

**INTERNATIONALIZATION**

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*of the Securities Markets*

***CHAPTER II***

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**Factors Affecting the  
Trend Toward Internationalization  
of the Securities Markets**

**Prepared by the Directorate of Economic and Policy Analysis**

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## Chapter II

### FACTORS AFFECTING THE TREND TOWARD INTERNATIONALIZATION OF SECURITIES MARKETS

#### A. Introduction

Chapter II provides empirical evidence of the nature and extent of the internationalization of securities markets and a framework for understanding the economic, institutional and regulatory factors which are shaping the process of internationalization. The chapter begins with an overview of emerging trends in international capital formation followed by a discussion of the role played by the U.S. market in shaping the global markets in securities. Next, there is a review of regulatory trends which are influencing the international capital formation process and an in-depth examination of the international bond and equity markets. Finally, there is an analysis of portfolio investment flows and the impact of internationalization on the U.S. securities markets.

The world's securities markets play a much larger role in international capital formation than they did just a few years ago. This trend has manifested itself in a number of distinct ways. In the 1980's there has been an explosive growth in bonds issued internationally. Between 1980 and 1986 international

bond issues increased from \$38.3 billion to \$225.4 billion. 1/ In 1986, U.S. issuers alone raised a record \$43.7 billion through international bond issues. And foreign issuers tapped the U.S. bond market for \$6.1 billion.

International markets also have been used to raise equity capital more frequently in recent years. Euroequity offerings of common and preferred stock amounted to \$11.8 billion in 1986 compared to only about \$200 million as recently as 1983. Last year foreign corporations -- primarily Canadian issuers -- raised \$2.3 billion in equity capital in the U.S. market through public offerings registered with the SEC. Today the international markets are a significant source of capital for private corporations, governments, and multilateral development institutions such as the World Bank.

The global character of the securities markets is also reflected in the rapid growth of transactions by U.S. and foreign investors in markets outside the investor's home country. The rapid increase in the number of U.S. mutual funds investing on

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1/ International bond issues are negotiable debt securities (subject to market transactions over-the-counter or on an exchange) with a maturity of one year or more and do not include short-term notes or Eurocommercial paper. International bonds are usually defined as consisting of two types -- Eurobonds and foreign bonds. Eurobonds are offered simultaneously in the capital markets of at least two countries by an international syndicate while foreign bonds are placed in the domestic market of a single country by a syndicate composed of institutions located in the country where the bonds are offered. See discussion in this chapter, Section E.

a global basis is a further indication of this trend. A recent development that has become an important part of the global market in securities is the use of closed-end funds listed on U.S. stock exchanges to invest exclusively in the securities markets of specific foreign countries. Today there are at least twelve such funds with investments directed to a particular foreign market. There are also about 60 U.S. open-end funds that invest on a global or on a regional basis such as in the emerging markets of Asia.

U.S. investors' purchases and sales of foreign stocks reached a record \$102.0 billion in 1986, while foreign investors' activity in U.S. domestic corporate stock was a record \$277.6 billion. And these trends have been even more pronounced with respect to transactions in debt securities. A substantial increase in international portfolio investments has also occurred in other major capital markets around the world as European and Japanese investors have increasingly made portfolio investments on a global basis. <sup>2/</sup> Pension funds -- particularly those based outside the U.S. -- and other institutional investors have sought to diversify their portfolios by investing internationally. As a result, larger amounts of capital are crossing national borders as investors throughout the world increase their purchases of foreign securities.

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<sup>2/</sup> International portfolio investments are discussed in Section J of this chapter. In particular, see note 96, infra.

International diversification provides a means to pursue risk reduction strategies that could not be achieved by domestic investment alone. This has become particularly prevalent as the capitalization of foreign stock markets has grown relative to the U.S. markets. In view of the uneven growth rates in the world's economies, investment in foreign markets also may provide opportunities for higher rates of return than might be available in a home market.

These trends in the primary and secondary markets have been facilitated by a series of recent liberalizations in capital market regulations in several industrialized countries. This has greatly expanded the potential for international capital mobility. Nevertheless, the internationalization of securities markets is not new. <sup>3/</sup> An American economist observed in 1930 that, even in the early decades of the 19th century, U.S. securities accounted for a large portion of trading on the London Stock Exchange and a major technological improvement -- the opening of the Atlantic cable in 1886 -- greatly facilitated international arbitrage

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<sup>3/</sup> The economic development of the United States was fostered by foreign investment. From colonial days on, Americans have purchased securities in foreign markets. By the 1860's, foreign issues were being floated in the American capital market and, by 1906, American investors were estimated to hold approximately \$600 million of foreign securities. See Harold G. Moulton, George W. Edwards, James D. Magee, and Cleona Lewis, Capital Expansion, Employment and Economic Stability (Washington, D.C.: The Brookings Institution, 1940).



between New York and London as communication across the Atlantic was reduced from days to minutes. <sup>4/</sup> So, even 100 years ago, technological improvements in communications were already influencing international trading in securities. But the great depression of the 1930's and World War II greatly reduced opportunities for further integration of international capital markets.

Thus, while internationalization of securities markets is not new, the rapidity of its growth in the 1980's is unique. Vast amounts of capital are now being raised internationally; the world's economies are more interdependent; and economic, technological and regulatory changes are altering the international financial landscape in an unprecedented manner.

#### B. Emerging Trends In International Capital Formation

In the 1970's and 1980's the world's capital markets were strained by significant macroeconomic events that resulted in greater volatility in interest rates, inflation and exchange rates. Large shifts in global investment preferences occurred following the dramatic fluctuations in world oil prices. These events, which occurred over relatively short periods of time, spawned financial innovation as market participants sought to cope with changes in the world's capital markets.

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<sup>4/</sup> The Work of the Stock Exchange, J. Edward Meeker (Revised ed.; New York: The Ronald Press, 1930), page 503.

In the 1980's the trend has been toward the use of international securities markets as a means of capital formation and away from reliance on international bank loans. <sup>5/</sup> This trend toward the securitization of international capital flows is illustrated in Table II-1. The Bank for International Settlements ("BIS") estimates that net bank lending in international markets peaked in 1981 at a record \$165 billion. At that time, capital raised through international bonds, net of redemptions and retirements, amounted to only \$32 billion. Since 1981, net international bond offerings have grown at a compound annual rate of 37 percent. But net international bank lending has not again achieved the level reached in 1981. More capital was raised through international bond issues during 1985-86 combined than was raised through international bank loans. The 1980's have

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<sup>5/</sup> For a more complete discussion of the trend toward securitization in international capital markets see, for example, the following reports prepared by the Bank for International Settlements ("BIS"), the International Monetary Fund ("IMF") and the Organization for Economic Cooperation and Development ("OECD"): BIS Fifty-Sixth Annual Report (Basel, June 9, 1986), pages 61-108; Recent Innovation in International Banking, Chapter 5, "The Trend Toward Securitization", BIS (April 1986) (hereinafter, BIS International Banking Study); Financial Market Trends, OECD (Paris) June 1986, Volume 34, pages 5-9 and pages 41-65, and Volume 35, November 1986, pages 5-8 and pages 24-76); International Capital Markets Development and Prospects, Occasional Paper No. 43, IMF (Washington, D.C.: February 1986) (hereinafter, IMF Occasional Paper No. 43), pages 24-27 and 58-69; and International Capital Market Developments and Prospects (World Economic and Financial Surveys), IMF (Washington, D.C.: December 1986) (hereinafter, IMF Study of International Capital Markets, December 1986).

Table II-1

NET NEW BORROWINGS IN INTERNATIONAL MARKETS  
(US \$ Billions)

<u>Year</u>	<u>Net Bank Lending (1)</u>	<u>Net Bond Issues (2)</u>	<u>Minus: Double Counting (3)</u>	<u>Net Bank and Bond Financing</u>
1978	\$ 90.0	\$ 29.0	\$ 6.0	\$113.0
1979	125.0	28.5	7.5	146.0
1980	160.0	28.0	8.0	180.0
1981	165.0	32.0	7.0	190.0
1982	95.0	58.5	8.5	145.0
1983	85.0	58.0	13.0	130.0
1984	90.0	83.0	28.0	145.0
1985	105.0	125.0	55.0	175.0
1986	\$160.0	\$156.0	\$76.0	\$240.0

Note: (1) Excludes double counting due to redeposits among reporting banks; (2) net of redemptions and repurchases; (3) certain bonds taken up by BIS reporting banks and bonds issued by reporting banks to facilitate their international lending activities.

Sources: BIS Annual Reports; 1981 page 100, 1986 page 87, and 1987 page 94

also witnessed the emergence of a rapidly growing Euroequity market which has been facilitated by the increase in stock prices in most of the world's stock markets. 6/

Several economic factors have contributed to the re-emergence and unprecedented growth in the 1980's of the international securities markets. Reduced inflation contributed to the desire by investors, particularly institutional investors, to hold bonds

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6/ Euroequity offerings amounted to \$11.8 billion in 1986. The growth of the Euroequity market is discussed in this chapter, Section H.

or equities rather than bank deposits. 7/ The sharp decline in long-term interest rates made refinancing of existing long-term debt attractive. Although precise data is not available, it is estimated that about 28 percent of international bond offerings in 1986 represented refinancing of existing debt rather than new money raised in the capital markets. 8/ The debt repayment problems experienced by some developing countries also have had an impact on international capital markets by placing a greater emphasis on the need for liquidity and marketability of assets. This has resulted in banks relying on the issuance of long-term securities as a means to strengthen their capital base. Banks have been major participants in the growth of the international bond markets -- both as issuers of securities and as underwriters and dealers in securities.

Financial innovation also has contributed to the greater reliance on the international securities markets for capital formation. This is evidenced by the development of securities products designed to meet the needs of both issuers and investors.

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7/ During the 1976-1985 period, the percent of gross financial assets held by the non-financial private sector in the form of bonds, equities and institutional investments (i.e., mutual funds, pension funds, trust and insurance company funds of a non-depository nature) increased relative to deposits in the United States, Japan, Germany, the United Kingdom and Canada. See BIS Annual Report, 1986, op. cit., page 69.

8/ It is estimated that in 1986 early redemptions of international bond offerings amounted to \$41.1 billion and scheduled repayments totaled \$23.3 billion. See Financial Market Trends, Volume 36 (February 1987), op. cit., page 56.

Floating rate notes, which are close substitutes for syndicated bank loans, were the fastest growing Eurobond instrument in the early 1980's. Floating rate notes grew from 12 percent of new Eurobond issues in 1980 to over one-third by 1985. 9/ The volume of floating rate notes in the U.S. dollar sector of the Eurobond market actually exceeded fixed rate issues for the first time in 1985. In 1986, however, floating rate notes declined in importance compared to fixed rate Eurobonds due to the relatively attractive terms that became available in the fixed rate sector as interest rates declined to their lowest level in nearly a decade. 10/ In the first quarter of 1987, floating rate issues accounted for only six percent of the value of Eurobond offerings. 11/

Financial innovation has been particularly evident in the dollar sector of the Eurobond market. As regulatory restrictions have been relaxed in other currency sectors of the Eurobond market and in a number of foreign domestic capital markets, financial innovation has been facilitated in those markets as well. The growth during the past few years in the use of interest rate swaps and currency swaps is perhaps the best example

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9/ BIS International Banking Study, op. cit., page 134.

10/ See Financial Market Trends, Volume 35 (November 1986), op. cit., page 29, and Volume 36 (February 1987), pages 57-59.

11/ International Capital Markets Review, Volume II, No. IV, (New York: Securities Industry Association, April 24, 1987), page 1.

of the influence of product innovation on capital market development. 12/ But this would not have been possible without the liberalization of capital market regulations in a number of countries.

The 1980's have also witnessed the development of a short-term Euromoney (notes and commercial paper) market. The issuance of Euronotes rose from \$9.5 billion in 1983 to \$27.0 billion in 1986. While the value of Euronotes declined in 1986 from the record level achieved in 1985, the volume of newly arranged Euro-commercial paper programs and of other similar instruments exploded from \$21.8 billion in 1985 to \$65.2 billion in 1986. 13/

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12/ An interest rate swap is a contract entered into by two parties who agree to pay each other interest payments (often one based on a fixed rate and one on a floating rate) on a notional amount for a specified period, generally ranging from 2 to 10 years. The notional amount is the amount on which the interest payments are calculated. The interest rate swap takes advantage of disparities in the premium for credit risk demanded by the fixed and floating rate markets. Similarly, a currency swap is an agreement to exchange payment or receipt of principal and interest in one currency for payment or receipt of principal and interest in another currency. The currency swap is used to transform assets or liabilities denominated in one currency to those of another currency.

13/ Euronotes are short-term paper, typically with three or six month maturities issued by borrowers in their own names and backed up by commercial bank underwriting commitments. Other terms for euronotes, often associated with particular organizations or banks, include Euronote facilities and note issuance facilities. Another short-term instrument is non-underwritten Eurocommercial paper. Eurocommercial paper programs closely parallel commercial paper issuance in the U.S., and is usually done without an underwriting facility. The issuance of Eurocommercial paper is a recent development in the Euromoney market. See Financial Market Trends Volume 37 (May 1987), pages 79-83; and Recent Innovations in International Banking (April 1986), pages 29-36 and 255-270.

C. Unique and Influential Role  
of U.S. Securities Markets

The U.S. capital markets' influence on other markets -- both foreign and international -- appears to have been substantial. In general, the U.S. regulatory system has allowed financial innovation to take place -- both in the U.S. domestic securities market and in the dollar sector of the Eurobond market. This has facilitated the operational efficiency of our securities markets and international capital mobility. The rapid maturation of the other securities markets, however, presents new challenges and opportunities resulting from increased competition for new issues placement and in secondary market trading in both domestic and international issues.

At the end of 1986 the market capitalization of U.S. equities totaled \$2.6 trillion or about 43 percent of the world's stock market capitalization. This is down from 56 percent just two years ago. As seen in Table II-2, the next largest, Japan's, was about two-thirds the size of the U.S. The appreciation of the yen relative to the U.S. dollar and the strong growth of the Japanese stock market have both contributed to the rapid growth in the capitalization of the Japanese equities market. The equity capitalization of most other major markets has been growing faster (measured in U.S. dollars) than the U.S. market. Besides Japan's equity markets which grew at a compound annual rate of 23 percent from 1978 to 1986, the fastest growing equity markets have been

Table II-2

MARKET CAPITALIZATION OF WORLD'S STOCK MARKETS  
(US \$ Billions)

<u>Country</u>	<u>1978</u>	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 870	\$1,391	\$1,481	\$1,714	\$2,160	\$2,556
Japan	327	357	410	617	909	1,746
United Kingdom	118	190	182	219	328	440
Germany	83	71	69	78	179	246
Canada	67	113	105	116	147	166
France	45	53	29	40	79	150
Italy	10	25	20	23	65	141
Switzerland	41	46	41	43	90	132
Australia	27	60	41	52	63	78
Netherlands	22	25	22	31	52	73
All Others	75	141	125	133	172	267
TOTAL	\$1,685	\$2,472	\$2,525	\$3,066	\$4,244	\$5,995

Note: Data are estimates of exchange-listed stocks with market value of investment companies excluded. U.S. data includes NASDAQ stocks. Data excludes foreign corporations, except for the NASDAQ portion of the U.S. market during the years 1978 to 1982.

Source: SEC Monthly Statistical Review (various issues)  
NASDAQ Fact Book (various issues)



Italy's (39 percent), the United Kingdom's (18 percent) and France's (16 percent). By comparison, the U.S. equity market grew 14 percent annually during this period. 14/

The growth of foreign equity markets relative to the U.S., in part, reflects the maturation of many overseas markets. At the same time, however, it should be recognized that the capitalization of the U.S. market relative to foreign markets has been affected by the large volume of retirements of corporate stock. Net new corporate stock issues (gross financing minus redemptions) in the U.S. have been negative in five out of the last six years. As a result, over this period, the value of new issues has not been sufficient to offset retirements of corporate stock. 15/

In the last two years these growth trends have been influenced by the sharp decline in the value of the U.S. dollar relative to other currencies. The market capitalization of U.S. stock markets grew at an annual rate of 22 percent from 1984 to 1986. During this same period, the Japanese equity market grew by 68 percent measured in U.S. dollars and by 34 percent when measured

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14/ For the United States, Table II-2 shows the market capitalization of all domestic stocks listed on U.S. stock exchanges or traded on NASDAQ ("National Association of Securities Dealers Automated Quotation System"). Similar trends have occurred with respect to equity trading volume measured in U.S. dollars. Appendix Table II-G sets forth data on stock market share volume and turnover for the world's major stock markets (the ten countries with the largest stock markets).

15/ "From National to International," James M. Davin, The NASDAQ Handbook, Chapter 3 (Probus Publishing, Chicago, 1987).

in yen. Likewise, measured in U.S. dollars, the market capitalization of the German and Swiss stock markets grew by 78 and 75 percent, respectively, between 1984 and 1986. When measured in marks and francs the stock markets of Germany and Switzerland both grew by 39 percent. While currency realignments have had a large impact on the growth rates of some stock markets outside the U.S., the growth in foreign stock markets measured in local currencies has been impressive. This, of course, has contributed to increased investor interest in markets outside the U.S.

A broader view of the size and depth of the U.S. securities markets is given in Table II-3 which shows the amount of new debt and equity capital raised by governments, private non-financial enterprises, financial institutions and foreign issuers. In 1986, all issuers raised \$812 billion in capital through securities issued in the U.S. In Japan, the next largest market, issuers raised slightly more than one-half this amount, \$438 billion. Ten years ago the proportions were roughly the same with issuers raising \$206 billion in the U.S. and \$89 billion in Japan. In most of the major markets, national and local governments raise the greatest portion of capital in the securities markets. In the U.S., federal, state and local governments accounted for 63 percent of all new issues in 1986. In other markets, such as Germany and Japan, financial institutions which directly assist their

Table II-3

GROSS NEW ISSUES IN THE CAPITAL MARKETS  
OF TEN MAJOR COUNTRIES: 1986

	<u>Total U.S. \$ Billions</u>	<u>Percent of Total</u>			<u>Foreign Issues</u>
		<u>Central/ State Gov't.</u>	<u>Private Enter- prises 1/</u>	<u>Financial Insti- tutions 2/</u>	
United States	\$812	63%	18%	18%	1%
Japan	438	43	12	44	1
Italy	126	77	13	10	*
Germany	126	30	5	65	0
France	68	34	31	35	*
United Kingdom	33	63	23	11	2
Switzerland	34	4	11	15	69
Canada <u>3/</u>	57	58	-	-	*
Australia <u>4/</u>	28	90	6	4	0
Netherlands	\$ 12	51%	6%	41%	1%

\* Insignificant (less than 1%)

1/ This category includes all non-financial business.

2/ This category includes both government and privately-owned institutions.

3/ The "Private Enterprises" and "Financial Institutions" figures are combined for Canada totaling 42 percent.

4/ Table shows 1985 data for Australia.

Sources: OECD Financial Statistics; Bank of Canada Review, March 1987; Year Book Australia, 1986; Reserve Bank of Australia Bulletin, March 1987; Directorate of Economic and Policy Analysis

national governments in raising capital are major issuers in the market. 16/

The U.S. has by far the largest bond market in the world in terms of par value outstanding. Domestic publicly traded bonds totaled \$3.7 trillion and the U.S. represented 47 percent of the world's total in 1986. Japan, with \$1.5 trillion in bonds outstanding, accounted for 19.7 percent of the total while Germany with about \$800 billion had 10.9 percent. 17/

The dominant position of the U.S. securities markets can be explained, in part, by the size of our gross national product which is double and even triple that of the other leading economies of the world. The separation of the investment and commercial banking sectors also may have given impetus to the development of the U.S. securities market. 18/ It is interesting to

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16/ In 1986 France had the highest proportion of total capital raised by private non-financial enterprises, 31 percent. France was followed by the United Kingdom and the U.S. with 23 and 18 percent, respectively. The significant privatization activity in France played a large role in the increased new issue activity in the French capital markets last year.

17/ Prospects for Financial Markets in 1987, Henry Kaufman and Jeffrey Hanna, Salomon Brothers Inc., Research Department (December 16, 1986), page 22.

18/ David Gil, Director, Capital Markets Department, International Finance Corporation, presents an interesting comparison of institutional structures of financial markets in his speech "Take Off Time for Thailand's Capital Market," Bangkok, November 28-29, 1984. Also, see OECD Report: The Committee on Financial Markets International Trade In Services: Securities (Paris, 1987), pages 13-15.

note that the two largest securities markets, the U.S. and Japan, which account for nearly three-quarters of the world's equity markets capitalization generally have maintained a separation of commercial banking from investment banking.

