

Finance 5



The paper “ Stock and Money Markets in the US and Other Countries” is a fascinating example of a term paper on finance & accounting. The capital and money markets worldwide were developed with the purpose of allowing up and coming and mature companies to raise money all around the world. In theory, an investor in Singapore may be able to raise capital from U. S investor without any constraints based inefficient marketplace. Well, the reality of the global marketplace does not allow intercontinental transactions to occur that easily. In this short term paper, we study three main topics: the accessibility to raise money in US stock markets, ADR’s, and U. S companies listing their stocks on the foreign stock exchange.

In the United States, the established stock and money markets are one of the most advanced and sophisticated systems in the world. The marketplace is divided into three separate phases or functions which serve the needs of the different types of users. These three distinct classifications are treasury funding, primary markets, and secondary markets. Treasury funding works by the US government utilization of GILTS market to raise funding to cover peaks and droughts of governments budget requirements (Agentcities, 2008). The basic strategy utilized by the government is that when things are going well they tend to redeem part of its GILTS portfolio, on the other hand when the economy is struggling the government sells off part of its GILTS holdings to raise funds. The U. S. money market associated with the U. S. Treasury Department is extremely liquid, easy to gain access and simple to use. The U. S. treasury department is one of the institutions with the greatest capacity to raise money and their notes are completely liquid.

In the primary markets companies who have never been associated or had

any trades performed become part of the stock market. The primary markets are the new issues of securities which are offered to the public for the first time (Bodie & Kane & Marcus, 2002, p. 985). A common name for this type of financial transactions is an initial public offering. The secondary marketplace has the highest volume of transactions in the marketplace. The secondary marketplace is the market in which stocks are traded after being issued in the primary markets.

The Security and Exchange Commission (SEC) is the governing body in charge of overseeing all trading activity occurring in the United States of America. The Act that gave the SEC power is known as the Securities and Exchange Act of 1934. The SEC poses very strict guidelines for companies to be able to get listed in any of the major exchanges in the United States. It is my opinion that it is much easier for a foreign company to get listed in their own exchanges than it is for American companies to get listed in American soil due to SEC restrictions. Some of the major steps necessary for a stock to get listed based on SEC regulations are listed below. This list is based on SEC regulations to gain access to the over the counter market known as NASDAQ:

- \$5000 application fee
- \$100, 000 in listing fees
- A company must have at least 1. 1 million shares outstanding
- The value of the outstanding shares must reach \$8, 000, 000
- The share price must start at least \$5. 00 per share (Rantaboutit, 2008).

It is a common myth that a lot of people from foreign nations want to come

to the United States which commonly known as the land of opportunity. For foreign companies, it would be in their best interest to become a part of the U. S. securities marketplace due to the fact that it is the biggest marketplace in the world and it is worth trillions of dollars. A way for a foreign company to get listed in the American marketplace is through a mechanism called American Depository Receipt (ADR). An ADR is a receipt that evidences shares of a corporation outside the United States. In the year 2000 trading in ADR's rose to over one trillion dollars (Euromoney, 2001). The ADR issue gained credibility by phases. There are three levels of ADR with level one being the lowest graded. A level one ADR has no liquidity whatsoever. This poses a major disadvantage for small companies who are not able to meet the requirements to become a level three ADR, which is the level in which the shares can be openly traded. Not everyone has had success with ADR even if they reach the level three status. Kyaener an Anglo-Norwegian diversified industrial company who's been in the ADR marketplace for seven years alleges that their ADR has not brought in any significant capital (Euromoney, 2001). Another problem with ADR is that the classification system is not too accurate and many times investors do not truly know the nature of what the company does.

The United States-based companies also at times want their shares listed on foreign exchanges. Some of the reasons for such a move to gain access to a greater pool of investors, to gain exposure for the American company in the foreign country because the company has subsidiaries in the area and want to capitalize their physical presence in the stock market. One of the most commonly sought out stock exchanges is the prestigious London Stock

Exchange (LSE) This exchange along with any other exchange in the European Union has new rules in place as far as accounting standards. In Europe, they now utilize a set of standards called International Financial Reporting Standards (IFRS). For an American company to qualify to get listed in a European stock exchange they have to convert their financial statements from GAAP to IFRS. This process is quite expensive and could cost a large company millions of dollars. Accounting conversions is one of the major downsides of American company getting listed in foreign exchanges.