Comments on
"The Geography of Equity Listings: Why Do Companies List Abroad?"

by Marco Pagano, Ailsa Roell, Josef Zechner

This paper provides strong empirical evidence about the nature of market segmentation in international equity markets.

First the paper establishes that despite the technological improvements in information and communication strategies by the end of the 20th century international equity markets still are segmented. For example, the paper documents an increasing interest of non-US companies to acquire multiple listings of their stocks. This finding is in contrast to the view that increasing market integration should reduce the necessity of cross-listings. Given positive listing costs one would expect that an increase in market integration should reduce the willingness and need to incur costs for foreign, or at least multiple, listings. This view seems justified at most by the behaviour of US-companies that did actually reduce the number of their European listings.

Second the paper establishes a vertical structure in the attractiveness of listing places. It seems that European companies in aggregate did increase their US-listings while the US-companies in aggregate did reduce their foreign listings. So it appears that US-exchanges have become relatively more attractive in the course of market integration, while European exchanges have lost attractiveness despite tremendous reforms of their trading platforms following the London Big Bang in 1986.

Finally the paper identifies the motives of companies more likely to seek a US-listing versus a European listing. It appears that especially innovative high tech, export oriented and high growth firms are more likely to seek a second listing in the US, while recently privatised European companies are more likely to seek a second listing within Europe.

Before I discuss the implications of these findings I would like to offer some specific comments on the empirical analysis.

While the paper concentrates on the issue of new listings and motives for new listings it is rather silent on the issue of de-listings. Of course, one could view de-listings just as the opposite of new-listings, but such a view would not be very convincing. De-listings may trivially occur as consequences of mergers and take-overs. To the extent, however, that the same say US-company acquires a European listing and decides to de-list a couple of years later the question arises, why the foreign listing did ever occur in the first place. One might argue that increasing integration could reduce the costs of market segmentation, and, thus, reduce the necessity of the overseas listing over time. On the other hand some form of learning about market characteristics such as potential demand might naturally result in reversing the initial decision. If that were true, maybe we will observe a reversal in the number US-listings by European companies in some years to come as well. I do not want to offer a complete list of explanations, but I would like to suggest to the authors to treat symmetrically the case of de-listings as well.

The above observation also raises the question whether European and US-companies behave similarly, or whether there are systematic behavioural differences. Unfortunately, the paper does not offer much information about the US-companies. However, it would be interesting to see, whether companies that seek only regional listings in the US are comparable to companies that do seek multiple "regional" listings in Europe. Is it the same type of US and European firms that seek a New York listing? If the company characteristics were similar and independent from geographical characteristics, one might argue that firms do target specific market segments or market expertise when listing their stocks. If the behaviour across firms was independent from geographical characteristics one might be induced to argue that market segmentation would be independent from space-related types of transactions costs, such as costs of communication, while some form of segmentation, e.g. informational segmentation, may still be empirically relevant.

Moreover, the reduction of European listings could simply result in the consolidation of European listings of US-companies. To the extent that European markets are increasingly integrated, a single European presence may suffice for US-companies. Hence the reduction in the number of European listings would not necessarily signal a reduction in the relative attractiveness of European stock exchanges.

Furthermore, the choice of years for observation, 1986, 1991 and 1997 may seem problematic ex-post, since it covers the boom in the high-tech sector from 1990-1999 that did generate a large amount of listing activity especially in the "lower" market segments. It would be comforting to know that the picture was not dramatically changed after the 2000/2001 market decline. To this end it might be worthwhile to check the robustness of the findings against the 2001 observations.

Finally, the study is also restricted to relatively large companies only, i.e. to companies that seek NYSE or NASDAQ listings. The role of ADR's and the characteristics of companies seeking an active overseas market in ADR's are not analysed. One might also argue that the recently observed increase in official US-listings may just be a temporary process of conversion of former ADR programmes into official listings. The ADR-programmes have been attractive to European companies since they could avoid compliance with US-GAAP. To the extent that organisational improvements in European markets require enhanced publicity the advantage of ADR programmes is reduced and companies may actually prefer official listings over ADRs.

Let me now comment on some of the issues raised by the empirical findings. If it were true that the leading US-exchanges (NYSE and NASDAQ) did enjoy a competitive advantage relative to the major European exchanges, it would be important to determine the nature of the competitive advantage. Is it listing and disclosure requirements, or is it simply liquidity and/or the efficiency of the trading system? Moreover, especially in segmented markets the competitive advantage may be conferred by the presence of analyst expertise. Is it true that the most able industry and sector analysts tend to agglomerate in the US-markets and not in Europe, for example? And finally, it would be important to quantify the value of the product market signal of the US-listing for firms active in the US-product market.

Another issue that comes to mind is the location of price discovery. Where does price discovery take place for multiple listed firms? What can be said about relative trading volumes? Where does information aggregation take place? It would be very interesting - and given their work on market microstructure I would assume the authors would hardly object - to complement the present study by such market microstructure information. Such information could help to identify the particular motives for a NYSE-listing of a European company.

Furthermore, it would be very interesting to identify the strategies that help US-exchanges to exploit their strategic advantage, and, thus, to try and estimate the value of that advantage.

Finally, extending the analysis to include transition countries, for example, would necessarily provide a somewhat richer picture of global equity markets. However, including transition countries might help to assess the role and future of European exchanges. Non-systematic observations actually seem to suggest that the European exchanges will perform relatively better than US-exchanges in that market segment. But this would seem a worthwhile extension to and stimulated by the present work.

Needless to say that benefited tremendously from the present paper. The rich and important evidence provided is required reading for any scholar in the field of international financial markets.

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