The U.S. securities markets and its regulation appear to have influenced the shape of other markets. Many securities instruments were first introduced in the U.S. securities market and are now being introduced around the world. U.S. securities firms maintain a sizable presence in most international financial centers. NYSE member broker-dealers had in 1986, for example, 48, 36, and 27 sales offices in the United Kingdom, Canada and Germany, respectively. In the United Kingdom, the number of U.S. sales offices increased to 48 in 1986 from 37 in 1982. 19/

A considerable dynamic for change was initiated in the U.S. in the early 1970's with the gradual deregulation of brokerage commission rates on stock exchange transactions. 20/ When

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19/ The International Market: Growth in Primary and Secondary Activity, Jeffrey M. Schaefer and David G. Strongin, Securities Industry Association, July 1987.

20/ As a result of a mandate from Congress pursuant to Section 6(e)(3) of the Securities Exchange Act of 1934, the Securities and Exchange Commission's economics staff monitored very closely the results of the decision to deregulate commission rates on stock exchange transactions. See, for example, Fifth Report to Congress on the Effects of the Absence of Fixed Rates of Commissions, Securities and Exchange Commission (May 26, 1977) and Staff Report on the Securities Industry in 1980, Directorate of Economic and Policy Analysis, Securities and Exchange Commission (September 1981), pages 81-112.

legislation passed in 1975 that completed the process, the U.S. securities industry moved into a much more competitive era. Other countries, such as Canada, started to reduce commission rates on large orders fairly soon thereafter. The process of unfixing commission rates was not completed until 1983 in Canada, 1984 in Australia and 1986 in the United Kingdom. 21/

The quotation and transaction systems which have become an important market medium in the U.S. are being used increasingly in other markets such as Japan, the United Kingdom and Singapore. In addition, automated execution systems for small orders which were introduced in U.S. stock markets in response to the deregulation of commission rates are now being offered in other markets around the world. And the U.S. stock markets were among the first to develop linkage among their stock exchanges and to forge linkages between domestic and foreign stock markets. Innovation has also occurred in clearance and settlement. Since 1980, several U.S. clearing agencies have pursued settlement linkages with their foreign counterparts. The linkage of these clearing agencies

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21/ In Canada negotiated rates were introduced April 1, 1983. In Australia negotiated rates on orders in excess of A\$100,000 began April 1, 1984. In the United Kingdom negotiated rates were introduced on October 27, 1986 as part of the "Big Bang." See The Wardley Guide to World Money and Securities Markets, by Lynette Kemp; Euromoney Publications (1984), pages 29, 30, 78-80, 384-387 (hereinafter, The Wardley Guide).

facilitates the settlement of securities transactions and reduces the costs and problems associated with physical delivery.

The regulatory climate in the U.S. has permitted our securities markets to become a leader in financial innovation. New financial instruments are now being introduced in foreign markets with increasing frequency. 22/ Trading of standardized options began in the U.S. in 1973. In 1975, Canada and in 1976 Australia followed suit with their own programs. The Netherlands started the European Options Exchange in 1978. For seven years this was the second largest market for standardized options. The United Kingdom also introduced standardized options to their markets in 1978 and became the second largest options market in 1985. France, Switzerland and Japan are planning to initiate options trading. These countries also are developing markets for the trading of financial futures. 23/

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22/ Propects for Financial Markets in 1986, Salomon Brothers, Inc. (December 18, 1985), pages 34-38.

23/ For a more complete discussion of options and futures trading in the countries cited here see the Euromoney Supplement "Futures Options," October 1986, specifically for Australia (page 63), Canada (page 79), Netherlands (page 46) and the United Kingdom (page 43). France is scheduled to begin options trading in September 1987 (see Financial Times, June 25, 1987, page 35). Japan is scheduled to initiate options trading in 1988 (see Japan Economic Journal, June 13, 1987, page 5). The U.S. began trading financial futures in 1975, the United Kingdom in 1981, Australia in 1983, Canada in 1984, Japan in 1985 and France in 1986. It is interesting to note that recently the trading volume of the

(footnote continued on next page)

The innovative nature and level of sophistication of the U.S. capital markets is also indicated by the wide range of securities instruments traded actively in the U.S. market. Table II-4 shows the availability of five broad categories of securities instruments in the world's major capital markets. These instruments are important in providing investors, institutions, traders, investment bankers and issuers a broad range of vehicles to manage their assets. Only the U.S. has a highly developed market in all five categories. Japan and the United Kingdom have highly developed markets for three of the five instruments. The other countries have two or fewer. 24/

Japan, has the world's second largest equities market and the second largest currency sector in the Eurobond market. The growth of the domestic corporate bond market, nevertheless,

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(footnote 23 continued from previous page)

futures contract in the Japanese government bond, their only futures contract, has exceeded the trading of the leading U.S. government bond contract. This high volume for a single contract is expected to change when other contracts are introduced in the Tokyo futures market. See "The Japanese Market-Hedging Lifts the Five Day Contract," Financial Times (London), March 19, 1987, Section III, page V.

24/ The classification of the five categories of securities instruments into three levels of development (high, intermediate and low) is explained in Table II-4. With the rapid liberalization of several of the major securities markets the classification will have to be revised frequently.



Table II-4

THE DEVELOPMENT OF CAPITAL MARKET INSTRUMENTS  
IN THE WORLD'S MAJOR SECURITIES MARKETS

Capital Market Instruments

<u>Countries</u>	<u>Government Bonds</u>	<u>Corporate Bonds</u>	<u>Corporate Equities</u>	<u>International Bonds</u>	<u>1/</u>	<u>Options and Futures</u>	<u>2/</u>
U.S.	H	H	H	H		H	
Japan	H	I	H	H		L	
United Kingdom	H	I	H	H		I	
Germany	H	L	I	H		L	
Canada	H	I	H	I		I	
Switzerland	I	I	H	H		L	
France	I	L	I	L		L	
Italy	H	L	I	L		L	
Australia	H	I	H	I		I	
Netherlands	H	I	I	I		I	

H = A highly developed market exists in which new issues, securities outstanding and trading volume are substantial when compared to the economy's gross national product.

I = The market has developed to an intermediate level where new issues, securities outstanding and trading volume are of moderate size when compared to the economy's gross national product.

L = The market has developed only to a limited extent which may be due to the recent introduction of the product or a market does not yet exist.

1/ International bonds include foreign bonds and various currency sectors of the eurobond market.

2/ Only four countries have both a market in standardized options and financial futures: Australia, Canada, the United Kingdom and the U.S. The U.S. is the only one with both markets highly developed.

Note: The classification of the government bond, corporate bond, corporate equity and international bond markets is based on a combination of objective factors. The three prime ones are the annualized dollar volume of new issues over several recent years, the dollar amount of issues outstanding, and the rate of turnover in the secondary market. These data are used as a percent of gross national product. For options and financial futures other factors are considered -- for example, how recently the market opened, how many different contracts are being traded and the dollar equivalent of the trading volume.

Source: Directorate of Economic and Policy Analysis  
U.S. Securities and Exchange Commission

appears to have been hindered by regulations. 25/ The size of the corporate bond market is an anomaly since the liquidity available domestically is enormous. In response to pressures from both domestic and foreign issuers, the Japanese Ministry of Finance has eased conditions lately in the corporate bond market. For example, the number of companies that are allowed to issue unsecured bonds or convertible debt nearly doubled. 26/

Japan has permitted limited financial futures trading. Participation in this trading, though, has been restricted as of early 1987 to securities firms for their own accounts. 27/ With regard to options, a market does not yet exist.

The United Kingdom's domestic corporate bond sector has not kept pace with its equities market. This was primarily due to economic and business factors in the United Kingdom. 28/ In recent years, however, the number of new corporate debt issues has increased.

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25/ For a discussion of recent efforts by the Ministry of Finance to liberalize regulations in the Japanese domestic market and the yen currency sector of the Eurobond market, see Section D of this chapter.

26/ About 170 firms are now permitted to issue unsecured bonds and 330 can issue convertible debt. "Foreign Players Allowed Into Medium-term Game," Financial Times (London), April 21, 1987, page VIII; and "Japanese Utilities Switch to Euro-issues," Financial Times (London), April 24, 1987, page 29.

27/ "Tokyo May Lift Ban on Futures Trading," Financial Times, (London), April 1, 1987, page 31.

28/ The Wardley Guide, op. cit., pages 368-373.

As noted earlier, the United Kingdom began trading standardized options in 1978 and initiated trading in financial futures in 1981. The development of the options market has progressed to a point where the London International Financial Futures Exchange reached an agreement with the Chicago Board of Trade which will allow investors to open options contracts in the one market and close it in the other. 29/

The U.S. securities markets are also unique in their regulations governing disclosure, insiders and intermediaries, accompanied by a flexibility that has permitted competition and innovation. The U.S. prohibits insider trading and has vigorous enforcement. U.S. regulation also requires the purchasers of corporate securities to register their ownership (conducted almost entirely by transfer agents and brokers). In many countries the bearer form of securities issuance is practiced, especially for bonds.

Regulation of new issue and periodic disclosure in the U.S. places considerable emphasis on extensive financial reporting. The disclosure program, including related procedures and potential legal liabilities may, however, serve as a disincentive to the issuance of foreign bonds and equity securities in the U.S. capital market. U.S. regulation emphasizes full disclosure

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29/ "Chicago Plans New Futures Trading Link," Financial Times (London), February 10, 1987, page 1,

rather than merit regulation which seems to play a much larger role in some other capital markets. Recent modifications to the disclosure program have placed more emphasis on the continuous reporting of corporate issuers. 30/ In the U.S. broker-dealers are also closely regulated regarding trading practices, customer protections and financial solvency. The supervision of broker-dealers and trading markets is primarily conducted by self-regulatory organizations ("SROs") such as the exchanges and the NASD under the oversight of the SEC.

The U.S. capital markets are rather flexible and open. New securities products and services are introduced generally without significant regulatory delays. In fact, competition is encouraged by the regulatory framework and, was mandated by the Securities Acts Amendments of 1975. Moreover, foreign securities firms participate in a full range of investment banking and securities activities. 31/

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30/ In February 1982 the SEC adopted rules that comprehensively revised the disclosure system combining features of the new issues disclosure program with those of the continuous disclosure program. This is commonly referred to as the integrated disclosure system, a simplified, less burdensome disclosure system for domestic and foreign issuers of securities. See Securities Act Release No. 6383, March 22, 1982.

31/ The Department of the Treasury has studied the national treatment foreign banking and securities firms face in most of the countries discussed in this study (National Treatment Study: Report to Congress on Foreign Government Treatment of U.S. Commercial Banking and Securities Organizations, 1986 Update, December 18, 1986; hereinafter referred to as "National Treatment Study, 1986 Update"). Of particular note is that as of year-end 1985 there were an estimated 75-100 broker-dealers in the U.S. with foreign parents and 35 foreign-owned members of the New York Stock Exchange.

D. Regulatory Trends in International  
Capital Markets

The world's securities markets have not been subject to uniform regulation. New international bond issues -- with the notable exception of the U.S. dollar sector -- historically has been subject to regulatory controls regarding the "size and maturity of individual issues, the quality of borrowers, the number and amount of issues per calendar period and/or formal issues calendars." <sup>32/</sup> Capital market controls appear to have been utilized primarily to achieve macroeconomic policy objectives. Sometimes, however, they have been used to protect domestic financial institutions from competition from foreign institutions in the underwriting and distribution of securities. There is a clear trend, however, toward a restructuring of the regulatory framework to facilitate competition and greater mobility of capital across national boundaries.

In the U.S., the Interest Equalization Tax was abolished in 1974. Commission rates on stock exchange transactions were deregulated in 1975. At the same time, the passage of the Securities Acts Amendments of 1975 encouraged greater competition among U.S. securities markets. It also mandated that the SEC facilitate the development of a national market in securities. This was followed in the 1980's by the deregulation of interest

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<sup>32/</sup> Financial Market Trends, Volume 22 (June 1982), op. cit., page 24.

rates on bank deposits. These events were followed by a series of regulatory initiatives in capital markets around the world.

The changes that occurred in London have received the greatest attention. The so-called "Big Bang" in October 1986 resulted in the deregulation of brokerage commissions, the restructuring of the London stock market and greater access by foreign participants to the domestic securities markets of the United Kingdom. It can be expected that the events in London will continue to have an impact on other capital markets. Both France and Canada, for example, are in the process of restructuring their securities markets. 33/ Regulatory changes also are occurring in Tokyo and

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33/ In addition to removing restrictions on foreign ownership of Canadian securities firms, Canadian financial service firms (securities firms, banks, trust companies and insurance companies) will be permitted to offer a wider range of financial products. In France, the stock market is in the process of being opened to foreign firms and to domestic financial institutions whose access to the market has been restricted. Brokers who traditionally have had a monopoly on stock trading will be permitted to diversify into investment banking and other activities. By 1988, members of the Bourse will be able to form partnerships with foreign and local firms and French brokers will be able to opt for becoming investment bankers under the French banking laws and still retain their membership in the Bourse. And a wider range of financial products has been approved. In February 1986, a financial futures market was established. An options market on French stocks opens at mid-year 1987. See "Foreign Brokers Ready to Blast Off in Toronto," Chicago Tribune, June 22, 1987, page 3; "The Four Pillars Are Shaken," Financial Times, London, June 30, 1987, page 22. BIS Fifty-Seventh Annual Report, Basil, June 15, 1985, pages 81-84; and "La Mutation des Bourses Francaises" a Press Conference Speech by Xavier DuPont (Member of the Commission des Operations de Bourse) to the Compagnie des Agents de Change on March 10, 1987.

in other financial centers. 34/

In recent years, the liberalization of regulations regarding exchange controls, market access and financial innovation has facilitated the growth of the international bond market. 35/ The international bond market consists of Eurobonds and foreign bonds. Eurobonds are placed simultaneously in the capital markets of at least two countries. Eurobonds are normally denominated in a currency which is not the currency of the country where the bonds are offered and may even consist of several currencies. Eurobonds are issued in bearer form through international syndicates composed of investment, merchant or commercial banks of several countries. Typically, these financial institutions maintain a substantial international presence in London, New York, Tokyo and other major financial centers through a network of subsidiaries, affiliates or branch offices.

Foreign bonds are sometimes referred to as traditional international issues because the markets for foreign bonds existed long before the Eurobond market developed in the mid-1960's. Foreign bonds are placed in the capital market of a single country by a

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34/ See, for example, "Internationalization of Securities Market," Securities Market in Japan, Chapter IX (Tokyo: Japan Securities Research Institute, 1986); and The World Economy and Financial Markets in 1995 - Japan's Role and Challenges (Tokyo: Nomura Research Institute, March 1986).

35/ For a comprehensive listing of specific regulations in OECD member countries that affect international capital flows, see Financial Market Trends, OECD, Paris, various issues.

syndicate composed of institutions located in the country where the bonds are offered. But quite often the syndicates include the domestic subsidiaries of multinational financial institutions that provide investment banking services on a global basis. Foreign bonds are usually denominated in the currency of the country in which the issue takes place; occasionally, however, they have been denominated in a foreign currency.

In the United Kingdom, the financial markets are in the process of adjusting to the implementation of the recently enacted Financial Services Act. 36/ The Act is intended to protect investors in securities and related financial products "against insolvent, dishonest, or incompetent practitioners." 37/ The impact of the introduction of a new regulatory framework for the financial services industry will be felt in both the domestic and the international market for securities traded in London. For the first time, the trading market in the United Kingdom for Eurobonds and Euroequities will be subject to formal investor protection regulation. It is anticipated that dealers and underwriters of

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36/ The Financial Services Act will be implemented in phases during 1987. It is intended to protect investors in a broad range of financial products. The Act establishes a Securities and Investments Board ("SIB") which is responsible for setting regulatory standards with responsibility for on-going supervision of market participants delegated to self-regulatory organizations.

37/ "Regulatory System For The New Era," Sir Kenneth Brill, The Stock Exchange A Market Place for Tomorrow (London: Sterling Publications Limited, 1986), pages 119-124.



Eurobonds and Euroequities will become members of a registered or designated investment exchange and a related SRO. 38/ The London Stock Exchange 39/ has applied to the Securities and Investments Board ("SIB") to become the recognized investment exchange for both domestic and international equities traded in London while the Association of International Bond Dealers ("AIBD") has made application with the SIB to be a designated investment exchange for Eurobonds. 40/

The domestic market in the United Kingdom has become more accessible to foreign financial institutions as a result of the liberalizations associated with "Big Bang" and London has long been the center of trading for the Eurobond market. There are, however, some restrictions in underwriting sterling-denominated securities. A United Kingdom owned institution must serve in the capacity of a co-lead manager. A foreign-owned institution

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38/ In the event that a market participant does not wish to become a member of a registered or designated investment exchange, it would be necessary to register directly with the SIB.

39/ Under the Financial Services Act, The London Stock Exchange was formally designated the International Stock Exchange of the United Kingdom and the Republic of Ireland, LTD.

40/ The London Stock Exchange has merged with the International Securities Regulatory Organization ("ISRO") to form the Securities Association which is in the process of applying to the SIB for recognition as an SRO for domestic and international equities and for Eurobonds traded in London. See The Stock Exchange Quarterly (London), Winter 1986, page 8; National Treatment Study 1986 Update, pages 223-227; and "Big Dealers Expected to Fight AIBD Prices Plan," Financial Times (London), April 28, 1987, page 25.

can serve as a co-lead manager of sterling-denominated issues if reciprocal treatment is provided to United Kingdom firms in the home country of the foreign-owned institution. 41/

In Japan, the domestic securities market has become more accessible to foreign issuers and market participants in recent years. Access to the yen sector of the Eurobond market has improved. Euroyen bond issues can now be managed by non-Japanese financial institutions. Prior to December 1984, non-Japanese financial institutions, including U.S. investment bankers, were not permitted to act as a lead manager of Euroyen bond issues, and the yen sector of the Eurobond market was accessible only to foreign public borrowers.

The Japanese Ministry of Finance has taken a number of other steps in recent years to permit greater access to both the yen sector of the Eurobond market and the issuance of foreign bonds in Japan. Historically, both foreign bonds issued in Japan and Euroyen bonds have been subject to regulations placing restrictions on the frequency, size and offering terms as well as limitations on the type of borrower given access to the market.

In 1983, foreign corporate borrowers were placed on an equal footing with supra-national organizations and sovereign borrowers for a place in the new issue queue for yen-denominated foreign bonds ("Samurai bonds") offered in the Japanese capital market.

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41/ National Treatment Study 1986 Update, op. cit., page 225.

In addition, the market was opened to some corporate issuers with a double A or single A rating by a Japanese rating agency and to triple A rated corporate issuers with no previous issuance experience in the international capital markets. 42/

In 1984, additional liberalizations were implemented. The required credit rating was lowered from triple A to double A for foreign governments and official agencies borrowing for the first time in the Japanese foreign bond market. In addition, the ceiling on individual bond issues was raised selectively and the waiting period between two offerings by the same borrower was reduced. 43/

Japanese authorities also took steps in 1984 to permit greater access to the yen sector of the Eurobond market. Foreign corporations, for example, were permitted to issue Euroyen bonds under the same criteria established for Samurai bonds. 44/ At the same time, restrictions were eased on the number and size of Eurobond issues. Non-Japanese financial institutions were permitted to become lead managers of Euroyen bond offerings and certificates of deposit

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42/ Prior to this time, only triple A rated companies with prior experience of issuing bonds in the international capital markets could issue Samurai bonds in Japan. See Financial Market Trends, Volume 25 (June 1983), op. cit., page 134.

43/ Financial Market Trends, Volume 29 (October 1984), op. cit., page 78.

44/ Prior to 1984, Euroyen bond issues were limited to foreign public borrowers. "Developments in International Banking and Capital Markets in 1985," Bank of England Quarterly Bulletin (London), March 1986, page 60.

denominated in Euroyen were authorized. Non-residents were exempt from the Japanese withholding tax when investing in Euroyen bonds issued by Japanese corporations. And foreign borrowers were permitted to issue unsecured Euroyen bonds. 45/

In 1985, the financial subsidiaries of foreign corporations not meeting Japanese rating standards were allowed to issue Samurai bonds and yen denominated Eurobonds when guaranteed by the parent company. The overseas subsidiaries of Japanese corporations were granted limited authorization to issue Euroyen bonds. In 1985, the first issuance of a foreign currency-denominated bond was permitted in Japan ("Shogun bond"). 46/ Further modifications to the regulatory framework occurred in 1986 in the yen sector of the Eurobond market. Japanese corporations were permitted to raise capital through the issuance of floating rate and convertible currency bonds. In addition, the waiting period for

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45/ In order to issue Euroyen bonds, the overseas subsidiaries were required to have a sufficient credit rating, parent guarantee, and insure that the proceeds did not flow back to Japan. BIS Annual Report (1986), op. cit., page 105.

