies since then. Smaller companies can float shares on AIM, which has less regulation and no requirements for capitalization or number of shares issued. International companies are beginning to list on AIM. As of December 2005 over 270 foreign companies were admitted to the AIM, making up 12.3% of its listed companies.

Large IPOs in 2005 Driven by State Owned Enterprises

While the US maintained the lead among all nations, only one US listed company was represented in the top 10 global IPOs of 2005. This company was Huntsman Corp, a US chemicals company that raised \$1.6 billion on the NYSE. The five largest IPOs of 2005 were SOEs from China and France and they were listed on regional exchanges close to their home market. As the study indicates, this phenomenon is caused by the increased privatization of SOEs, a trend that we believe will continue as emerging markets and countries develop.

	NAME	DOMICILE NATION	INDUSTRY	FORMERLY STATE-OWNED?	CAPITAL RAISED (\$B)	EXCHANGE
1	China Construction Bank Corp	China	Banks	Yes	\$9.2	Hong Kong
2	Electricité de France	France	Energy/ Power	Yes	\$8.2	Euronext
3	Gaz de France	France	Energy/ Power	Yes	\$4.2	Euronext
4	China Shenhua Energy Co Ltd	China	Mining	Yes	\$3.3	Hong Kong
5	Bank of Communications	China	Banks	Yes	\$2.2	Hong Kong
6	Tele Atlas NV.	Netherlands	Technology	No	\$1.9	Euronext
7	PartyGaming	Gibraltar	Professional Services	No	\$1.7	London
8	Goodman Fielder Ltd	Australia	Consumer Staples	No	\$1.6	Australia
9	ARK Sistema	Russia	Technology	No	\$1.6	London
10	Huntsman Corp	United States	Materials	No	\$1.6	New York

The top 5 global IPOs in 2005, all former SOEs, raised an aggregate of \$27 billion and 16% of total IPO capital. These included three Chinese companies listed on the Hong Kong Stock Exchange, and two French utility companies listed on Euronext.

The largest global IPO in 2005 was China Construction Bank's \$9.2 billion offering on the Hong Kong Stock Exchange. This IPO included a large investment by Bank of America - \$3 billion through \$2.5 billion pre-IPO purchase of existing shares and a further \$500 million at IPO - the largest single investment by any foreign company into a Chinese company. This demonstrates that global and US investors are comfortable investing in non-US companies on foreign stock exchanges, which is an emerging trend in the global capital markets.

We expect to see this trend of large SOEs privatizing through IPOs on local exchanges continue, primarily in the emerging economies of China, India, Russia and Eastern Europe. Bank of China (BOC), the largest of the four major Chinese banks, is expected to go public on the Hong Kong Stock Exchange in 2006. There is considerable political support for SOEs to list on a local exchange. When paired with the fact that foreign investors' show continued confidence in the global economy, we should anticipate that such former SOEs will list on a local or regional exchange with geopolitical ties.

In contrast to this global trend of state-owned enterprises being privatized in emerging economies, the financial services, utilities and resources sectors in the United States have already capitalized their companies through the public markets. The US Capital Markets are further along in this economic cycle, but emerging markets are now beginning the process of capitalizing these industries on their local public markets and this will be represented by increasing IPOs of SOEs on local markets.

The impact of SOEs on the IPO market is illustrated by looking at China. Chinese companies raised over \$24 billion in proceeds with 114 IPOs in 2005, placing second in the global markets in terms of capital raised. But if you exclude China's top three IPOs, which were all State-Owned Enterprises, only \$9.6 billion in proceeds were raised, which would result in China dropping 60% to 4th place in the global capital markets for amount raised by country. Without their 2 large SOE IPOs, the amount raised for French companies drops from \$18.3 billion to \$5.9 billion (67.7%) to place 7th in the global capital markets for amount raised by country.

Valuation Premiums Result from Corporate Governance Regulations

US capital markets are perceived by issuers and investors as maintaining a "gold standard" of corporate governance regulations, which results in a valuation premium.

Noreen Culhane, EVP Global Client Group for the New York Stock Exchange states in our IPO report that "motivation for most companies listing in the US is the valuation

premium (average 30%) that accrues as a result of adhering to high standards of governance.”⁴

Foreign companies will continue to list in the US due to this valuation premium and also because of unparalleled investor sophistication. This is one of our strategic competitive advantages, over other capital markets, and any temptation to lower these standards in competition with foreign exchanges needs careful consideration.

With the recent scandals experienced in the capital markets – Japan, London, and recently the US - investor protection is top of mind.

The US Still Leads in Available Capital and Liquidity

Even with the globalization of the capital markets, the US still leads in available capital and liquidity, with strong capital markets supported by an infrastructure and a regulatory model developed over many decades. The influence of large state owned transactions in emerging countries will continue to impact our view of what should be the traditional US dominance in the global capital markets.