46/ The first public offering of a yen-denominated foreign bond was also issued in the U.S. capital market in 1985 by the Asian Development Bank. This issue for 35 billion yen represented the first instance in which a public issue denominated in a foreign national currency was offered in the U.S. capital market. See Asian Development Bank Annual Report (Manila: Asian Development Bank), March 20, 1986, page 66.

bringing proceeds of the offering back to Japan was reduced to 90 days. 47/

In Germany, Deutsche mark ("DM") bond issues must be under the lead management of a German bank. But foreign-owned "German banks" are now authorized to lead manage such issues provided that German banks are able to do so in the home country of the foreign-owned German bank. 48/ And German banks must be the co-manager or lead manager of the syndicate for foreign currency bond issues with DM options and for dual currency bond issues. 49/ In 1985, German authorities eliminated the mandatory queue for DM-denominated bonds. 50/ And DM-denominated floating rate notes

47/ Prior to April 1, 1986, the waiting period was 180 days. This change did not apply to the issuance of dual currency bonds. Also, foreign companies were no longer required to satisfy a net worth and asset test in order to issue Euroyen bonds but were required to have credit rating of at least single A. Prospects for Financial Markets in 1986, op. cit., page 35; Financial Market Trends, Volume 33 (March 1986), op. cit., page 121; and Volume 34 (June 1986), page 88.

48/ It was reported in the financial press that at least one U.S. securities firm has applied for a banking license in Germany in order to take advantage of the recent capital market liberalizations that would permit it to lead manage Deutsche mark bond issues. See "Merrill Applies for Banking License in West Germany," Financial Times (London), April 24, 1987, page 29.

49/ Financial Market Trends, Volume 33 (March 1986), op. cit., page 118.

50/ Prior to this, a calendar system existed whereby a committee consisting of major German issuing banks had authority to determine the volume and schedule of issues. This was replaced by a system in which lead managers were simply required to notify the Bundesbank each month of plans to issue DM-denominated bonds. See IMF Study of International Capital Markets (December 1986), op. cit., page 34.

and zero-coupon bonds were introduced to the market. 51/

In Switzerland the market for international bond issues denominated in Swiss francs has traditionally been closely supervised. Swiss authorities do not permit the issuance of Swiss franc Eurobonds. Foreign bonds issued in Switzerland must be lead managed by a Swiss bank.

In recent years, Switzerland has liberalized the operation of its foreign bond market somewhat. Foreign institutions operating in Switzerland are now permitted to participate in the issuing syndicate. In 1984, Swiss authorities abolished the timetable established by the National Bank for the public issue of foreign bonds in the Swiss capital market. As of May 1985, foreign bonds publicly offered in Switzerland were no longer subject to a maximum dollar value limitation. 52/

French authorities provided access to the French franc Eurobond market in 1985. But lead managers were expected to be French banks and new issues were subject to an issuing calendar. There is no formal prohibition against foreign firms lead managing French franc denominated Eurobonds. Nevertheless, in 1986 foreign firms

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51/ Prospects for Financial Markets in 1986, op. cit., page 35.

52/ Between December 23, 1983 and May 15, 1985 the maximum amount of each publicly offered foreign bond issued in Switzerland was SF200 million. Prior to December 23, 1983, the maximum amount for each public bond offering by a foreign borrower was SF100 million. See Financial Market Trends, Volume 20 (November 1981), op. cit., page 63; Volume 29 (October 1984) page 82; and Volume 32 (October 1985), page 80.

did not lead manage bonds issued in the French domestic capital market or in the Eurofranc market. 53/

In Italy, foreign borrowers were authorized to issue Eurobonds denominated in lira as of September 1986 with the issue calendar controlled by Italian authorities. In the Netherlands, the securities departments of certain foreign banks were authorized to lead manage domestic or foreign bond issues. 54/

#### E. International Bond Markets

The gross volume of bonds placed internationally in 1986 totaled a record \$225 billion (see Table II-5). This represents a 36 percent increase from the \$166 billion issued in 1985 55/ and more than double the amount brought to the market in 1984. In fact, the market has grown at a compound annual rate of 21 percent since 1976. And, with the exception of 1980, record levels of international bond offerings were achieved in each

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53/ See National Treatment Study 1986 Update, op. cit., page 198.

54/ Bank of England Quarterly Review, op. cit., at page 60.

55/ The 1986 increase is due in part to the sharp depreciation of the value of the U.S. dollar relative to other currencies in which international bond issues are denominated. During 1986, U.S. dollar denominated international bonds accounted for about 55 percent of total dollar value of international bond offerings. The OECD estimates that "on a constant-exchange-rate basis," the value of international bond offerings increased by about 26 percent in 1986 (nine months data, at annual rate) compared to 51 percent in 1985. See Financial Market Trends, Volume 35 (November 1986), op cit., page 38.

Table II-5

DOLLAR VALUE OF INTERNATIONAL BOND  
OFFERINGS: 1965 to 1986  

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 (US \$ Billions)

<u>Year</u>	<u>International Bond Issues</u>			<u>Percent of Total</u>		
	<u>Eurobonds</u>	<u>Foreign Bonds</u>	<u>Total</u>	<u>Eurobonds</u>	<u>Foreign Bonds</u>	<u>Total</u>
1965	\$ 0.8	\$ 2.4	\$ 3.2	25.0%	75.0%	100%
1970	3.5	2.4	6.0	59.0	41.0	100
1975	8.7	11.2	20.0	43.8	56.2	100
1976	14.7	18.4	33.1	44.4	55.6	100
1977	18.7	16.3	35.0	53.5	46.5	100
1978	15.0	20.7	35.7	41.9	58.1	100
1979	18.7	20.3	39.0	47.9	52.1	100
1980	20.4	17.9	38.3	53.2	46.8	100
1981	31.3	20.5	51.8	60.4	39.6	100
1982	50.3	25.2	75.5	66.6	33.4	100
1983	50.1	27.0	77.1	65.0	35.0	100
1984	81.7	27.8	109.5	74.6	25.4	100
1985	135.4	31.0	166.5	81.3	18.7	100
1986	\$187.0	\$38.4	\$225.4	83.0%	17.0%	100%

Note: Totals may not add due to rounding.

Source: OECD Financial Statistics Monthly (various issues)



of the past ten years. 56/ At year-end 1986, there were over \$700 billion in international bonds outstanding. 57/

The principal market for foreign bonds during the early post-war period was the United States. The European and Japanese capital markets were less accessible to foreign issuers because of exchange controls and other capital market regulations. The Interest Equalization Tax which was implemented in 1963 and continued until 1974, was intended to reduce capital outflows by discouraging foreign issuers from raising capital in the U.S. This tax gave impetus to the development of the Eurobond market as a means of raising capital by issuing U.S. dollar denominated bonds through international syndicates based primarily in London. 58/ By 1965, U.S. corporations or their overseas

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56/ In the first quarter of 1987, \$49.0 billion in Eurobonds were issued -- a 12 percent increase over last year's first quarter and more than twice the amount of Eurobonds issued in the first quarter of 1981. See International Capital Markets Review, op. cit., page 1.

57/ See BIS Annual Report (1986), op. cit., page 87. According to BIS estimates, there were \$550 billion in international bonds outstanding at year-end 1985. In 1986, \$156 billion in net new international bonds were issued (see Table II-1, page II-7).

58/ For a comprehensive discussion of the origins of the Eurobond market, see The Euro-bond Market Function and Structure, Yoon S. Park (New York: Praeger Publications, 1977); and A History of the Eurobond Market -- The First 21 Years, Ian M. Kerr (London: Euromoney Publications, 1984).

affiliates had become the most important group of borrowers in the Eurobond market. 59/

Historically, the Eurobond market has been a source of funding for a wide variety of borrowers (see Table II-6). During the 1974-1983 period, U.S. and foreign private corporations accounted for about half of all funds raised through Eurobond offerings. The balance consisted of funds raised by state enterprises (25 percent), governments (15 percent) and international organizations (10 percent). Private corporations tend to rely less on foreign bond markets. Governments and international organizations have historically been granted preferential access to a number of foreign bond markets. U.S. corporations account for only a small portion of the funds raised through foreign bonds issued in capital markets outside of the United States.

In recent years, U.S. issuers have been the largest borrowers in the international bond markets followed by the Japanese, British and Canadians. In 1986, U.S. issuers tapped the international bond market for a record \$43.7 billion or 19 percent of gross bond offerings in international markets. Eurobond issues accounted for 88 percent of the proceeds raised by U.S. issuers in the international bond markets during 1986. Japanese issuers, the second largest participants, raised \$34.3 billion in the

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59/ "Euro-Bonds: An Emerging International Capital Market," Federal Reserve Bank of New York Monthly Review (New York, August 1968).

Table II-6

DISTRIBUTION OF INTERNATIONAL BOND ISSUES  
 BY TYPE OF BORROWER: 1974-1983  
 (Percent)

<u>Borrower</u>	<u>Eurobonds</u>	<u>Foreign Bonds Outside U.S.</u>
U.S. Companies	15.7%	4.0%
Foreign Corporations	34.6	22.9
State Enterprises	25.3	23.0
Governments	14.9	25.3
International Organizations	9.5	24.8
All Borrowers	100.0%	100.0%

Note: Data not available after 1983.

Source: World Financial Markets, Morgan Guaranty Trust  
 Company of New York (various issues)

international bond market, of which 74 percent consisted of Eurobonds. The bulk of the remainder consisted of foreign bonds issued in the Swiss market.

During the 1970's, the Eurobond and foreign bond markets were about equal in size. But since 1981, the Eurobond market has grown at a compound annual rate of 43 percent. By comparison, the markets for foreign bonds, including Yankee bonds (foreign bonds issued in the U.S.) grew by only 13 percent. <sup>60/</sup> By 1986, Eurobonds accounted for 85 percent of international bond issues compared to 53 percent in 1980. Prior to 1978, Yankee

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<sup>60/</sup> For a discussion of foreign bonds issued in the U.S. capital markets, see this chapter, Section K.

bonds were, by far, the largest component of the market for foreign bonds. Since 1978 the Swiss market has been the largest and fastest growing sector of the foreign bond market. This is due at least, in part, to the fact that Swiss monetary authorities do not permit Swiss franc denominated Eurobonds.

F. Eurobond Currency Sectors  
And Foreign Bond Markets

Since the inception of the Eurobond market, U.S. dollar denominated bonds have consistently accounted for the largest share of the market (see Table II-7). The dollar value of U.S. dollar denominated Eurobonds increased from \$25.8 billion in 1981 to \$117.2 billion in 1986. But the share of the market accounted for by the U.S. dollar sector declined from 82.4 percent of gross proceeds raised in the Eurobond market in 1981 to 62.7 percent in 1986. 61/

Foreign bonds issued in the U.S. accounted for only 15.9 percent of the \$38.4 billion in foreign bonds issued in all markets in 1986 (see Table II-8). With the exception of the rapidly growing foreign bond market in Switzerland, most issuers are shifting to the use of Eurobonds rather than foreign bonds.

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61/ In the first quarter of 1987, U.S. dollar denominated Eurobonds accounted for only 37 percent of the value of Eurobonds brought to the market as a result of the continued decline in the value of the U.S. dollar in foreign exchange markets. See "1st Quarter International Corporate Financing 1987, Euromarket Issues," Investment Dealers Digest (April 6, 1987), page 46.

Table II-7

EUROBOND ISSUES BY CURRENCY OF ISSUE

Billions of U.S. Dollars

<u>Year</u>	<u>U.S. Dollar</u>	<u>Deutsche Mark</u>	<u>Japanese Yen</u>	<u>Pound Sterling</u>	<u>ECUs</u>	<u>All Other</u>	<u>Total</u>
1972	\$ 4.3	\$1.3	\$ *	\$0.2	\$ *	\$ 1.1	\$ 6.9
1973	2.4	1.1	*	1/	*	0.7	4.2
1974	2.0	0.6	*	1/	*	0.8	3.4
1975	3.4	2.9	1/	*	*	2.4	8.7
1976	9.4	2.8	*	*	*	2.5	14.7
1977	11.6	5.2	0.1	0.2	*	1.6	18.7
1978	6.8	6.5	1/	0.3	*	1.3	15.0
1979	10.4	5.9	0.2	0.3	*	1.9	18.7
1980	13.6	3.5	0.3	1.0	*	2.0	20.4
1981	25.8	1.4	0.4	0.5	0.2	3.0	31.3
1982	42.2	3.3	0.6	0.8	0.8	2.6	50.3
1983	39.2	4.0	0.2	2.2	2.2	2.3	50.1
1984	65.3	4.3	1.2	4.0	2.9	4.0	81.7
1985	96.5	9.5	6.5	5.8	7.0	10.1	135.4
1986	\$117.2	\$16.9	\$18.7	\$10.5	\$7.0	\$16.8	\$187.0

Percent of Total

<u>Year</u>	<u>U.S. Dollar</u>	<u>Deutsche Mark</u>	<u>Japanese Yen</u>	<u>Pound Sterling</u>	<u>ECUs</u>	<u>All Other</u>	<u>Total</u>
1972	62.1%	18.1%	0.0%	2.3%	*%	17.5%	100%
1973	57.0	25.6	0.0	0.7	*	16.7	100
1974	58.6	18.8	0.0	0.7	*	21.9	100
1975	38.9	33.4	0.1	0.0	*	27.6	100
1976	63.9	18.9	0.0	0.0	*	17.2	100
1977	61.8	27.9	0.6	1.2	*	8.5	100
1978	45.2	44.1	0.5	1.9	*	8.3	100
1979	55.4	31.5	1.0	1.6	*	10.5	100
1980	66.9	16.9	1.5	4.8	*	9.9	100
1981	82.3	4.5	1.3	1.7	.5	9.7	100
1982	83.9	6.5	1.2	1.7	1.6	5.1	100
1983	78.2	8.1	.5	4.3	4.4	4.6	100
1984	79.9	5.3	1.5	4.9	3.6	4.8	100
1985	71.2	7.0	4.8	4.3	5.2	7.5	100
1986	62.7%	9.0%	10.0%	5.6%	3.7%	9.0%	100%

\* = nil or no transactions

1/ Less than \$80 million

Source: OECD International Markets Financial Statistics Monthly (various issues)

Table II-8

FOREIGN BOND ISSUES IN SELECTED CAPITAL MARKETS

Billions of U.S. Dollars

<u>Year</u>	<u>United States</u>	<u>Germany</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Switzerland</u>	<u>Netherlands</u>	<u>All Other</u>	<u>Total</u>
1972	\$1.6	\$0.6	\$0.6	\$ *	\$ 0.9	\$ 1/	\$0.6	\$ 4.3
1973	1.5	0.5	0.3	1/	1.5	*	0.7	4.5
1974	3.6	*	*	*	0.9	1/	0.7	5.2
1975	6.7	0.4	0.1	.1	3.4	0.2	0.3	11.2
1976	10.8	1.2	0.2	*	5.4	0.7	0.1	18.4
1977	7.9	1.4	1.3	*	5.0	0.2	0.5	16.3
1978	6.4	1.4	4.4	*	7.4	0.4	0.7	20.7
1979	4.4	2.7	2.7	*	9.7	0.2	0.6	20.3
1980	2.7	5.0	1.5	0.2	7.5	0.3	0.8	17.9
1981	6.9	1.2	2.7	0.9	8.1	0.4	0.2	20.5
1982	6.0	2.1	3.3	1.1	11.3	0.9	0.4	25.2
1983	4.7	2.6	3.9	0.9	13.5	0.9	0.6	27.0
1984	4.3	2.4	4.9	1.6	13.1	0.9	0.6	27.8
1985	4.7	1.7	6.4	1.0	15.0	1.0	1.2	31.0
1986	\$6.1	\$ *	\$4.8	\$0.5	\$23.4	\$1.8	\$2.0	\$38.4

Percent of Total

<u>Year</u>	<u>United States</u>	<u>Germany</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Switzerland</u>	<u>Netherlands</u>	<u>All Other</u>	<u>Total</u>
1972	36.7%	13.6%	15.2%	*%	20.3%	0.7%	13.5%	100%
1973	32.9	10.0	6.6	0.2	34.1	*	16.2	100
1974	68.4	*	*	*	18.6	0.8	12.2	100
1975	59.8	3.2	0.6	0.3	30.4	2.0	3.7	100
1976	58.7	6.4	1.2	*	29.2	3.8	0.7	100
1977	48.4	8.7	7.9	*	30.5	1.1	3.4	100
1978	30.7	6.9	21.2	*	35.8	1.7	3.7	100
1979	21.5	13.3	13.2	*	47.9	0.8	3.3	100
1980	15.1	27.6	8.6	1.0	41.7	1.8	4.2	100
1981	33.4	5.8	13.3	4.4	39.6	2.1	1.4	100
1982	23.9	8.4	13.2	4.5	44.9	3.4	1.8	100
1983	17.5	9.7	14.2	3.2	50.0	3.5	2.0	100
1984	15.5	8.7	17.5	5.9	47.2	3.1	2.1	100
1985	15.0	5.6	20.6	3.1	48.2	3.2	4.4	100
1986	15.9%	*%	12.5%	0.8%	60.9%	4.7%	5.2%	100%

\* = nil or no transaction

1/ Less than \$45 million

Source: OECD International Markets Financial Statistics Monthly (various issues)

Several factors have contributed to the growth in the non-U.S. dollar currency sectors of the Eurobond market. The liberalization of capital market regulations made it easier to issue Eurobonds denominated in currencies which traditionally had been subject to close supervision. The recent trend toward capital market deregulation has also facilitated financial innovations which, in turn, has contributed to the expansion of non-dollar currency sectors. And volatility in foreign exchange markets has created a greater need for currency diversification.

The depreciation in the value of the U.S. dollar relative to other currencies, together with uncertainty concerning future movements in the value of the dollar, contributed to the expansion of the non-dollar currency sectors of the Eurobond market. The U.S. dollar reached its peak in early 1985. Since then, it has declined sharply relative to the Japanese yen and the Deutsche mark -- the second and third largest currency sectors of the Eurobond market (see Chart 1).

The growth in currency swap related borrowing opportunities has also contributed to the expansion of the non-dollar currency sectors. For example, U.S. issuers can issue Eurobonds denominated in a foreign currency and then swap the proceeds of the offering into U.S. dollars. The value of currency swaps related to bonds issued in the international markets is estimated to have amounted to about \$38 billion in 1986 compared to \$2.3 billion in 1982. During the first nine months of 1986, currency swap-related

Chart 1

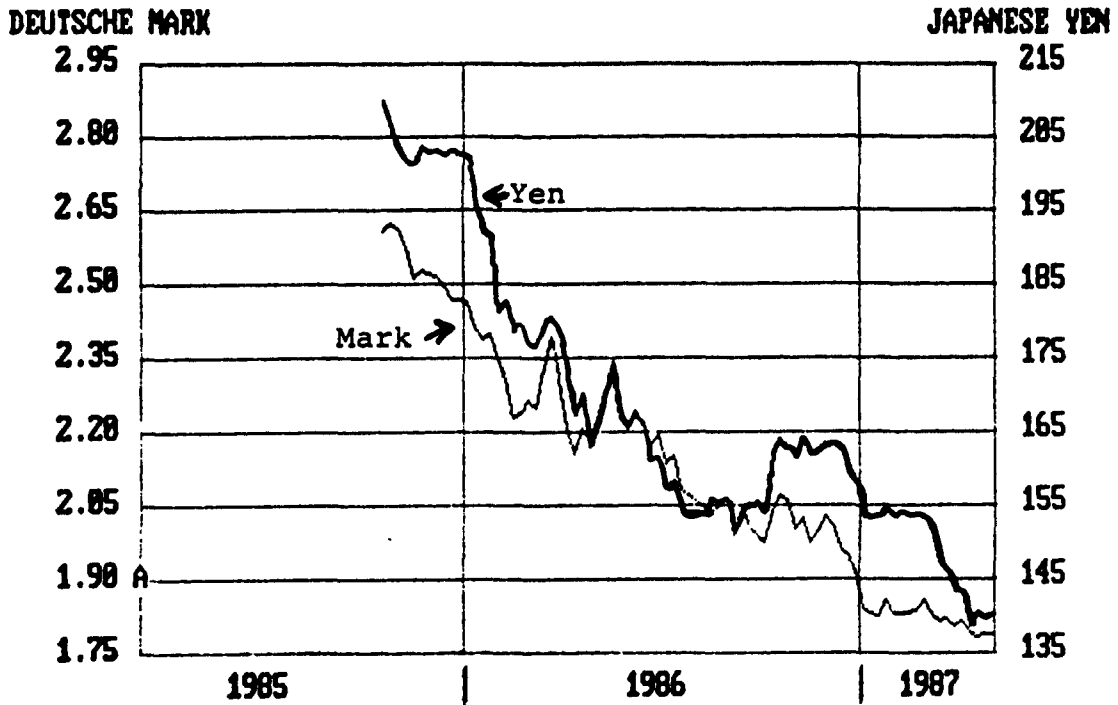
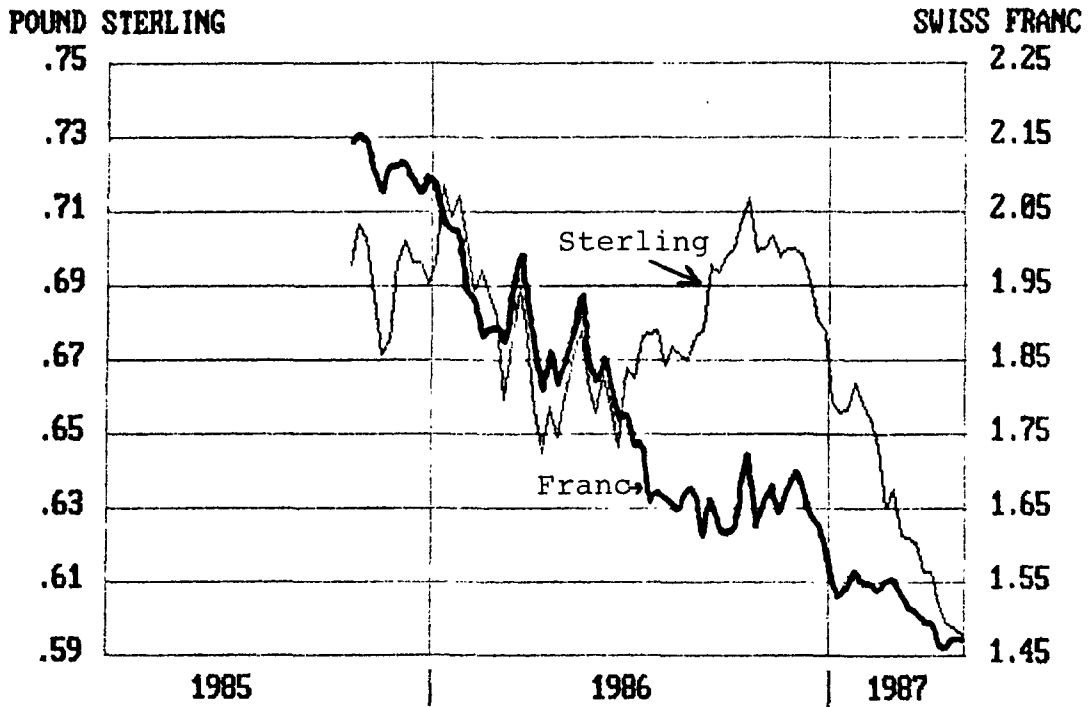


Chart 2





issues accounted for 27 percent of non-dollar bonds issued internationally. 62/ Swaps have facilitated the expansion of less frequently used currency sectors of the Eurobond market and have served as a vehicle to take advantage of arbitrage opportunities created by regulatory barriers. 63/

During the 1981-1986 period, the U.S. dollar segment of the Eurobond market grew at an annual rate of 35 percent while the other currency sectors combined grew by 66 percent. Not since 1978, when Deutsche mark Eurobonds achieved a 44 percent market share, has the lead position of the U.S. dollar sector of the Eurobonds been seriously challenged. While the yen and Deutsche mark have been the fastest growing sectors of the market in recent years, each of these currency sectors accounted for no more than 10% of the value of Eurobonds issued in 1986.

Despite the recent growth of the yen, Deutsche mark and British pound currency sectors of the Eurobond market, U.S. dollar denominated bonds accounted for about two-thirds of the \$187 billion in Eurobonds brought to the market in 1986. Although the relative importance of U.S. dollar denominated Eurobonds has fluctuated widely over the 15-year period displayed in Table II-7, it has consistently been the largest currency sector.

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62/ Prospects for Financial Markets in 1987, Salomon Brothers, Inc. (December 16, 1986), page 23.

63/ BIS Annual Report (1986), op. cit., pages 104-105.

The strong long-term showing of U.S. dollar denominated Eurobonds reflects the importance of the dollar as an international currency, the relative importance of U.S. corporate issuers in the Eurobond market, and the lack of regulatory restrictions in the dollar sector of the market. Short-term, year-to-year fluctuations in the relative importance of the various Eurobond currency sectors are influenced by interest rate differentials among currency sectors, volatility and expectations regarding future changes in currency values and the imposition and relaxation of regulations in some currency sectors of the Eurobond market.

Part of the recent increase in both the non-dollar currency sectors of the Eurobond market and in foreign bond markets outside of the U.S. is due to the sharp depreciation of the value of the U.S. dollar -- the unit of measure for most international financial statistics, including historical data on international bonds. The effect of changes in the value of the U.S. dollar (relative to other currencies) on the growth rates of international bonds denominated in local currencies is displayed in Table II-9. For example, Deutsche mark-denominated international bond issues increased from DM32.0 billion in 1985 to DM36.9 billion in 1986 or 15.3 percent. Measured in U.S. dollars the value of Deutsche mark-denominated international bond issues increased by 56.3 percent. Likewise, between 1985 and 1986 yen-denominated Eurobonds and foreign bonds offered in Japan increased by 32.7

Table II-9

INTERNATIONAL BOND OFFERINGS  
(Valued in Local Currencies)

<u>Years</u>	(Billions)		
<u>Years</u>	<u>D Mark</u>	<u>Yen</u>	<u>Swiss Franc</u>
1982	DM13.0	Y1,101	SF22.8
1983	16.8	969	28.2
1984	19.3	1,447	30.4
1985	32.0	2,958	35.9
1986	DM36.9	Y3,926	SF42.0

Compound Annual Growth Rates Measured  
in U.S. Dollars and Local Currencies

1985-86			
U.S. Dollars	56.3%	87.9%	59.7%
Local Currencies	15.3	32.7	17.0
1982-86			
U.S. Dollars	33.4	51.1	20.0
Local Currencies	29.8%	37.4%	16.5%

Source: OECD Financial Market Trends (various issues)

percent when measured in yen but by 87.9 percent when valued in U.S. dollars. <sup>64/</sup>

Japanese issuers and investors have played a much larger role in the international bond markets in recent years. The Euroyen sector, in particular during 1985 and 1986, has been affected by

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<sup>64/</sup> Changes in the value of the U.S. dollar relative to other currencies in which international bonds are denominated can have a significant effect on the growth rates of non-dollar currency sectors. The rates of return available to investors in various currency sectors are heavily influenced by the volatility of foreign exchange rates. Quarterly data on the value of the U.S. dollar in relation to nine other currencies are set forth in Appendix Table II-H.

modifications to capital market regulation introduced by the Japanese Ministry of Finance. Yen-denominated Eurobonds increased from about \$300 million in 1980 to \$6.5 billion in 1985, while foreign bonds issued in Japan rose from \$1.5 billion to \$6.4 billion. In 1986, yen-denominated Eurobonds expanded to \$18.7 billion -- nearly three times the amount issued the previous year. But, at \$4.8 billion, foreign bonds issued in Japan declined by 33.4 percent from the record level achieved in 1985. Yen-denominated Eurobonds accounted for ten percent of the value of Eurobonds issued in 1986 compared to less than two percent in all years prior to 1985.

It is estimated that 80 percent of Euroyen issues are swapped into other currencies. U.S. issuers are the largest borrowers in the Euroyen market with about 30 percent market share followed by Japanese issuers at about 10 percent. <sup>65/</sup> In contrast to the Euroyen market, the foreign bond market in Japan has not been used extensively by U.S. issuers. Even in 1985, when U.S. issuers raised a record \$345 million through foreign bonds issued in Japan, they accounted for only five percent of the market. International development institutions were the largest borrowers accounting for 35 percent of foreign bonds issued in Japan,

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<sup>65/</sup> Financial Market Trends, Volume 35 (November 1986), op. cit., pages 54-55.

followed by Australia (11 percent), and issuers from Asian countries of which China was the largest borrower at \$520 million. 66/

During the 1985-86 period, the value of Swiss franc foreign bonds brought to the market increased from \$15.0 billion to \$23.4 billion -- an increase of 56 percent. But measured in Swiss francs, international bonds issued in Switzerland increased by 17 percent -- from SF35.9 billion in 1985 to SF42.0 billion in 1986. Over this period, the market share of foreign bonds issued in the Swiss market measured in U.S. dollars increased from 48.4 percent of foreign bonds issued in all markets in 1985 to 60.9 percent in 1986.

Part of the increase in the relative importance of the Swiss franc foreign bond market is due to currency realignments. The Swiss franc appreciated by 60 percent against the U.S. dollar over this period (SF2.76 per dollar in the first quarter of 1985 to SF1.66 in the fourth quarter of 1986). Japanese issuers have been the most active participants in the Swiss market and have frequently used the market for currency and interest rate swaps. They also have been particularly active in the issuance of bonds convertible into the shares of Japanese companies. 67/ During

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66/ OECD Financial Statistics Monthly (August 1986), op. cit., page 20.

67/ International Capital Markets Developments and Prospects, (Occasional Paper No. 43), op. cit., page 66; and Financial Market Trends, Volume 35 (November 1986), op. cit., pages 56-57.

the past three years, Japanese issuers accounted for about 40 percent of foreign bonds issued in the Swiss market. American issuers were second at 16 percent.

In 1986, \$16.9 billion in Deutsche mark bonds were brought to the market of which 25 percent consisted of borrowings by German issuers. 68/ The second largest borrowers in the Deutsche mark sector were international organizations (10 percent) while U.S. issuers accounted for about five percent. During 1986, Deutsche mark issues constituted the third largest compartment of the international bond market. It was exceeded only by international bonds (Euro and foreign) denominated in U.S. dollars and Japanese yen and by foreign bonds issued in Switzerland. International issues of bonds denominated in pound sterling (Euro- and foreign bonds) achieved a record \$11.0 billion in 1986. Eurobonds issued in pound sterling represented less than six percent of total bonds issued internationally.

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68/ In 1986, all Deutsche mark international bond issues were classified as Eurobonds. OECD statistics no longer make a distinction between Deutsche mark Eurobonds and foreign bonds issued in Germany. All Deutsche mark international bonds must be lead managed by a German bank or by the German subsidiary of a bank operating in Germany. And Deutsche mark Eurobonds must be listed on a German stock exchange and are therefore eligible for immediate secondary market trading in Germany.

### G. Secondary Market In Eurobonds

The secondary market trading in Eurobonds has kept pace with the rapid growth in the primary market. <sup>69/</sup> This in turn has facilitated liquidity and marketability of Eurobond issues. Secondary trading in Eurobonds increased from \$240 billion in 1980 to \$2.2 trillion in 1985 (see Table II-10). Between 1985 and 1986, trading volume in Eurobonds increased by 62 percent. In 1986 secondary market trading totaled a record \$3.6 trillion. Since 1980, the primary or new issues market for Eurobonds has grown at an annual rate of 45 percent while secondary market trading has expanded by 57 percent. The portion of dollar volume cleared by each of the two principal clearing agencies for the Eurobond market (Euroclear and Cedel) has remained relatively constant over this period. Typically, Eurobond issues are listed on the London Stock Exchange or other European exchanges but secondary market trading is conducted primarily over-the-counter.

### H. The International Equity Market

The recent growth in the volume of new issues has increased the role and significance of the international equity market.

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<sup>69/</sup> Secondary market trading in Eurobonds occurs primarily in the over-the-counter market, but some trading does take place in exchange markets. The secondary market trading data presented in Table II-10 includes all over-the-counter activity which is cleared exclusively by Cedel and Euroclear as well as exchange trading, to the extent it is cleared by Cedel or Euroclear.

Table II-10

SECONDARY MARKET TRADING IN EUROBONDS  
(Volume in US \$ Billions)

<u>Year</u>	<u>Total Volume</u>	<u>Percent of Total by Clearing Agency</u>	
		<u>Cedel</u>	<u>Euroclear</u>
1978	\$ 115.8	33.9%	66.1%
1979	155.9	35.1	64.9
1980	240.0	33.1	66.9
1981	413.8	38.0	62.0
1982	846.3	38.8	61.2
1983	900.6	42.6	57.4
1984	1,590.2	36.6	63.4
1985	2,208.0	34.4	65.6
1986	\$3,570.1	34.0%	66.0%

Source: The Association of International Bond Dealers

The international equity market encompasses the underwriting and distribution of equity securities to investors in one or several markets outside the issuer's home market by a syndicate of international securities firms and banks. The market for international equities is similar to the international bond market. International equity securities include common and preferred stocks (generally referred to as Euroequities). But equity-related bond issues (convertibles and bonds with equity warrants) have been an important vehicle for raising capital in international markets since the early 1980's. A two-fold increase in the issuance of equity-related bonds in 1986 coincided with the surge in stock prices on the world's major stock exchanges.

As indicated in Table II-11, Euroequity offerings of common and preferred stocks have increased at a rapid pace. The \$11.8



Table II-11

VALUE OF INTERNATIONAL EQUITY AND  
EQUITY-RELATED BOND OFFERINGS  
(US \$ Billions)

<u>Year</u>	<u>Common And Preferred Stocks</u>	<u>Equity-Related Bonds</u>	<u>1/</u>	<u>Total</u>
1983	0.2	8.0		8.2
1984	1.2	10.9		12.1
1985	3.5	11.5		15.0
1986	11.8	22.3		34.1

1/ Convertible bonds and bonds with warrants.

Sources: Euromoney Bondware, Euromoney Publications  
Financial Market Trends, OECD

billion in Euroequities brought to the market in 1986 include both international issues in the Euromarket as well as the foreign tranches of domestic issues that are directed to particular foreign equity markets. 70/

As the Euroequity market develops, it may acquire more of the characteristics of the international bond market, e.g., a generally recognized distinction between issues that are simultaneously offered internationally in multiple markets (the equity equivalent of the eurobond) and those issues directed to a particular foreign equity market (the equity equivalent of a foreign bond). The present state of the international equity market is

70/ Raising Equity in the Euromarket, Credit Swiss First Boston, London, 1986, page 11.

not unlike that of the international bond market in the mid-1960's, when the distinction between Eurobonds and foreign bonds was less clear than it is today. 71/

Although issuers have increasingly used the international equity markets, some of the objectives of these offerings may not be realized if the shares flow back to the issuer's domestic market. Since the domestic or home market normally is the primary market for any given security, the home market normally attracts shares that overseas investors may want to trade. The return of a large amount of shares to the domestic market, however, may exert downward pressure on the issuer's stock price and can frustrate the efforts of corporations to broaden the shareholder base. Market participants, therefore, generally believe that flowback creates a disincentive to the development of an international equity market. 72/

The lead managers in the Euroequity market are frequently those firms that are also prominent in the Eurobond market. During 1986, the top five lead managers in the Euroequity market accounted for 19.2% of the dollar volume and 38.5% of the total number of issues. Of these five firms, two were also among the top five managers in the Eurobond market.

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71/ European Capital Markets, I. Scott, Office of the Comptroller of the Currency (1968), pages 201-217.

72/ "Cutting Off the Flowback Menace," Euromoney, op. cit., page 48 and "Euroequities Are Here to Stay," Euromoney, op. cit., page 70.

At this point, despite tremendous growth, the Euroequity market is still small compared to the Eurobond market (see Table II-12). German, Italian, and British issuers are heavy users of the Euroequity market. As a group, issuers from these three countries raised approximately \$8.9 billion worth of capital in the Euroequity market during the four year period ending in 1986. The amount of Euroequity capital raised to date by U.S. issuers (\$1.9 billion) is small in relation to the role played by U.S. issuers in the Eurobond market. Nevertheless, U.S. issuers led all countries with 38 issues during the 1983-1986 period. It appears that U.S. issuers have generally satisfied their equity capital needs in the domestic market but have occasionally directed a tranche of their offerings overseas in an effort to increase their international exposure.

The amount of capital raised in the Euroequity market by U.S. issuers may be affected somewhat by the regulatory framework in the U.S. In 1964, the Commission established a policy that it would not initiate action against an unregistered issue so long as the offering occurred overseas and was not sold to U.S. citizens. The accepted procedure for assuring that the issue "came to rest abroad" has been to include clauses in the underwriting and selling agreements not to sell the issue in the U.S. as well as sales restrictions in the lock-up period during which the security may not be sold to U.S. investors.

Table II-12

THE EUROEQUITY AND EUROBOND MARKETS  
(1983 - 1986 Combined)

<u>Issuers Country of Origin</u>	<u>The Euroequity Market</u>	
	<u>Dollar Value of Offering</u>	<u>Number of Issues</u>
Germany	\$ 3.8	7
United Kingdom	2.6	18
Italy	2.5	11
Switzerland	2.0	21
United States	1.9	38
France	1.8	20
Netherlands	0.6	7
Sweden	0.5	3
Canada	0.3	13
Japan	0.2	7
All Other	<u>0.5</u>	<u>17</u>
Total	\$16.7	162

<u>Issuers Country of Origin</u>	<u>Euroequity Versus Eurobond Markets</u>		
	<u>Euroequity</u>	<u>Eurobond</u>	<u>Euroequity As % of Total</u>
Germany	\$ 3.8	\$ 17.4	17.9%
United Kingdom	2.6	39.8	6.1
Italy	2.5	14.6	14.6
Switzerland	2.0	4.2	32.3
United States	1.9	102.6	1.8
France	1.8	35.9	4.8
Netherlands	0.6	6.0	9.1
Sweden	0.5	16.7	2.9
Canada	0.3	29.0	1.0
Japan	0.2	58.2	0.3
All Other	<u>0.5</u>	<u>129.8</u>	<u>0.4</u>
Total	\$16.7	\$454.2	3.5%

Note: The volume data is in billions of U.S. dollars.

Source: OECD International Financial Statistics Monthly (various issues) and Euromoney Bondware, Euromoney Publications, London

These restrictions may preclude U.S. investors from participating in the issue. 73/

The use of the Euroequity market by U.S. issuers did, however, increase substantially during 1986. U.S. issuers raised \$1.7 billion in 1986 compared with \$200 million from 1983 to 1985. With the exception of the U.S. and the United Kingdom, it appears that issuers in the Euroequity market come primarily from European countries whose home equity markets are relatively small. 74/

The Euroequity market has not yet developed the automated clearance and settlement facilities which are available for Eurobonds. Trading in Euroequities may not achieve its full potential without enhancements in systems used to clear and settle equity transactions. The lack of automated systems for the clearance and settlement of international transactions has tended to limit the flow of equity capital across national borders. 75/ The physical delivery of securities can be a costly and cumbersome procedure.

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73/ For further discussion, see Chapter III of this study. Also see the Roundtable on the Internationalization of the Securities Markets, Securities and Exchange Commission, February 17, 1987, transcript pages 97-120.

74/ "Raising Money with Global Equities," Dun's Business Month (February 1987), pages 50-52.

75/ See discussion of problems in clearance and settlement in international equity transactions in Chapter V.

One important aspect of the Euroequity market is the ability it provides issuers to offer equity with varying features. For example, one of the latest developments in the Euroequity market is the increase in corporate issues of non-voting stock whereby corporations can raise new capital without a dilution of control. Scandinavian corporations, for example, have also used non-voting issues to avoid domestic restrictions on foreign stock ownership. 76/

The demand for international equities comes primarily from investors in Switzerland, the United Kingdom, Germany and Japan. The profile of international equity investors, however, differs among each of these market centers. In Switzerland, international equity investors are generally individual investors from throughout the world whose funds are managed by the major Swiss banks. Similarly, international equity investors in Germany are individual investors whose funds are managed on a discretionary basis by the universal banks. In the United Kingdom and Japan, international equity investors are primarily institutions such as insurance companies and pension funds.

New issues of equity-related international bonds -- convertibles and bonds with warrants -- grew from \$8.0 billion in 1983 to \$22.3 billion in 1986 (see Table II-13). New issue volume

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76/ "Selling Equities to the World" Euromoney (London), November 1986, page 5. "The International Equity Market, CSFB," Euromoney Special Sponsored Supplement (London), November 1986.

Table II-13

**ISSUANCE OF EQUITY-RELATED BONDS  
IN INTERNATIONAL MARKETS**  
(US \$ Billions)

<u>Issuers</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 4.9	\$ 7.6	\$ 6.8	\$11.8
United States	1.0	1.9	2.2	2.9
United Kingdom	0.3	0.3	0.7	1.3
Germany	0.7	0.3	1.0	1.7
Switzerland	0.6	0.2	0.2	0.7
Other OECD	0.5	0.6	0.6	3.9
<b>Total</b>	<b>\$ 8.0</b>	<b>\$10.9</b>	<b>\$11.5</b>	<b>\$22.3</b>
<u>Breakdown By Currency Sector</u>	(Percent) <u>1/</u>			
U.S. Dollar	48.8%	50.5%	46.1%	52.5%
Swiss Franc	45.0	38.5	35.7	30.0
German Mark	5.0	8.3	10.4	12.6
Other	1.3	2.8	7.8	4.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

1/ Data may not sum due to rounding.

Source: OECD Financial Statistics Monthly

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has continued to grow in early 1987. During the first quarter of this year new issues of equity-related bonds equalled \$5.1 billion, an 11 percent increase from the \$4.2 billion raised in the first quarter of 1986 and an 89 percent increase over 1985's \$2.7 billion. 77/

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77/ Financial Market Trends, Volume 37 (May 1987), op. cit., page 99.