The real question remains whether or not the foreign markets can sustain growth at such a rate that they will outpace the US over the long run and whether the US can do anything about it. Trends we will continue to examine in future Ernst & Young global IPO reports include:

1. Will US and global investors continue to demonstrate confidence in investing in foreign capital markets?

⁴ Culhane, Noreen. “Exchange Perspectives – A View from the New York Stock Exchange.” *Accelerating Growth: Global IPO Trends 2006*. Page 26. A recent academic study from the University of Toronto / Ohio State University confirms this valuation premium, found that cross-listed non-US companies listing on the NYSE enjoyed an average valuation premium of 31%. From Doidge, Craig *et al.* *The Valuation Premium for Non-US Stocks Listed in US Markets*. September 2005

2. What will be the impact of future large IPO activity for State Owned Enterprises the global capital markets? Are they one time or recurring events?
3. Will China's growth in non state-owned enterprises outpace that of the US in the long run?
4. How do corporate governance, litigation and listing requirements impact decisions with respect to global IPO activity from a corporate and investor perspective?

As economies around the globe strengthen, their domestic stock exchanges will likely follow suit. Differentiation of the US markets in terms of valuation, governance, transparency, investor confidence and investor sophistication, all current attributes of the US markets, will continue to attract capital to the US. From a policy perspective, differences between markets that create risk, costs or inefficiencies without a compensating valuation premium, should be challenged in a competitive environment.

Our future global IPO reports will continue to monitor the trends and activities of IPOs around the world, and Ernst & Young will share these reports with this committee in the future.

Thank you for the opportunity to testify today and I look forward to your questions.

Appendix A: Global Stock Exchanges (\$trillion)

Grand Total	\$46.83
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1. NORTH AMERICA (41.4%)	
NYSE	\$13.90
Nasdaq	\$3.80
TSX	\$1.60
AMEX	\$0.08
total	\$19.38

2. ASIA PACIFIC (27.6%)	
Tokyo	\$4.65
Osaka	\$3.06
Hong Kong	\$1.19
Australia	\$0.85
Korea	\$0.76
Bombay	\$0.61
India	\$0.57
Shanghai	\$0.32
Singapore	\$0.28
Malaysia	\$0.19
Thailand	\$0.14
Shenzhen	\$0.13
Jakarta	\$0.09
Philippines	\$0.04
New Zealand	\$0.04
Colombo	\$0.01
total	\$12.93

3. EUROPE (26.7%)	
London	\$3.25
Euronext	\$2.97
German	\$1.38
Spain	\$1.09
Switzerland	\$0.99
Italy	\$0.88
Den/Fin/Swed	\$0.86
Oslo	\$0.22
Istanbul	\$0.20
Athens	\$0.17
Wiener Borse	\$0.15
Ireland	\$0.12
Warsaw	\$0.11
Luxembourg	\$0.06
Budapest	\$0.04
Cyprus	\$0.01
Ljubljana	\$0.01
total	\$12.51

4. LATIN & SOUTH AMERICA (2.4%)	
Sao Paulo	\$0.60
Mexico	\$0.25
Santiago	\$0.14
Colombia	\$0.06
Buenos Aires	\$0.05
Lima	\$0.03
Bermuda	\$0.00
total	\$1.13

5. MIDDLE EAST & AFRICA (1.9%)	
Johannesburg	\$0.62
Tel Aviv	\$0.13
Cairo & Alexandria	\$0.09
Tehran	\$0.04
Malta	\$0.004
Maritius	\$0.003
total	\$0.89

Source: World Federation of Exchanges, www.world-exchanges.org, accessed 22 March 2006.

Note: When total Japan market capitalization is calculated, Osaka Stock Exchange is excluded to avoid double counting due to multiple dual listings on Tokyo and Osaka.

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As Strategic Growth Markets Leader for the Americas, Maria is responsible for driving Ernst & Young's market leadership in Strategic "Growth" Markets, including IPOs, market share of venture/private equity backed enterprises, entrepreneurial mid-market and corporate mid-cap companies who will become future market leaders.

Maria is responsible for the Ernst & Young's Entrepreneur of the Year Program in the Americas, as well as the annual IPO Retreat for CEOs and CFOs of future public companies. She also oversees the Venture Capital Advisory Group.

Maria was an audit Partner until January 2006, with over 20 years of experience servicing entrepreneurial growth clients. This included providing business advisory services, accounting and strategic financing advice.

She has an intimate knowledge of US and Canadian GAAP and is well-versed in US/SEC/Canadian regulatory accounting matters. Maria has served both publicly listed entrepreneurial companies and private companies. She has led 18 IPOs over the course of her career in both Canada and the US.

Previously, Maria served as the Canadian Technology Industry Leader for Ernst & Young, where she advised companies on acquisitions, due diligence, financing and initial public offerings in Canada and the U.S.

Maria graduated from McMaster University, Hamilton, Canada with a Bachelor of Commerce, and became a Chartered Accountant in 1989, on the Ontario Honor Roll. She completed both the Harvard Business School and Kellogg School of Business programs through Ernst & Young.