Japanese corporations have been the largest issuers of equity-related bonds. Their offerings grew from \$4.9 billion in 1983 to \$11.8 billion in 1986. Japanese corporations accounted for more than half of the proceeds raised through the flotation of equity-related bonds in international markets in each of the last four years. Japanese corporations have been particularly active in the Swiss market where they are the largest issuers of convertible bonds. U.S. corporations -- second to the Japanese in the issuance of equity-related bonds in international markets -- raised \$2.9 billion in 1986.

Bonds with warrants permit investors to purchase equity while still holding the issuer's bonds. An attraction for investors is the possibility of a capital gain in the event that the share price exceeds the exercise price of the warrant. For issuers, warrants offer a high degree of flexibility and may also be less likely to exert downward pressure on a company's stock price in comparison with a straight equity issue.

Convertible bonds, a hybrid security that has some of the attributes of an equity security, allows investors to convert the bond into common stock at a specific price during a specified period. They provide investors with a fixed income stream and the potential to realize a capital gain if the market price exceeds the conversion price. The issuance of convertible bonds and bonds with warrants in international markets has been facilitated by the rapid appreciation of stock prices in the world's major securities markets.



The development and growth of the international equity market stems from issuer demands for greater financial flexibility and capital raising alternatives. This market offers corporations a number of potential benefits. An international equity offering may broaden the issuer's shareholder base to include foreign investors and may increase public awareness of the firm's products and services. An increase in the shareholder base and public awareness may enhance future capital raising efforts.

If the issuer is large relative to the capitalization of its domestic market, the international equity market can also provide an additional source of liquidity to supplement the firm's domestic market for equity shares. Additionally, the current practice in many domestic markets is to issue equity at a discount from market price because the issue is directed to existing shareholders with preemption rights. In the international equity market, however, new issues are generally directed to new investors and are usually priced at the prevailing market, thereby resulting in a lower cost of capital to the issuer. 78/

In addition to issuer demand for new capital raising vehicles, the increase in stock prices in most major stock markets around the world has made equity investments attractive to

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78/ "The Looming Battle in International Equities," Institutional Investor (October 1986), page 320 and Raising Equity in the Euromarket, op. cit., page 3.

institutional investors. 79/ In many countries institutional investors, particularly private pension funds, are growing at a rapid pace. The easing of foreign exchange restrictions and investment controls and the capital market liberalizations in a number of countries have facilitated the purchase of foreign equities by institutional investors.

I. Foreign Stock Listings and International Stock Trading

Listing on a foreign exchange may broaden an issuer's shareholder base and, in some markets, it is necessary in order for domestic institutions to purchase the company's shares. For example, in France local insurance companies may be prohibited from purchasing shares that are not listed on a French bourse. 80/ With respect to certain markets, changes in accounting standards and disclosure requirements have made foreign listings more attractive. This apparently has been a factor in increasing the interest of foreign listings on the Tokyo Stock Exchange. 81/

U.S. exchanges have also undertaken initiatives to increase the number of foreign listed companies. The American and New York Stock Exchanges in June 1987 received approval from the

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79/ In addition to Charts 3 and 4, Appendix Table II-E shows trends in stock prices for major foreign stock markets.

80/ "Selling Equities to the World", Euromoney, op. cit., page 45.

81/ Ibid, at page 39.

Chart 3

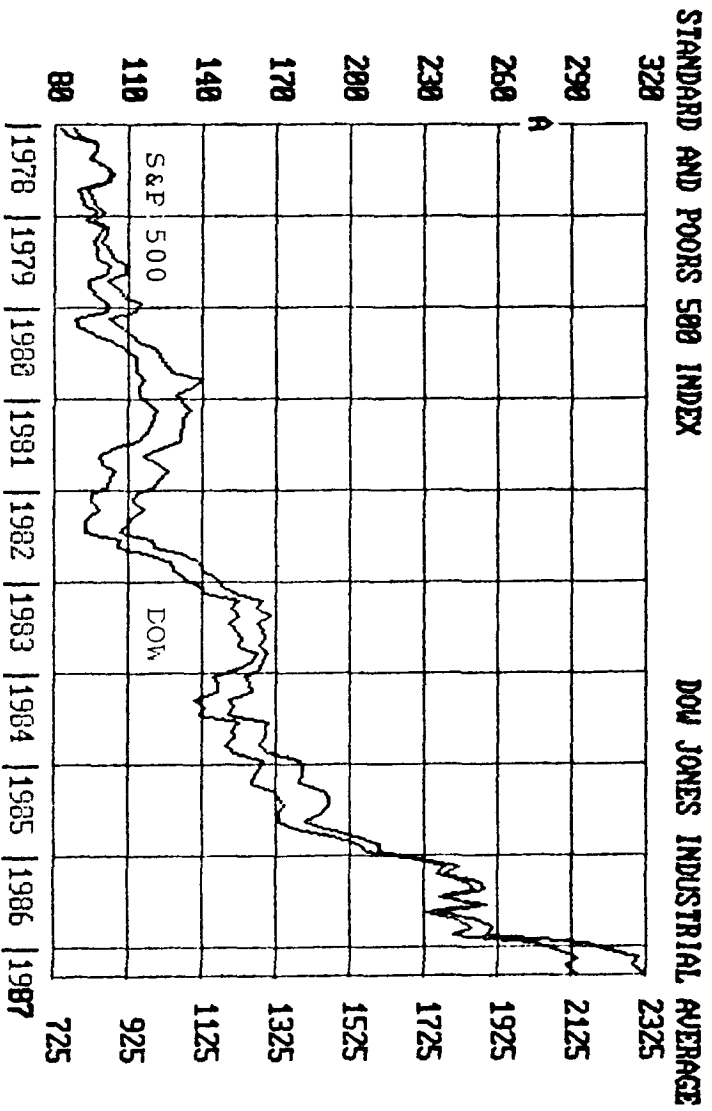
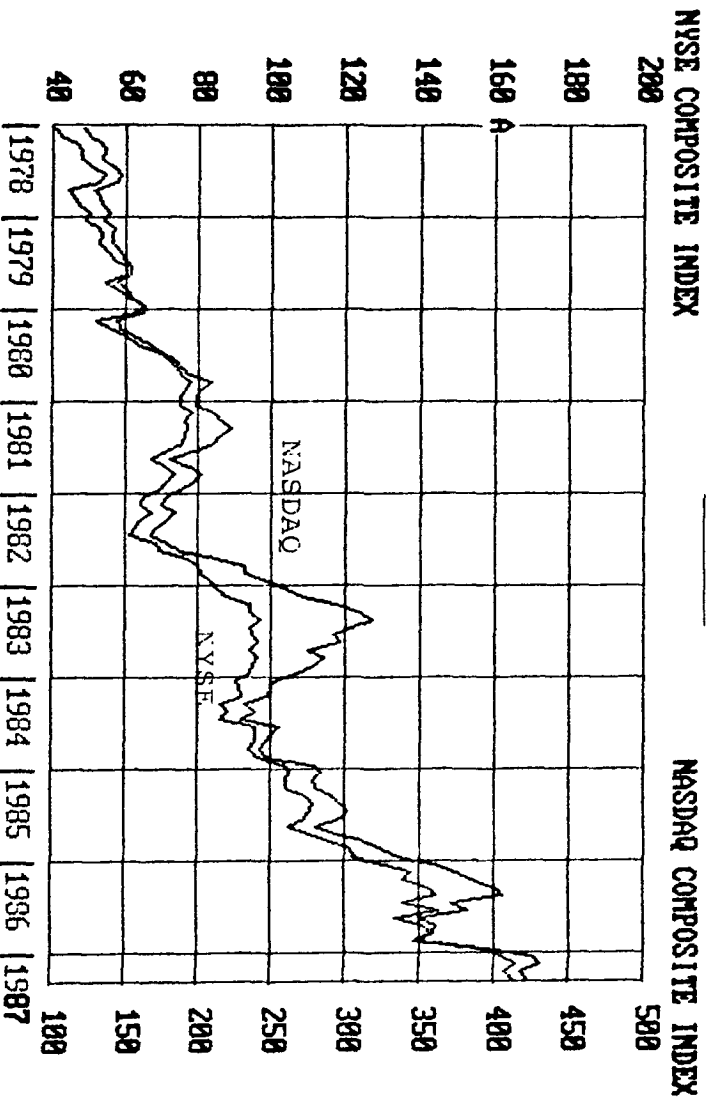


Chart 4



Commission to revise their listing standards. Some foreign corporations apparently had been reluctant to list on U.S. exchanges due to differences in listing standards in the U.S. and their home country. Now certain listing standards may be waived by the American and New York Stock Exchanges if those standards conflict with the laws and practices found in the home market of a foreign corporation. The rule revisions afford U.S. exchanges a better opportunity to compete on an international basis and may provide U.S. investors with greater access to foreign securities. 82/

As of December 1986, 512 foreign corporations had their securities listed on the London Stock Exchange. At the same time 59 foreign companies were listed on the New York Stock Exchange ("NYSE"), approximately one-third of which are Canadian corporations. 83/ At the Tokyo Stock Exchange, 52 foreign firms were listed at year-end 1986 compared to only 21 firms at year-end

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82/ Securities Exchange Act Release No. 34-24634, June 23, 1987. The American and New York Stock Exchanges identified the following areas in which an exemption or waiver might be provided: quarterly reporting of interim earnings, composition and election of the Board of Directors, voting rights and quorum requirements for shareholder meetings.

83/ Of these 59 companies, 22 were traded in the form of American Depository Receipts. For a discussion of American Depository Receipts issued and traded in U.S. markets, see this chapter, Section K. On NASDAQ the number of foreign securities equalled 270 at year-end 1986, a slight increase from 266 in 1985. Of these 270 issues, 92 were traded through the use of American Depository Receipts.

1985. It has been estimated that, on the Tokyo Stock Exchange alone, the number of foreign listed corporations may increase to several hundred within the next five years. 84/

Even some smaller U.S. firms are tapping foreign markets for capital. At least fourteen U.S. companies have recently floated their initial public offerings in England and subsequently registered their issues on the London Stock Exchange's Unlisted Securities Market (USM). The British financial press opined that these firms raised capital more cheaply than they could have in the U.S. 85/ Two other advantages were cited for U.S. companies going public in the United Kingdom: corporations can maintain tighter control by issuing fewer shares to public investors; and U.S. companies may use profit forecasts in their British prospectuses. Issuers cannot use their own forecasts in U.S. prospectuses.

Table II-14 shows the extent of foreign stock listings on fourteen of the world's major stock exchanges at year-end 1986. With the exception of Milan, each of the exchanges had at least one non-domestic listing. The London Stock Exchange has the greatest number of U.S. companies listed on an exchange outside of the U.S. and the highest number of foreign listings of any

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84/ "Selling Equities to the World", Euromoney, op.cit., page 40.

85/ "Low Costs Attract," Financial Times (London), January 20, 1987.

Table II-14

DOMESTIC AND FOREIGN LISTED COMPANIES  
ON MAJOR STOCK EXCHANGES  
(Year-End)

<u>Exchange</u>	<u>Domestic Listings</u>		<u>Foreign Listings</u>		<u>Total Listings</u>	
	<u>1985</u>	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>	<u>1986</u>
American	731	747	51	49	783	796
Amsterdam	232	267	242	242	474	509
Australia <u>1/</u>	1,069	1,162	26	31	1,095	1,193
Brussels	192	191	144	140	336	331
Copenhagen	243	274	6	7	249	281
Germany <u>1/</u>	451	492	177	181	628	673
London	2,116	2,101	500	512	2,616	2,613
Luxembourg	N/A	253	N/A	168	N/A	421
Milan	147	184	0	0	147	184
New York	1,487	1,516	54	59	1,541	1,575
Paris	489	874	189	226	687	1,100
Singapore	122	122	194	195	316	317
Tokyo	1,476	1,499	21	52	1,497	1,551
Toronto	912	1,034	54	51	966	1,085
Zurich	131	145	184	194	315	339

1/ Reflects data for the Association of Australian and German stock exchanges which include all exchanges in their respective countries.

N.A. - Not available

Source: The London Stock Exchange Quarterly, The London Stock Exchange (various issues)

market. U.S. equity listings on the London Stock Exchange have increased from 73 in 1975 to 199 in 1986. 86/ For the three Benelux countries, 44 percent of the listed corporations are foreign companies, while the comparable figure for the Zurich Stock Exchange is 59 percent.

Trading of foreign shares has increased on many exchanges. On the London Stock Exchange, for example, trading activity in foreign equities has averaged approximately \$507 million per day since Big-Bang. Prior to October 27, 1986, this figure may have been as low as \$24 million per day. 87/ At the Tokyo Stock Exchange, between 1973 and 1984, annual trading in foreign equities averaged less than two million shares. In 1985, annual volume in foreign equities increased to 131 million, while trading during the first six months of 1986 equalled 185 million shares. 88/

Trading in foreign equity issues has also increased on the NYSE, from 804 million shares in 1984 to 1.2 billion shares in 1986. As a percent of total NYSE share volume, however, the

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86/ London Stock Exchange Quarterly, The London Stock Exchange (various issues).

87/ "Foreign Equities Make up Quarter of London Trades," Wall Street Journal, March 10, 1987, page 54. Due to the reporting standards that existed prior to October 27, 1986 the volume of foreign equities in London may have been greatly understated prior to Big-Bang.

88/ "The Nikko Prospectus on International Equities", Euromoney Supplement (November 1986), page 3.

amount attributable to foreign issues remained fairly constant during this period at approximately 3.5 percent.

These recent developments -- the increase in multinational stock listings and domestic trading of foreign equities -- have fostered interest in the development of a 24-hour global stock market. 89/ Both U.S. and foreign securities firms are responding to this trend. Many now have the ability to trade at any time of the day by having offices in New York, London, Tokyo and in other major financial centers.

In a global 24-hour trading environment, a firm's investment position may be adjusted on a continuous basis because the moment the market closes in one geographic location or time zone it opens in another. Twenty-four hour trading in an international market indicates a high level of market maturity. Very few markets have reached this level of development. The most international of markets today, by this measure, is the foreign currency market. Turnover in that market approaches \$200 billion a day. 90/ Likewise, some commodities are traded in a global 24-hour trading

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89/ As early as 1971, SEC Commissioner James J. Needham recognized the possibilities of developing a global 24-hour market in equity securities. See "Restructuring the Securities Industry," Remarks of James J. Needham, Commissioner, U.S. Securities and Exchange Commission, May 17, 1971. For a full discussion of global trading, see Chapter V.

90/ "What is Happening and Why," Richard A. Debs, Remarks presented at the Conference on the Globalization of Financial Markets, Egham, England, October 20, 1986.



environment, e.g., gold and oil. Secondary market trading in U.S. Treasury securities has recently emerged as the latest example of a fully developed international market where trading can be conducted on a 24-hour basis. In fact, the futures contracts on U.S. Treasury bonds are the most actively traded in the world with daily volume of roughly \$25 billion. 91/

Many professional traders believe that the Eurobond market will be next to develop to the level of a 24-hour worldwide trading market. This market has not reached that status; the reason may be because of restraints that inhibit transnational flows. An example is the constraint placed by U.S. law concerning the purchase of new Eurobond issues by U.S. citizens.

Although a secondary trading market in equities has the potential to emerge into a global market, at present it appears to be among the least developed global secondary markets when compared to the range of financial instruments that are of global investor interest. Today, investors are purchasing foreign equities at record levels but they are doing so primarily in the home market for the security. But, there is an emerging Euroequity market where the simultaneous issuance of new securities in more than one country is now commonplace. This is a development that could lead to a global trading market in equity securities.

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91/ Wall Street Journal, February 10, 1987, page 52.

Transnational trading linkages is another development that could lead to global 24-hour trading in equities. Over the last three years, there have been trading linkages involving three U.S. and two Canadian exchanges. <sup>92/</sup> To date, however, trading through means of U.S.-Canadian linkages has been limited. In 1986, the NASD and the London Stock Exchange began a transatlantic exchange of price quotations on about 600 issuers. The NASD is also planning to begin the exchange of quotations with the Stock Exchange of Singapore.

J. Internationalization of Portfolio Investment Flows

The recent surge in international portfolio investment reflects several important factors (see Table II-15). Among the most important are the increased interdependence of the world economies, regulatory liberalization in a number of important capital markets, the growth in institutional investors in the world's major industrialized countries, and the maturation of securities markets outside the U.S.

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<sup>92/</sup> The first linkage was established in 1984 between the Boston and Montreal Stock Exchanges. A second linkage between the American Stock Exchange ("ASE") and Toronto Stock Exchange commenced in 1985. The third linkage was initiated in early 1986 between the Toronto and Midwest Stock Exchanges. For a more complete discussion of the linkages between U.S. and foreign securities markets, see Chapter V. Also see Securities Exchange Act Release No. 21449 (November 1, 1984), 49 F.R. 44575; Securities Exchange Act Release No. 22442 (September 27, 1985), 50 FR 39201; and Securities Exchange Act Release No. 23075 (March 28, 1986), 51 FR 11854.

Table II-15

INTERNATIONAL TRANSACTIONS BY U.S.  
AND FOREIGN INVESTORS COMBINED  
(US \$ Billions)

<u>Year</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>
1975	\$ 29.3	\$ 37.0	\$ 66.3
1980	93.1	158.1	251.2
1981	94.4	192.0	286.4
1982	95.6	277.5	373.1
1983	164.4	376.9	541.3
1984	153.3	632.9	786.2
1985	204.7	1,292.6	1,497.3
1986	\$379.6	\$2,613.5	\$2,993.1

Note: Data includes both foreign activity (purchases and sales) in U.S. securities and U.S. activity (purchases and sales) in foreign securities.

Source: Treasury Bulletin (various issues)

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There has been a trend in Japan and in other countries toward a regulatory framework which facilitates the internationalization of portfolio investments. Japan has liberalized its regulation of cross-border investments in securities by allowing certain financial institutions, such as credit associations and agricultural corporations, to purchase foreign securities. In March 1986, the limit on foreign securities purchases by Japanese life insurance companies was raised from 20 percent to 40 percent of the monthly growth in assets. Similarly, the limit on foreign securities holdings was raised from 10 percent to 25 percent of total assets for trust bank pension funds. <sup>93/</sup> In April 1987,

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<sup>93/</sup> Financial Market Trends, Volume 34 (June 1986), op. cit.

Japanese financial institutions were authorized to trade in U.S. and other overseas financial futures and options markets. This will enable Japanese institutions to hedge their positions in securities that are denominated in U.S. dollars and other foreign currencies. 94/ These initiatives contributed to the six-fold increase in cross-border transactions involving Japanese securities between 1980 and 1985. 95/

U.S. investors also have increased their purchases of foreign stocks since the elimination of the interest equalization tax. In 1975 U.S. investors bought \$1.7 billion in foreign stocks (see Table II-16). 96/ By 1986 U.S. purchases of foreign stocks totaled a record \$51.7 billion. In a similar dramatic fashion, U.S. investors have increased their purchases of foreign debt securities from \$8.7 billion in 1975 to \$169.8 billion in 1986. Though U.S. investors sell their holdings of foreign

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94/ "Japan Authorizes Trading of Futures On Foreign Markets", The Asian Wall Street Journal Weekly, April 27, 1987.

95/ During 1980 foreign purchases and sales of Japanese securities (stocks and bonds) equalled Y10.5 trillion. During 1985 this figure increased to Y68.8 trillion. 1986 Fact Book, Tokyo Stock Exchange.

96/ The data presented on portfolio investment flows were obtained from various issues of the Treasury Bulletin prepared by the U.S. Department of the Treasury. These data include transactions in U.S. and foreign securities where a U.S. resident is on one side of the trade and a foreign resident is on the contra side of the trade. The data do not include transactions between two foreign residents in a U.S. security or transactions between two U.S. residents in a foreign security. (See International Capital Flows, Department of the Treasury).

Table II-16

INTERNATIONAL TRANSACTIONS IN U.S. AND FOREIGN  
CORPORATE STOCKS AND DEBT SECURITIES

(U.S. \$ Millions)

Corporate Stocks

<u>Year</u>	<u>Foreign Activity in U.S. Stocks</u>			<u>U.S. Activity in Foreign Stocks</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	15,355	10,678	4,677	1,730	1,542	-188
1980	40,298	34,870	5,428	10,044	7,897	-2,147
1981	40,686	34,856	5,830	9,586	9,339	-247
1982	41,881	37,981	3,900	8,504	7,163	-1,341
1983	69,770	64,360	5,410	17,046	13,281	-3,765
1984	59,834	62,814	-2,980	15,917	14,816	-1,101
1985	81,995	77,054	4,941	24,803	20,861	-3,942
1986	148,134	129,436	18,698	51,744	50,292	-1,452

All Debt Securities 1/

<u>Year</u>	<u>Foreign Activity in U.S. Debt Securities</u>			<u>U.S. Activity in Foreign Debt Securities</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	14,306	11,545	2,761	8,720	2,383	-6,337
1980	66,595	56,262	10,333	18,090	17,090	-1,000
1981	85,763	65,677	20,086	23,013	17,553	-5,460
1982	117,632	98,863	18,769	33,809	27,167	-6,642
1983	153,680	147,351	6,329	39,572	36,333	-3,239
1984	275,634	241,237	34,397	59,948	56,017	-3,931
1985	585,174	541,042	44,132	85,214	81,216	-3,998
1986	1,176,027	1,100,951	75,076	169,798	166,700	-3,098

1/ Data includes both corporate and governmental debt issues.

Source: U.S. Treasury Bulletin (various issues)

stocks and bonds in adjusting their portfolios, the net capital flow from U.S. transactions in foreign securities has been outbound in every year since 1975. In 1975 U.S. investors purchased \$6.3 billion more in foreign securities than they sold. In 1986 net purchases of foreign securities by U.S. investors amounted to \$4.5 billion.

Foreign investors' purchases of U.S. stocks and bonds has mirrored the growth of U.S. corporations' presence in overseas markets. Foreigners purchased \$15.4 billion of U.S. stocks and \$14.3 billion of U.S. debt securities in 1975. In 1986 foreign investors' purchases had increased to \$148.1 billion of U.S. stocks and \$1.2 trillion of U.S. debt instruments. The net capital flow from their purchases and sales of all U.S. securities has been inbound to the U.S. every year since 1975, increasing from \$7.4 billion in 1975 to \$93.7 billion in 1986.

Foreign activity in U.S. equity and debt securities reached record highs in 1986. Nevertheless, foreign activity in U.S. debt securities (primarily U.S. Treasury issues) is substantially greater than in U.S. equities. During 1986, 89 percent of the foreign activity in U.S. securities was attributable to transactions in debt securities. The most active foreign participants in the secondary market for U.S. debt securities are investors from Japan and the United Kingdom. Investors from these two countries accounted for 50 percent of the total foreign activity in U.S. debt securities during 1986.

These data, moreover, may underestimate the activity of Japanese investors in U.S. debt markets. This is partly because the recent worldwide expansion of Japanese securities firms, banks, and insurance companies makes it difficult to identify purchases by Japanese institutions that originate (or are held) outside of Japan. For example, according to U.S. sources Japanese net purchases of U.S. debt securities were approximately \$14 billion in 1986. But according to Japanese sources, net purchases of U.S. debt securities were over twice this amount, or approximately \$32 billion during 1986. 97/

Currency values play a significant role in investors' decisions to purchase foreign securities since currency valuations can dramatically effect rates of return. For example, from year-end 1984 to year-end 1986, the S&P 500 stock index increased by 45 percent. But measured in Japanese yen, the index actually declined, and measured in German marks, the S&P 500 remained virtually unchanged.

The recent drop in the U.S. dollar has decreased the relative price of U.S. equities to certain foreign investors. Since late 1985, the U.S. dollar has declined sharply in value against the domestic currencies of Japan, Switzerland, Germany, and more recently, against the British pound sterling. Investors from these

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97/ Are Japanese Investors Diversifying, by N. Sargin & K. Schoenholtz, Salomon Brothers, Inc., and Nomura Investment Review (April 1987), page 11.

four countries were among the five most active participant groups in the U.S. market during 1986. Although the U.S. dollar remained relatively constant against the Canadian dollar, the geographic proximity and familiarity with U.S. equities contributed to Canada's position as one of the more active participants in the U.S. equity market.

Total U.S. activity in foreign securities (purchases and sales) also reached a record high in 1986 of \$438.5 billion and represents a two-fold increase from 1985's record of \$212 billion. As with foreign activity in U.S. securities, U.S. investors' trading in both foreign stocks and bonds reached record levels in 1986.

U.S. activity in foreign securities has traditionally been concentrated in the debt and equity issues of the United Kingdom and Japan. The equity markets of Japan and the United Kingdom are, respectively, the second and third largest in the world. During 1986, U.S. transactions in the debt and equity securities of these two countries accounted for 67 percent of the total activity by U.S. investors in foreign debt and equity issues.

The growth in international portfolio investment has been driven in part by the institutionalization of the savings investment process. In particular, there has been a tremendous growth in private pension fund investments and in mutual funds that invest on a global basis. The data presented in Table II-17 indicate that on a country by country basis foreign investment by private sector pension funds increased as a percent of total fund assets between 1980 and 1986.



Table II-17

OVERVIEW OF FOREIGN INVESTMENT BY  
PRIVATE SECTOR PENSION FUNDS  
 (US \$ Millions)

<u>Country</u>	<u>Foreign Investment</u>		<u>Foreign Investment as Percent of Total Assets</u>	
	<u>1980</u>	<u>1986</u>	<u>1980</u>	<u>1986</u>
United States	\$ 3,300	\$45,000	1%	4%
United Kingdom	9,700	56,600	9	20
Japan	400	14,500	1	10
Canada	2,000	5,600	7	9
Netherlands	1,500	8,500	4	10
Switzerland	1,300	3,300	4	5
Germany	500	1,900	2	4
Australia	0	1,800	0	15
France	700	200	1	2
Rest of World	1,650	7,600	2%	4%
TOTAL	\$21,050	\$145,000		

Note: Estimated data converted at year-end exchange rates.

Source: InterSec Research Corporation

Foreign investment by U.S. private sector pension funds increased from an estimated \$3.3 billion in 1980 to approximately \$45.0 billion in 1986. Although a substantial increase, the percentage of assets invested by U.S. pension funds overseas is still small in relation to the foreign investments by pension funds in other countries. For example, in 1986, 20 percent of United Kingdom pension fund assets were invested in foreign securities. The \$56.6 billion of foreign investment by United Kingdom pension funds was the largest of any country. If U.S. pension

funds were to increase their foreign investments to the average for other industrialized nations (8.8 percent of their assets), an additional \$54 billion would be invested in foreign markets. 98/

K. Impact of Internationalization  
on U.S. Markets

There has been an international presence in the U.S. securities markets for at least a century. Strong investment ties have existed among the United Kingdom, Canada, and the U.S. and, more recently, the U.S., Japan and Western Europe. As noted above, there has been a dramatic increase in foreign portfolio investments in the U.S. and in U.S. investments in foreign securities markets. Part of the increase in U.S. portfolio investments in foreign markets reflects the trend in recent years for U.S. investors to purchase mutual funds and closed-end funds investing in foreign securities markets. These funds provide U.S. investors with another avenue into foreign securities markets as well as the diversification typically associated with mutual funds. The number of global mutual funds has increased from 21 in December 1983 to 59 in December 1986 (see Table II-18). The value of international fund sales also grew from \$1.5 billion in 1984 to \$7.6 billion during 1986. In addition to these global funds, there are about twelve U.S. exchange-listed closed-end country

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98/ This would also mean that the total U.S. pension fund investments (\$99 billion) would exceed the equity market capitalization of either Australia or the Netherlands (see Table II-2).

Table II-18

OVERVIEW OF GLOBAL MUTUAL FUNDS  
(U.S. \$ Billions)

<u>Year</u>	<u>Number of Funds</u>	<u>Global Fund Assets</u>	<u>Global Fund Sales</u>
1983	21	\$ 3.5	\$ NA
1984	30	5.2	1.5
1985	42	7.9	1.8
1986	59	\$15.9	\$7.6

Source: Investment Company Institute

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funds investing in the securities of the emerging markets of Korea, Taiwan and Mexico as well as the developed markets such as France, Australia, Germany and Japan. The price performance of these closed-end funds investing in the securities markets of a specific foreign country varies considerably depending upon economic conditions in the home country as well as changes in currency values relative to the U.S. dollar.

Single country closed-end funds are a relatively new investment vehicle. The number of country funds grew from two in 1982 to eleven in 1986. 99/ The dollar volume of shares traded

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99/ The two closed-end country funds that were listed on U.S. exchanges prior to 1983 were the Japan Fund and the Mexico Fund. During 1983-1986, nine additional country funds were brought to the market through public offerings registered with the Commission. These funds invest in the securities of Australia (three funds), Taiwan, Korea, Sweden, Italy, Germany and France. On May 8, 1987, trading commenced on the NYSE in the newest closed-end country fund, the Malaysia Fund.

increased 17-fold from \$75.9 million in 1982 to \$1.3 billion in 1986. The rapid growth of mutual and closed-end funds investing internationally may be viewed as another indicator of strong U.S. investor interest in participating in foreign securities markets. Similar developments in London and in other overseas financial centers are another indicator of the internationalization of the world's securities markets.

An increase in U.S. demand for foreign securities is also evidenced by the number of foreign companies with securities traded through NASDAQ or on exchanges in the form of ADRs (see note 103, infra). Between 1982 and 1986 the number of ADRs traded through NASDAQ or on a stock exchange increased from 85 to 110. 100/ Most ADRs are traded through NASDAQ. In addition, there are several hundred more ADRs traded over-the-counter outside of NASDAQ. There also has been a substantial increase in the total number of ADR shares. Ten years ago there were roughly 150 million such shares outstanding in the U.S. In 1986, there were 2.4 billion shares outstanding; this represents a 16-fold increase over the past decade. 101/

Despite the growth of foreign stocks traded through ADRs there has been a decline in the number of foreign securities

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100/ ADRs: The Preferred Way to Trade," National Association of Securities Dealers (Washington, D.C. 1986).

101/ "Banks' Depository Receipt Business Sees Boom," American Banker, December 31, 1986, page 1.

listed on U.S. exchanges. In 1976 there were 175 foreign bond issues listed on U.S. exchanges. Ten years later there were 105 issues (see Table II-19). The number of foreign stocks (including ADRs) listed on U.S. exchanges increased only slightly from 115 in 1976 to 123 in 1986. The U.S. stock markets have not kept pace with other stock markets around the world in attracting foreign listings. As noted earlier, the Commission recently approved modifications to the American and NYSE listing standards. This may facilitate foreign listings in the U.S.

The U.S. domestic market has not kept pace with the trend toward internationalization in terms of the amount of capital raised in the U.S. securities market by foreigners. Throughout the last ten years, Yankee securities (foreign issues of stocks and bonds in the U.S.) registered with the SEC have remained generally in the four to six billion dollar range. Also, the number of foreign equity issues traded on U.S. exchanges has remained fairly constant. In 1977 there were 116 such issues. Ten years later there were 123. Foreign bonds traded on the U.S. exchanges have declined from 175 in 1977 to 105 in 1986.

A closer look at the Yankee securities markets shows how U.S. participation in the internationalization process has been uneven. The annual issuance of foreign securities registered with the SEC has not kept pace with the growth in international markets in debt and equity securities. While the issuance of foreign securities in the U.S. has not declined in nominal terms,

Table II-19

DOMESTIC AND FOREIGN SECURITIES  
LISTED ON U.S. EXCHANGES  
(Number of Issues)

Year	Equity		Bonds		Total	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
1976	3,746	116	2,923	175	6,669	291
1977	3,559	115	-	-	3,771	-
1978	3,459	106	2,961	177	6,420	283
1979	3,377	96	3,190	174	6,567	270
1980	3,557	99	3,350	157	6,907	256
1981	3,498	103	3,405	148	6,903	251
1982	3,530	103	3,579	134	7,109	237
1983	3,484	111	3,831	128	7,315	239
1984	3,421	114	4,043	121	7,464	235
1985	3,374	113	4,215	117	7,589	230
1986	3,360	123	4,002	105	7,362	228

Source: Directorate of Economic and Policy Analysis  
Securities and Exchange Commission

it has declined in relative terms. In 1977 registered public offerings of foreign issues in the U.S. represented 13 percent of the dollar volume of our public new issues market (see Table II-20). In 1986 that portion dropped to three percent.

It is important to point out that foreign government debt represents by far the largest portion of capital raised by foreign entities in the U.S. securities market. In 1977 foreign governments accounted for 90 percent of capital raised through foreign public offerings registered with the SEC. By 1986 the figure had declined but still represented 64 percent of the

Table II-20

DOMESTIC CORPORATE FOREIGN ISSUES  
REGISTERED AND OFFERED IN THE U.S.  
 (1977 - 1986)

Year	Domestic and Foreign Issues Combined (\$billions)	Foreign Issues	
		Total (\$billions)	Percent of Domestic and Foreign Combined
1977	\$ 36.5	\$4.7	13%
1978	32.9	4.4	13
1979	40.4	5.2	13
1980	67.4	4.3	6
1981	67.7	4.4	6
1982	74.6	2.5	3
1983	104.0	4.1	4
1984	89.2	4.3	5
1985	132.9	5.6	4
1986	\$228.4	\$6.4	3%

Note: The U.S. issues are corporate debt and business equity issues. The foreign issues also include government debt offerings. Cash offerings are included while secondary and exchange offerings are excluded. Also note that the OECD figures on foreign new issues in the U.S. reported in Table 8 differ somewhat from those in this table. The difference is accounted for by the OECD including certain private placements and exempt offerings while under-reporting registered issues in some years.

Source: Directorate of Economic and Policy Analysis  
 Securities and Exchange Commission

total. The remainder of the market has fluctuated between corporate debt and equity. In 1986 equity accounted for 26 percent and corporate debt for 10 percent of total foreign offerings. <sup>102/</sup>

Canada is by far the most frequent user of the Yankee securities market. Canadian disclosure and accounting standards are

<sup>102/</sup> See Appendix Tables II-O and II-P for further details on registered foreign offerings in the U.S. primary market.

similar to those of the U.S., making it easier for Canadian entities to raise capital in the U.S. Canadian issuers accounted for roughly half of all foreign debt and equity offerings during the ten-year period ending in 1986 (see Table II-21). With regard to corporate debt offerings, Japan had the next highest number (9) after Canada (36). With regard to equity offerings, Bermuda with 29 was second to Canada with 277. For government debt, Sweden (13 issues) was next after Canada (70 issues) over this ten-year period.

Another aspect of the Yankee securities markets is the extent of secondary market trading in foreign securities. Table II-22 shows the number of ADRs registered for trading in the U.S. 103/ The number registered has fluctuated considerably over the last ten years but generally increased in the last three years. In 1981 there were 106 ADRs newly registered with the Commission. In 1982 only 45 were registered. The number rose to 288 registrations in 1985 then dropped to 204 in 1986. Many of these ADRs, however, are the registrations of additional shares of issues already traded in the U.S. Some of the ADR registrations represent the introduction of new foreign issues into the U.S. market. The leading sources of ADRs over the last 10 years have

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103/ American Depositary Receipts are negotiable certificates created by transfer agents and U.S. banks to facilitate trading of foreign securities. Dividend distributions and other transfer agent and custodial functions are conducted by the U.S. bank or intermediaries.



Table II-21

FOREIGN SECURITIES REGISTERED IN THE U.S. BY  
ISSUER'S COUNTRY OF ORIGIN: 1977-1986 COMBINED  
(Number of Registrations)

	<u>Corporate Debt</u>	<u>Corporate/ Business Equity</u>	<u>Government Debt</u>	<u>ADRs</u>	<u>Total</u>
<u>Africa, Middle East</u>					
South Africa	1	3	-	142	146
Israel	3	21	9	3	36
All Others	-	-	-	4	4
<u>Asia</u>					
Japan	9	10	6	149	174
Hong Kong	-	2	-	69	71
Singapore	-	-	-	25	25
All Others	-	1	3	7	11
<u>Caribbean, Central and South America</u>					
Bermuda	1	29	-	8	38
Netherland Antilles	1	11	-	2	14
Bahamas	-	11	-	1	12
All Others	1	21	3	3	28
<u>Europe, Australia</u>					
Australia	4	3	4	308	319
United Kingdom	2	23	1	174	200
Sweden	1	5	13	19	38
W. Germany	-	-	-	34	34
France	-	4	11	16	31
All Others	6	35	41	51	133
<u>North America</u>					
Canada	36	277	70	9	392
Mexico	1	3	2	8	14
	66	459	163	1,032	1,720

Source: Directorate of Economic and Policy Analysis  
Securities and Exchange Commission

Table II-22

TYPES OF FOREIGN SECURITIES REGISTERED  
WITH THE SEC: 1977-1986

(Number of Issues)

	<u>Corporate Debt</u>	<u>Corporate/ Business Equity</u>	<u>Government Debt</u>	<u>ADRs</u>	<u>Total</u>
1977	1	22	34	35	92
1978	2	21	19	31	73
1979	4	29	18	58	109
1980	8	49	9	66	132
1981	15	48	26	106	195
1982	6	32	17	45	100
1983	12	84	15	60	171
1984	3	44	9	139	195
1985	6	80	5	288	379
1986	9	50	11	204	274

Source: Directorate of Economic and Policy Analysis  
Securities and Exchange Commission

been Australia (308 registrations), the United Kingdom (174), Japan (149), and South Africa (142) (see Table II-21).

The trend towards internationalization is also evident in international acquisitions of U.S. and foreign corporations (see Table II-23). U.S. acquisitions of foreign companies reached a record 180 in 1986, and the disclosed dollar value of these acquisitions also reached a record \$5.2 billion. Similarly, the number of foreign acquisitions of U.S. companies reached a high of 264, while the disclosed dollar volume of these transactions equalled \$24.5 billion.

Table II-23

INTERNATIONAL ACQUISITIONS OF U.S.  
AND FOREIGN COMPANIES  
(U.S. \$ Billions)

<u>Year</u>	<u>Foreign Acquisitions of U.S. Companies</u>		<u>U.S. Acquisitions of Foreign Companies</u>	
	<u>Number</u>	<u>Dollar Value</u>	<u>Number</u>	<u>Dollar Value</u>
1975	184	\$ 1.6	178	\$ 0.4
1980	187	7.1	102	3.8
1981	234	18.8	101	1.1
1982	154	5.1	121	0.8
1983	125	5.9	146	2.5
1984	151	15.1	147	2.6
1985	197	10.9	175	1.5
1986	264	\$24.5	180	5.2

Note: This data must be interpreted with care. The dollar value of transactions is based upon those transactions that disclosed a purchase price, not the total number of transactions reported in the above table.

Source: Mergerstat Review, The W.T. Grimm & Co.

Another example of the impact of internationalization on U.S. corporations is the extent to which they now conduct overseas bond financing. U.S. corporations raised \$5.8 billion through international bonds and \$41.9 billion in registered domestic bond offerings in 1980. The international bonds represented 12 percent of the total \$47.7 billion raised in the two markets. By 1986 international bond financing rose to \$44 billion while domestic registered bond financing was \$157 billion.

Thus in 1986 international bonds rose to 22 percent of the total capital raised in these two markets by U.S. issuers. 104/

L. Future Prospects

The internationalization of the world's securities markets presents new challenges and opportunities for the U.S. securities markets and its regulators. In recent years the international financial landscape has changed in response to economic, institutional, technological, and regulatory forces. While the future cannot be predicted with any degree of certainty, it does appear that the securities markets are likely to maintain their global character in the years ahead.

During the 1980's the world's capital markets became more interdependent. At the same time, the securities markets assumed a larger role in the international capital market. This was due in part to favorable economic conditions and regulatory liberalizations, such as the elimination of exchange controls in Japan and the United Kingdom, that contributed to the expansion of both domestic and international securities markets around the world. Technology also played a role in this process. In a very real sense, the world is getting smaller due to improvements in technology and reduced information costs.

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104/ Appendix Tables II-A to II-B and II-C provide information on international financing by issuers country of origin.

The U.S. markets have played a large role in shaping global trends in securities. In particular, the U.S. markets are highly competitive and innovative. They remain the largest, most sophisticated in the world with the widest range of financial products available to market participants.

The U.S. regulatory structure also appears to have had an impact on other major capital markets around the world. The reductions in transactions costs associated with the deregulation of commission rates in the U.S. exerted pressure on other markets. The benefits that result from vigorous competition have not gone unnoticed in other financial centers. Regulatory restructuring is now occurring in the capital markets of, among others, the United Kingdom, Canada, Japan, and France.

Looking back, the 1960's may be characterized as the decade when the internationalization of the securities markets began its latest phase. The 1970's may be viewed as the decade when the U.S. securities markets entered into a major restructuring, some of which resulted from the Securities Acts Amendments of 1975. This restructuring, the increased competition, and the financial innovation in the U.S. during this decade helped influence the character and pace of regulatory changes in other securities markets.

The 1980's may be viewed as a decade of rapid growth for international transactions in securities and a time when many other financial centers undertook major restructuring of their

markets. Regulatory liberalization resulted in increased competition in domestic financial markets and permitted greater foreign participation which accelerated the process of internationalization. The 1990's may present opportunities for further growth and integration of international securities markets and the challenge to develop a global regulatory framework that preserves the efficiencies associated with international capital mobility.

Appendix Table II-A

EUROBOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 268	\$ 4,395	\$ 6,110	\$13,049	\$ 6,114	\$21,491	\$ 36,348	\$ 38,643
Japan	1,133	1,746	4,625	4,584	6,953	11,002	14,897	25,351
United Kingdom	176	1,520	1,229	1,090	1,525	4,736	14,987	18,538
Canada	870	1,412	5,533	6,958	3,866	4,488	6,980	13,640
Germany	87	*	110	1,304	2,451	1,661	3,063	10,184
Australia	356	201	320	587	1,201	2,182	3,680	7,819
Switzerland	139	355	*	600	845	496	864	1,947
France	1,231	1,754	2,278	6,917	6,103	7,020	10,240	12,510
Italy	17	979	1,110	836	1,204	3,588	4,993	4,842
Netherlands	438	914	294	759	1,112	1,034	1,159	2,725
Other OECD	3,306	5,246	4,672	7,436	14,223	18,056	25,743	42,646
Oil Exporters	50	132	200	470	338	425	650	420
Non-oil LDCs	179	1,018	2,945	3,156	1,660	2,252	5,720	2,517
Eastern Europe	141	50	50	*	*	*	408	291
Other Countries	333	172	250	316	646	826	1,388	924
International Development Banks	19	500	1,568	2,267	1,857	2,460	4,311	3,955
<b>TOTAL</b>	<b>\$8,743</b>	<b>\$20,394</b>	<b>\$31,294</b>	<b>\$50,329</b>	<b>\$50,098</b>	<b>\$81,717</b>	<b>\$135,431</b>	<b>\$186,952</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. "Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)

Appendix Table II-B

FOREIGN BOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 142	\$ 1,369	\$ 697	\$ 1,787	\$ 1,241	\$ 1,462	\$ 3,195	\$ 5,022
Japan	482	2,043	2,096	3,687	6,678	6,035	6,203	9,020
United Kingdom	300	66	156	187	553	261	266	872
Canada	3,534	1,744	5,448	4,442	2,908	1,761	2,505	2,757
Germany	140	157	133	97	470	403	105	951
Australia	327	236	343	1,357	1,085	1,117	2,023	2,463
Switzerland	31	*	*	*	*	88	*	*
France	595	679	841	1,278	1,231	1,524	1,185	893
Italy	44	102	101	187	255	131	259	587
Netherlands	241	212	478	112	74	97	392	545
Other OECD	2,713	7,219	5,550	6,377	6,942	8,141	6,515	9,449
Oil Exporters	18	46	242	71	78	107	134	36
Non-Oil LDCs	466	507	878	451	549	834	1,417	1,467
Eastern Europe	*	*	*	*	*	41	39	*
Other Countries	106	193	108	177	268	396	165	127
International Development Banks	2,078	3,351	3,443	4,989	4,718	5,403	6,622	4,252
<b>TOTAL</b>	<b>\$11,217</b>	<b>\$17,924</b>	<b>\$20,514</b>	<b>\$25,199</b>	<b>\$27,050</b>	<b>\$27,801</b>	<b>\$31,025</b>	<b>\$38,441</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. "Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)



Appendix Table II-C

INTERNATIONAL BOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 410	\$ 5,764	\$ 6,807	\$14,836	\$ 7,355	\$ 22,953	\$ 39,543	\$ 43,665
Japan	1,615	3,789	6,721	8,271	13,631	17,037	21,100	34,371
United Kingdom	476	1,586	1,385	1,277	2,078	4,997	15,253	19,410
Canada	4,404	3,156	10,981	11,400	6,774	6,249	9,485	16,397
Germany	227	157	243	1,401	2,921	2,064	3,168	11,135
Australia	683	437	663	1,944	2,285	3,299	5,703	10,282
Switzerland	170	355	*	600	845	584	864	1,947
France	1,826	2,433	3,119	8,195	7,334	8,544	11,425	13,403
Italy	61	1,081	1,211	1,023	1,459	3,719	5,252	5,429
Netherlands	679	1,126	772	871	1,186	1,131	1,551	3,270
Other OECD	6,019	12,465	10,222	13,813	21,165	26,197	32,258	52,095
Oil Exporters	68	178	442	541	416	532	784	456
Non-oil LDCs	645	1,525	3,823	3,607	2,209	3,086	7,137	3,984
Eastern Europe	141	50	50	*	*	41	447	291
Other Countries	439	365	358	493	915	1,222	1,553	1,051
International Development Banks	2,097	3,851	5,011	7,256	6,575	7,863	10,933	8,207
<b>TOTAL</b>	<b>\$19,960</b>	<b>\$38,318</b>	<b>\$51,808</b>	<b>\$75,528</b>	<b>\$77,148</b>	<b>\$109,518</b>	<b>\$166,456</b>	<b>\$225,393</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. Data includes both Eurobonds and foreign bonds.  
"Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)

Appendix Table II-D

MARKET SHARE OF LEAD MANAGERS IN THE EUROBOND AND EUROEQUITY MARKETS  
(U.S. \$ Billions)

Eurobond Market

<u>Lead Managers</u>	<u>1986</u>			<u>1985</u>		
	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>
Largest	\$ 19.8	10.8%	102	\$19.2	14.3%	103
Top 5	65.9	36.0	475	43.0	31.9	344
Top 10	101.1	55.3	763	70.5	52.4	612
Top 20	\$135.3	74.1%	1,072	\$95.8	71.3%	860

Euroequity Market

<u>Lead Managers</u>	<u>1986</u>			<u>1985</u>		
	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>
Largest	\$ 2.7	19.2%	6	\$ 1.8	37.8%	2
Top 5	8.1	57.7	55	4.0	85.9	30
Top 10	11.1	79.4	102	4.5	96.1	37
Top 20	\$ 14.0	97.0%	132	\$ 4.6	99.9%	49

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SOURCES: Institutional Investor (various issues),  
London Financial Times, January 5, 1987

Appendix Table II-E

PERFORMANCE OF STOCK PRICE INDICES IN TEN MAJOR COUNTRIES

Index Value in Local Currency

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	50.71	59.57	69.38	69.75	88.25	100.00
Japan	35.16	36.83	45.55	57.25	64.96	100.00
Germany	32.10	36.65	50.27	54.83	95.37	100.00
Canada	62.07	62.60	81.36	79.39	94.37	100.00
United Kingdom	38.03	46.95	57.90	71.99	82.79	100.00
Italy	21.19	18.52	22.44	28.41	57.56	100.00
Switzerland	43.76	47.62	58.79	59.17	91.02	100.00
France	25.14	25.88	40.68	47.54	67.99	100.00
Netherlands	35.66	41.21	62.41	76.53	96.54	100.00
Australia	42.87	34.96	56.32	50.14	70.66	100.00

Index Value in U.S. Dollars

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	50.71	59.57	69.38	69.75	88.25	100.00
Japan	25.34	24.85	31.12	36.08	51.32	100.00
Germany	27.63	29.71	35.47	33.43	74.93	100.00
Canada	72.26	70.31	90.24	82.94	93.20	100.00
United Kingdom	49.10	51.29	56.26	56.32	80.75	100.00
Italy	23.75	18.24	18.09	19.72	46.14	100.00
Switzerland	39.82	38.58	43.95	37.18	71.22	100.00
France	28.32	24.60	31.23	31.59	57.72	100.00
Netherlands	31.92	34.48	45.00	47.45	76.71	100.00
Australia	72.74	51.64	76.33	62.26	72.49	100.00

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NOTE: The indices used are the "Financial Times-Actuaries World Indices."  
The numbers represent end of year values with 1986 = 100.

SOURCE: World Equity Market Results, 1981-1986, Goldman Sachs  
International Research

Appendix Table II-F

ANNUAL RATES OF RETURN OF STOCK PRICE INDICES  
IN TEN MAJOR COUNTRIES  

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(In Percent)

Return Value in Local Currency

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	-8.94%	17.83%	15.78%	1.49%	24.49%	14.04%
Japan	19.15	5.33	21.73	25.09	13.22	46.05
Germany	-0.81	13.78	33.53	9.60	58.07	6.97
Canada	-12.98	3.74	27.54	-1.55	18.08	6.32
United Kingdom	9.67	21.85	21.68	23.51	14.92	20.25
Italy	14.53	-12.04	20.94	26.07	73.52	64.42
Switzerland	-13.80	9.11	21.62	1.06	44.82	10.93
France	-17.85	4.19	46.42	17.34	38.13	41.94
Netherlands	-5.25	15.68	43.58	23.55	24.07	4.66
Australia	-21.16%	-18.13%	51.27%	-9.83%	35.58%	36.68%

Return Value in U.S. Dollars

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	-8.95%	17.83%	15.78%	1.47%	24.50%	14.05%
Japan	11.75	1.48	23.27	18.15	36.43	72.37
Germany	-12.66	8.59	20.14	-4.93	84.98	33.92
Canada	-11.75	1.31	26.32	-7.28	12.47	7.74
United Kingdom	-11.17	5.20	10.63	1.44	39.16	24.26
Italy	-12.52	-24.16	0.62	11.07	88.96	88.33
Switzerland	-12.47	-1.26	13.49	-15.68	68.35	36.37
France	-38.20	-11.11	24.32	2.62	63.81	60.73
Netherlands	-18.99	9.92	28.32	7.87	49.88	27.91
Australia	-24.49%	-31.06%	43.09%	-17.80%	18.01%	37.74%

NOTE: Values for the annual rate of return are derived from the "Financial Times-Actuaries World Indices."

SOURCE: World Equity Market Results, 1981-1986, Goldman Sachs International Research

Appendix Table II-G

TRADING VOLUME AND TURNOVER OF WORLD'S MAJOR STOCK MARKETS

Trading Volume (U.S. \$ Billions)

<u>Country</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$166	\$226	\$272	\$410	\$416	\$508	\$797	\$786	\$997	\$1374
Japan	90	168	145	161	224	147	231	285	388	1001
United Kingdom	19	20	27	36	33	33	43	48	76	230
Germany	13	19	15	15	14	14	33	30	84	150
Canada	5	9	16	25	21	14	24	20	32	64
Switzerland	56	62	70	79	75	N.A.	127	131	215	340
France	3	10	10	10	8	7	8	8	17	69
Australia	1	1	5	5	8	5	9	11	15	26
Netherlands	8	10	9	5	4	5	10	12	20	67
Italy	\$ 1	\$ 2	\$ 4	\$ 9	\$ 11	\$ 3	\$ 4	\$ 4	\$ 14	\$ 49

Turnover: Dollar Volume as Percent of Capitalization

<u>Country</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	.20	.26	.27	.33	.37	.39	.50	.50	.49	.62
Japan	.42	.49	.50	.42	.54	.35	.42	.44	.41	.56
United Kingdom	.16	.16	.18	.18	.17	.17	.19	.20	.21	.46
Germany	.20	.23	.19	.21	.22	.20	.40	.38	.47	.65
Canada	.09	.13	.17	.21	.20	.14	.17	.15	.20	.34
Switzerland	1.87	1.63	1.63	1.84	1.97	N.A.	2.89	3.28	2.56	2.67
France	.11	.22	.18	.18	.21	.23	.21	.20	.22	.46
Australia	.05	.04	.13	.08	.15	.12	.15	.22	.25	.22
Netherlands	.35	.37	.31	.17	.17	.19	.29	.34	.34	.81
Italy	.17	.20	.31	.36	.46	.15	.19	.15	.24	.35

N.A. - Not Available

SOURCE: Goldman Sachs International Investment Research, September 1986; International Equity Analysis, June 1987, Salomon Brothers Inc.

## Appendix Table II-H

FOREIGN EXCHANGE RATES: CURRENCIES PER U.S. DOLLAR  
(Average per Quarter)

	<u>Australia</u>	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>	<u>Japan</u>	<u>Nether- lands</u>	<u>Switzer- land</u>	<u>United Kingdom</u>
1980 Q1	0.91	1.16	4.15	1.77	824.80	243.54	1.95	1.66	0.44
Q2	0.89	1.17	4.21	1.81	851.50	232.69	1.99	1.68	0.44
Q3	0.86	1.16	4.12	1.78	843.50	220.08	1.94	1.63	0.42
Q4	0.85	1.18	4.42	1.91	906.10	210.65	2.07	1.72	0.42
1981 Q1	0.86	1.19	4.86	2.09	1,001.40	205.57	2.28	1.90	0.43
Q2	0.88	1.19	5.42	2.28	1,134.10	220.00	2.53	2.03	0.48
Q3	0.88	1.21	5.81	2.43	1,215.40	231.89	2.70	2.10	0.54
Q4	0.88	1.19	5.65	2.24	1,196.20	224.68	2.47	1.83	0.53
1982 Q1	0.92	1.21	5.99	2.35	1,261.80	223.49	2.58	1.87	0.54
Q2	0.95	1.24	6.28	2.38	1,319.30	244.15	2.64	1.99	0.56
Q3	1.02	1.25	6.94	2.48	1,393.60	258.86	2.73	2.11	0.58
Q4	1.05	1.23	7.07	2.50	1,435.20	259.68	2.74	2.14	0.61
1983 Q1	1.06	1.23	6.89	2.41	1,399.40	235.74	2.66	2.02	0.65
Q2	1.06	1.23	7.47	2.48	1,477.50	237.53	2.79	2.08	0.64
Q3	1.14	1.23	7.96	2.64	1,573.70	242.53	2.96	2.15	0.66
Q4	1.10	1.24	8.17	2.68	1,624.80	234.24	3.00	2.16	0.68
1984 Q1	1.08	1.26	8.31	2.70	1,662.40	231.01	3.05	2.20	0.70
Q2	1.11	1.29	8.33	2.71	1,675.40	229.61	3.05	2.25	0.72
Q3	1.19	1.31	8.96	2.92	1,799.50	243.46	3.29	2.44	0.77
Q4	1.18	1.32	9.36	3.05	1,890.50	246.02	3.45	2.51	0.82
1985 Q1	1.33	1.35	9.96	3.26	2,021.10	257.68	3.68	2.76	0.90
Q2	1.49	1.37	9.41	3.09	1,970.70	250.73	3.49	2.59	0.80
Q3	1.43	1.36	8.69	2.85	1,895.60	238.64	3.21	2.35	0.73
Q4	1.45	1.38	7.89	2.58	1,750.30	207.09	2.91	2.13	0.70
1986 Q1	1.43	1.40	7.21	2.35	1,598.20	187.88	2.65	1.98	0.69
Q2	1.40	1.38	7.15	2.25	1,539.00	170.13	2.53	1.87	0.66
Q3	1.61	1.39	6.78	2.09	1,435.80	155.77	2.35	1.69	0.67
Q4	1.54	1.38	6.57	2.01	1,390.20	160.29	2.27	1.66	0.70

NOTE: Currencies reflect average values per U.S. dollar during the quarter. Local currencies used are as follows: Australian dollar, Canadian dollar, French Franc, German Mark, Italian Lira, Japanese Yen, Dutch Guilder, Swiss Franc and British Pound.

SOURCE: International Financial Statistics (various issues)  
International Monetary Fund

## Appendix Table II-I

INTERNATIONAL PORTFOLIO INVESTMENT TRENDS  
(U.S. \$ Billions)

<u>Year</u>	<u>Foreign Purchases and Sales of U.S. Securities</u>			<u>U.S. Purchases and Sales of Foreign Securities</u>		
	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>
1975	\$ 26.0	\$ 25.9	\$ 51.9	\$ 3.3	\$ 11.1	\$ 14.4
1976	33.7	53.0	86.7	4.2	18.6	22.8
1977	25.6	65.2	90.8	4.9	21.2	26.1
1978	37.9	73.7	111.6	6.8	26.4	33.2
1979	43.9	96.3	140.2	10.1	29.3	39.4
1980	75.2	122.9	198.1	17.9	35.2	53.1
1981	75.5	151.4	227.0	18.9	40.6	59.5
1982	79.9	216.5	296.4	15.7	61.0	76.6
1983	134.1	301.0	435.1	30.3	75.9	106.2
1984	122.6	516.9	639.5	30.7	116.0	146.7
1985	159.0	1,126.2	1,285.2	45.7	166.4	212.1
1986	\$277.6	\$2,277.0	\$2,554.6	\$102.0	\$336.5	\$438.5

SOURCE: U.S. Treasury Bulletin (various issues)

## Appendix Table II-J

INTERNATIONAL TRANSACTIONS IN U.S. AND FOREIGN DEBT SECURITIES  
(U.S. \$ Millions)

<u>Year</u>	<u>Foreign Activity in U.S. Debt Securities</u>			<u>U.S. Activity in Foreign Debt Securities</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	\$ 14,306	\$ 11,545	\$ 2,761	\$ 8,720	\$ 2,383	\$-6,337
1976	31,139	21,841	9,298	13,706	4,932	-8,774
1977	46,574	18,666	27,908	13,136	8,040	-5,096
1978	40,347	33,339	7,008	15,326	11,101	-4,225
1979	50,138	46,136	4,002	16,660	12,662	-3,998
1980	66,595	56,262	10,333	18,090	17,090	-1,000
1981	85,763	65,677	20,086	23,013	17,553	-5,460
1982	117,632	98,863	18,769	33,809	27,167	-6,642
1983	153,680	147,351	6,329	39,572	36,333	-3,239
1984	275,634	241,237	34,397	59,948	56,017	-3,931
1985	585,174	541,042	44,132	85,214	81,216	-3,998
1986	\$1,176,027	\$1,100,951	\$75,076	\$169,798	\$166,700	\$-3,098

SOURCE: U.S. Treasury Bulletin (various issues)



Appendix Table II-K

INTERNATIONAL TRANSACTIONS IN U.S. AND FOREIGN CORPORATE STOCKS  
(U.S. \$ Millions)

<u>Year</u>	<u>Foreign Activity in U.S. Stocks</u>			<u>U.S. Activity in Foreign Stocks</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	\$ 15,355	\$ 10,678	\$ 4,677	\$ 1,730	\$ 1,542	\$ -188
1976	18,227	15,475	2,752	2,259	1,937	-322
1977	14,154	11,479	2,675	2,665	2,255	-410
1978	20,145	17,723	2,422	3,139	3,666	527
1979	22,783	21,104	1,679	5,434	4,617	-817
1980	40,298	34,870	5,428	10,044	7,897	-2,147
1981	40,686	34,856	5,830	9,586	9,339	-247
1982	41,881	37,981	3,900	8,504	7,163	-1,341
1983	69,770	64,360	5,410	17,046	13,281	-3,765
1984	59,834	62,814	-2,980	15,917	14,816	-1,101
1985	81,995	77,054	4,941	24,803	20,861	-3,942
1986	\$148,134	\$129,436	\$18,698	\$51,744	\$50,292	\$-1,452

SOURCE: U.S. Treasury Bulletin (various issue)

Appendix Table II-L

INTERNATIONAL TRANSACTIONS IN DEBT SECURITIES BY COUNTRY  
(U.S. \$ Millions)

<u>Foreign Activity in U.S. Debt Securities</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 14,339	\$ 18,125	\$ 34,205	\$ 185,295	\$ 618,828
United Kingdom	51,195	57,619	112,784	249,148	531,954
Germany	19,377	17,108	29,951	39,164	68,130
Canada	3,649	8,706	22,805	44,874	80,111
Switzerland	5,552	8,201	11,544	25,278	59,593
France	4,060	5,295	8,972	13,514	22,779
Italy	52	93	161	336	1,208
Australia	62	250	674	5,524	8,938
Netherlands	7,383	9,364	10,409	11,250	22,862
All Other	110,826	176,270	285,366	551,833	862,575
Total	\$216,495	\$301,031	\$516,871	\$1,126,216	\$2,276,978

<u>U.S. Activity in Foreign Debt Securities</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$10,739	\$10,747	\$ 24,253	\$ 33,852	\$ 84,976
United Kingdom	22,473	33,650	52,492	72,652	150,782
Germany	1,197	919	1,623	3,210	12,891
Canada	7,084	7,589	8,734	12,624	16,529
Switzerland	1,414	2,056	2,803	2,751	4,842
France	2,033	2,356	3,140	2,866	4,764
Italy	50	49	94	214	539
Australia	442	945	190	549	2,711
Netherlands	298	461	530	594	1,466
All Other	15,246	17,133	22,106	37,118	56,998
Total	\$60,976	\$75,905	\$115,965	\$166,430	\$336,498

NOTE: Data includes both purchases and sales.

SOURCE: U.S. Treasury Bulletin (various issues)

## Appendix Table II-M

INTERNATIONAL TRANSACTIONS IN CORPORATE STOCK BY COUNTRY  
(U.S. \$ Millions)

<u>Country</u>	<u>Foreign Activity in U.S. Stocks</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 1,991	\$ 3,257	\$ 2,748	\$ 7,805	\$ 27,003
United Kingdom	18,785	28,206	27,516	37,622	64,584
Germany	3,382	7,536	6,163	6,136	10,659
Canada	10,033	16,423	16,752	22,141	34,575
Switzerland	14,214	26,192	20,052	21,605	36,982
France	5,010	7,990	5,658	6,041	9,581
Italy	171	250	162	269	987
Australia	323	848	834	1,364	3,087
Netherlands	2,083	4,030	3,457	3,956	6,245
All Other	23,870	39,398	39,306	52,110	83,866
Total	\$79,862	\$134,130	\$122,648	\$159,049	\$277,570

<u>Country</u>	<u>U.S. Activity in Foreign Stocks</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 4,331	\$ 8,244	\$ 9,099	\$11,584	\$ 28,175
United Kingdom	3,619	6,683	7,933	13,310	32,553
Germany	517	1,242	866	1,909	6,127
Canada	2,939	4,969	4,426	6,838	9,836
Switzerland	706	1,778	1,322	1,633	3,218
France	801	1,440	1,012	1,225	3,958
Italy	8	182	105	458	1,096
Australia	154	383	425	872	1,607
Netherlands	434	1,153	1,308	1,914	3,777
All Other	2,158	4,253	4,237	5,919	11,689
Total	\$15,667	\$30,327	\$30,733	\$45,664	\$102,036

NOTE: Data includes both purchases and sales.

SOURCE: U.S. Treasury Bulletin (various issues)

Appendix Table II-N

DOMESTIC AND FOREIGN SECURITIES LISTED ON U.S. EXCHANGES

Year	Equity				Bonds				Total			
	Domestic		Foreign		Domestic		Foreign		Domestic		Foreign	
	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)
1976	3,746	\$ 899	116	\$31	2,923	\$ 403	175	\$ 5	6,669	\$1,301	291	\$ 37
1977	3,559	837	115	32	-	-	-	-	3,771	837	-	32
1978	3,459	828	106	37	2,961	462	177	8	6,520	1,290	283	45
1979	3,377	1,021	96	57	3,190	464	174	8	6,567	1,485	270	65
1980	3,557	1,350	99	81	3,350	514	157	8	6,907	1,864	256	89
1981	3,498	1,238	103	70	3,405	582	148	8	6,903	1,820	251	78
1982	3,530	1,390	103	63	3,579	776	134	9	7,109	2,166	237	72
1983	3,484	1,609	111	85	3,831	900	128	9	7,315	2,509	239	93
1984	3,421	1,587	114	74	4,043	1,026	121	10	7,464	2,613	235	84
1985	3,374	1,952	113	90	4,215	1,348	117	10	7,589	3,300	230	101
1986	3,360	\$ 2,206	123	\$94	4,002	\$1,471	105	\$11	7,362	\$3,676	228	\$105

SOURCE: Directorate of Economic and Policy Analysis

Appendix Table II-0

VOLUME OF DOMESTIC AND FOREIGN ISSUES REGISTERED  
AND OFFERED IN THE U.S

Volume U.S. \$ Millions

Year	Domestic and Foreign Issues Combined			Foreign Issues			
	Debt	Equity	Total	Corporate Issues		Government	Total
				Debt	Equity	Issues Debt	
1977	\$ 26,213	\$10,299	\$ 36,512	\$ 50	\$ 414	\$4,248	\$4,712
1978	23,319	9,614	32,933	270	40	4,101	4,411
1979	29,216	11,174	40,390	480	454	4,273	5,207
1980	44,452	22,902	67,354	582	1,669	2,009	4,260
1981	40,487	27,188	67,675	894	298	3,194	4,386
1982	45,994	28,572	74,566	769	484	1,275	2,528
1983	51,053	52,921	103,974	714	1,865	1,568	4,174
1984	62,877	26,370	89,247	129	750	3,394	4,273
1985	90,120	42,806	132,926	689	1,110	3,841	5,640
1986	\$162,230	\$66,213	\$228,443	\$661	\$1,639	\$4,102	\$6,402

Number of Issues

Year	Domestic and Foreign Issues Combined			Corporate Issues		Government	Total
	Debt	Equity	Total	Corporate Issues		Issues	
				Debt	Equity	Debt	
1977	427	544	971	1	8	42	51
1978	373	673	1,046	3	4	26	33
1979	361	772	1,133	3	6	23	32
1980	588	1,392	1,980	8	21	14	43
1981	502	1,807	2,309	9	21	21	51
1982	674	1,432	2,106	9	13	21	43
1983	716	2,679	3,395	14	66	12	92
1984	664	1,867	2,531	3	22	11	36
1985	1,123	2,018	3,141	4	35	16	55
1986	1,622	2,862	4,484	4	27	21	52

NOTE: The U.S. domestic issues are corporated debt and business equity issues. The foreign issues also include government debt offerings. Cash offerings are included while secondary and exchange offers are excluded.

SOURCE: Directorate of Economic and Policy Analysis

## Appendix Table II-P

DISTRIBUTION OF FOREIGN ISSUES REGISTERED AND OFFERED IN THE U.S.

	Total (U.S. \$ Billions)	Foreign Issues as a Percent of Foreign and Domestic Combined	Type of Foreign Issues as a Percent of Total				Canadian Issues as a Percent of All Foreign Issues
			Corporate Debt	Corporate/ Business Equity	Government Debt	Total	
1977	\$4.7	13%	1%	9%	90%	100%	30%
1978	4.4	13	6	1	93	100	58
1979	5.2	13	9	9	82	100	43
1980	4.3	6	14	39	47	100	68
1981	4.4	6	20	7	73	100	87
1982	2.5	3	30	19	51	100	70
1983	4.1	4	17	45	38	100	55
1984	4.2	5	3	18	79	100	26
1985	5.6	4	12	18	70	100	42
1986	\$6.4	3%	1%	39%	65%	100%	23%

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SOURCE: Directorate of Economic and Policy Analysis

Appendix Table II-A

EUROBOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 268	\$ 4,395	\$ 6,110	\$13,049	\$ 6,114	\$21,491	\$ 36,348	\$ 38,643
Japan	1,133	1,746	4,625	4,584	6,953	11,002	14,897	25,351
United Kingdom	176	1,520	1,229	1,090	1,525	4,736	14,987	18,538
Canada	870	1,412	5,533	6,958	3,866	4,488	6,980	13,640
Germany	87	*	110	1,304	2,451	1,661	3,063	10,184
Australia	356	201	320	587	1,201	2,182	3,680	7,819
Switzerland	139	355	*	600	845	496	864	1,947
France	1,231	1,754	2,278	6,917	6,103	7,020	10,240	12,510
Italy	17	979	1,110	836	1,204	3,588	4,993	4,842
Netherlands	438	914	294	759	1,112	1,034	1,159	2,725
Other OECD	3,306	5,246	4,672	7,436	14,223	18,056	25,743	42,646
Oil Exporters	50	132	200	470	338	425	650	420
Non-oil LDCs	179	1,018	2,945	3,156	1,660	2,252	5,720	2,517
Eastern Europe	141	50	50	*	*	*	408	291
Other Countries	333	172	250	316	646	826	1,388	924
International Development Banks	19	500	1,568	2,267	1,857	2,460	4,311	3,955
<b>TOTAL</b>	<b>\$8,743</b>	<b>\$20,394</b>	<b>\$31,294</b>	<b>\$50,329</b>	<b>\$50,098</b>	<b>\$81,717</b>	<b>\$135,431</b>	<b>\$186,952</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. "Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)

Appendix Table II-B

FOREIGN BOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 142	\$ 1,369	\$ 697	\$ 1,787	\$ 1,241	\$ 1,462	\$ 3,195	\$ 5,022
Japan	482	2,043	2,096	3,687	6,678	6,035	6,203	9,020
United Kingdom	300	66	156	187	553	261	266	872
Canada	3,534	1,744	5,448	4,442	2,908	1,761	2,505	2,757
Germany	140	157	133	97	470	403	105	951
Australia	327	236	343	1,357	1,085	1,117	2,023	2,463
Switzerland	31	*	*	*	*	88	*	*
France	595	679	841	1,278	1,231	1,524	1,185	893
Italy	44	102	101	187	255	131	259	587
Netherlands	241	212	478	112	74	97	392	545
Other OECD	2,713	7,219	5,550	6,377	6,942	8,141	6,515	9,449
Oil Exporters	18	46	242	71	78	107	134	36
Non-Oil LDCs	466	507	878	451	549	834	1,417	1,467
Eastern Europe	*	*	*	*	*	41	39	*
Other Countries	106	193	108	177	268	396	165	127
International Development Banks	2,078	3,351	3,443	4,989	4,718	5,403	6,622	4,252
<b>TOTAL</b>	<b>\$11,217</b>	<b>\$17,924</b>	<b>\$20,514</b>	<b>\$25,199</b>	<b>\$27,050</b>	<b>\$27,801</b>	<b>\$31,025</b>	<b>\$38,441</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. "Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)



Appendix Table II-C

INTERNATIONAL BOND ISSUES BY BORROWER'S COUNTRY OF ORIGIN  
(U.S. \$ Millions)

<u>Country</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$ 410	\$ 5,764	\$ 6,807	\$14,836	\$ 7,355	\$ 22,953	\$ 39,543	\$ 43,665
Japan	1,615	3,789	6,721	8,271	13,631	17,037	21,100	34,371
United Kingdom	476	1,586	1,385	1,277	2,078	4,997	15,253	19,410
Canada	4,404	3,156	10,981	11,400	6,774	6,249	9,485	16,397
Germany	227	157	243	1,401	2,921	2,064	3,168	11,135
Australia	683	437	663	1,944	2,285	3,299	5,703	10,282
Switzerland	170	355	*	600	845	584	864	1,947
France	1,826	2,433	3,119	8,195	7,334	8,544	11,425	13,403
Italy	61	1,081	1,211	1,023	1,459	3,719	5,252	5,429
Netherlands	679	1,126	772	871	1,186	1,131	1,551	3,270
Other OECD	6,019	12,465	10,222	13,813	21,165	26,197	32,258	52,095
Oil Exporters	68	178	442	541	416	532	784	456
Non-oil LDCs	645	1,525	3,823	3,607	2,209	3,086	7,137	3,984
Eastern Europe	141	50	50	*	*	41	447	291
Other Countries	439	365	358	493	915	1,222	1,553	1,051
International Development Banks	2,097	3,851	5,011	7,256	6,575	7,863	10,933	8,207
<b>TOTAL</b>	<b>\$19,960</b>	<b>\$38,318</b>	<b>\$51,808</b>	<b>\$75,528</b>	<b>\$77,148</b>	<b>\$109,518</b>	<b>\$166,456</b>	<b>\$225,393</b>

\* Nil or no transaction

NOTE: Data may not add due to rounding. Data includes both Eurobonds and foreign bonds.  
"Other OECD" includes European based development banks.

SOURCE: OECD Financial Statistics Monthly (various issues)

Appendix Table II-D

MARKET SHARE OF LEAD MANAGERS IN THE EUROBOND AND EUROEQUITY MARKETS  
(U.S. \$ Billions)

Eurobond Market

<u>Lead Managers</u>	<u>1986</u>			<u>1985</u>		
	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>
Largest	\$ 19.8	10.8%	102	\$19.2	14.3%	103
Top 5	65.9	36.0	475	43.0	31.9	344
Top 10	101.1	55.3	763	70.5	52.4	612
Top 20	\$135.3	74.1%	1,072	\$95.8	71.3%	860

Euroequity Market

<u>Lead Managers</u>	<u>1986</u>			<u>1985</u>		
	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>	<u>Dollars</u>	<u>% Market Share</u>	<u>Issues</u>
Largest	\$ 2.7	19.2%	6	\$ 1.8	37.8%	2
Top 5	8.1	57.7	55	4.0	85.9	30
Top 10	11.1	79.4	102	4.5	96.1	37
Top 20	\$ 14.0	97.0%	132	\$ 4.6	99.9%	49

SOURCES: Institutional Investor (various issues),  
London Financial Times, January 5, 1987

Appendix Table II-E

PERFORMANCE OF STOCK PRICE INDICES IN TEN MAJOR COUNTRIES

Index Value in Local Currency

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	50.71	59.57	69.38	69.75	88.25	100.00
Japan	35.16	36.83	45.55	57.25	64.96	100.00
Germany	32.10	36.65	50.27	54.83	95.37	100.00
Canada	62.07	62.60	81.36	79.39	94.37	100.00
United Kingdom	38.03	46.95	57.90	71.99	82.79	100.00
Italy	21.19	18.52	22.44	28.41	57.56	100.00
Switzerland	43.76	47.62	58.79	59.17	91.02	100.00
France	25.14	25.88	40.68	47.54	67.99	100.00
Netherlands	35.66	41.21	62.41	76.53	96.54	100.00
Australia	42.87	34.96	56.32	50.14	70.66	100.00

Index Value in U.S. Dollars

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	50.71	59.57	69.38	69.75	88.25	100.00
Japan	25.34	24.85	31.12	36.08	51.32	100.00
Germany	27.63	29.71	35.47	33.43	74.93	100.00
Canada	72.26	70.31	90.24	82.94	93.20	100.00
United Kingdom	49.10	51.29	56.26	56.32	80.75	100.00
Italy	23.75	18.24	18.09	19.72	46.14	100.00
Switzerland	39.82	38.58	43.95	37.18	71.22	100.00
France	28.32	24.60	31.23	31.59	57.72	100.00
Netherlands	31.92	34.48	45.00	47.45	76.71	100.00
Australia	72.74	51.64	76.33	62.26	72.49	100.00

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NOTE: The indices used are the "Financial Times-Actuaries World Indices."  
The numbers represent end of year values with 1986 = 100.

SOURCE: World Equity Market Results, 1981-1986, Goldman Sachs  
International Research

Appendix Table II-F

ANNUAL RATES OF RETURN OF STOCK PRICE INDICES  
IN TEN MAJOR COUNTRIES  
(In Percent)

Return Value in Local Currency

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	-8.94%	17.83%	15.78%	1.49%	24.49%	14.04%
Japan	19.15	5.33	21.73	25.09	13.22	46.05
Germany	-0.81	13.78	33.53	9.60	58.07	6.97
Canada	-12.98	3.74	27.54	-1.55	18.08	6.32
United Kingdom	9.67	21.85	21.68	23.51	14.92	20.25
Italy	14.53	-12.04	20.94	26.07	73.52	64.42
Switzerland	-13.80	9.11	21.62	1.06	44.82	10.93
France	-17.85	4.19	46.42	17.34	38.13	41.94
Netherlands	-5.25	15.68	43.58	23.55	24.07	4.66
Australia	-21.16%	-18.13%	51.27%	-9.83%	35.58%	36.68%

Return Value in U.S. Dollars

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	-8.95%	17.83%	15.78%	1.47%	24.50%	14.05%
Japan	11.75	1.48	23.27	18.15	36.43	72.37
Germany	-12.66	8.59	20.14	-4.93	84.98	33.92
Canada	-11.75	1.31	26.32	-7.28	12.47	7.74
United Kingdom	-11.17	5.20	10.63	1.44	39.16	24.26
Italy	-12.52	-24.16	0.62	11.07	88.96	88.33
Switzerland	-12.47	-1.26	13.49	-15.68	68.35	36.37
France	-38.20	-11.11	24.32	2.62	63.81	60.73
Netherlands	-18.99	9.92	28.32	7.87	49.88	27.91
Australia	-24.49%	-31.06%	43.09%	-17.80%	18.01%	37.74%

NOTE: Values for the annual rate of return are derived from the "Financial Times-Actuaries World Indices."

SOURCE: World Equity Market Results, 1981-1986, Goldman Sachs International Research

Appendix Table II-G

TRADING VOLUME AND TURNOVER OF WORLD'S MAJOR STOCK MARKETS

Trading Volume (U.S. \$ Billions)

<u>Country</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	\$166	\$226	\$272	\$410	\$416	\$508	\$797	\$786	\$997	\$1374
Japan	90	168	145	161	224	147	231	285	388	1001
United Kingdom	19	20	27	36	33	33	43	48	76	230
Germany	13	19	15	15	14	14	33	30	84	150
Canada	5	9	16	25	21	14	24	20	32	64
Switzerland	56	62	70	79	75	N.A.	127	131	215	340
France	3	10	10	10	8	7	8	8	17	69
Australia	1	1	5	5	8	5	9	11	15	26
Netherlands	8	10	9	5	4	5	10	12	20	67
Italy	\$ 1	\$ 2	\$ 4	\$ 9	\$ 11	\$ 3	\$ 4	\$ 4	\$ 14	\$ 49

Turnover: Dollar Volume as Percent of Capitalization

<u>Country</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United States	.20	.26	.27	.33	.37	.39	.50	.50	.49	.62
Japan	.42	.49	.50	.42	.54	.35	.42	.44	.41	.56
United Kingdom	.16	.16	.18	.18	.17	.17	.19	.20	.21	.46
Germany	.20	.23	.19	.21	.22	.20	.40	.38	.47	.65
Canada	.09	.13	.17	.21	.20	.14	.17	.15	.20	.34
Switzerland	1.87	1.63	1.63	1.84	1.97	N.A.	2.89	3.28	2.56	2.67
France	.11	.22	.18	.18	.21	.23	.21	.20	.22	.46
Australia	.05	.04	.13	.08	.15	.12	.15	.22	.25	.22
Netherlands	.35	.37	.31	.17	.17	.19	.29	.34	.34	.81
Italy	.17	.20	.31	.36	.46	.15	.19	.15	.24	.35

N.A. - Not Available

SOURCE: Goldman Sachs International Investment Research, September 1986; International Equity Analysis, June 1987, Salomon Brothers Inc.

Appendix Table II-H

FOREIGN EXCHANGE RATES: CURRENCIES PER U.S. DOLLAR  
(Average per Quarter)

	<u>Australia</u>	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>	<u>Japan</u>	<u>Nether- lands</u>	<u>Switzer- land</u>	<u>United Kingdom</u>
1980 Q1	0.91	1.16	4.15	1.77	824.80	243.54	1.95	1.66	0.44
Q2	0.89	1.17	4.21	1.81	851.50	232.69	1.99	1.68	0.44
Q3	0.86	1.16	4.12	1.78	843.50	220.08	1.94	1.63	0.42
Q4	0.85	1.18	4.42	1.91	906.10	210.65	2.07	1.72	0.42
1981 Q1	0.86	1.19	4.86	2.09	1,001.40	205.57	2.28	1.90	0.43
Q2	0.88	1.19	5.42	2.28	1,134.10	220.00	2.53	2.03	0.48
Q3	0.88	1.21	5.81	2.43	1,215.40	231.89	2.70	2.10	0.54
Q4	0.88	1.19	5.65	2.24	1,196.20	224.68	2.47	1.83	0.53
1982 Q1	0.92	1.21	5.99	2.35	1,261.80	223.49	2.58	1.87	0.54
Q2	0.95	1.24	6.28	2.38	1,319.30	244.15	2.64	1.99	0.56
Q3	1.02	1.25	6.94	2.48	1,393.60	258.86	2.73	2.11	0.58
Q4	1.05	1.23	7.07	2.50	1,435.20	259.68	2.74	2.14	0.61
1983 Q1	1.06	1.23	6.89	2.41	1,399.40	235.74	2.66	2.02	0.65
Q2	1.06	1.23	7.47	2.48	1,477.50	237.53	2.79	2.08	0.64
Q3	1.14	1.23	7.96	2.64	1,573.70	242.53	2.96	2.15	0.66
Q4	1.10	1.24	8.17	2.68	1,624.80	234.24	3.00	2.16	0.68
1984 Q1	1.08	1.26	8.31	2.70	1,662.40	231.01	3.05	2.20	0.70
Q2	1.11	1.29	8.33	2.71	1,675.40	229.61	3.05	2.25	0.72
Q3	1.19	1.31	8.96	2.92	1,799.50	243.46	3.29	2.44	0.77
Q4	1.18	1.32	9.36	3.05	1,890.50	246.02	3.45	2.51	0.82
1985 Q1	1.33	1.35	9.96	3.26	2,021.10	257.68	3.68	2.76	0.90
Q2	1.49	1.37	9.41	3.09	1,970.70	250.73	3.49	2.59	0.80
Q3	1.43	1.36	8.69	2.85	1,895.60	238.64	3.21	2.35	0.73
Q4	1.45	1.38	7.89	2.58	1,750.30	207.09	2.91	2.13	0.70
1986 Q1	1.43	1.40	7.21	2.35	1,598.20	187.88	2.65	1.98	0.69
Q2	1.40	1.38	7.15	2.25	1,539.00	170.13	2.53	1.87	0.66
Q3	1.61	1.39	6.78	2.09	1,435.80	155.77	2.35	1.69	0.67
Q4	1.54	1.38	6.57	2.01	1,390.20	160.29	2.27	1.66	0.70

NOTE: Currencies reflect average values per U.S. dollar during the quarter. Local currencies used are as follows: Australian dollar, Canadian dollar, French Franc, German Mark, Italian Lira, Japanese Yen, Dutch Guilder, Swiss Franc and British Pound.

SOURCE: International Financial Statistics (various issues)  
International Monetary Fund

Appendix Table II-I

INTERNATIONAL PORTFOLIO INVESTMENT TRENDS  
(U.S. \$ Billions)

<u>Year</u>	<u>Foreign Purchases and Sales of U.S. Securities</u>			<u>U.S. Purchases and Sales of Foreign Securities</u>		
	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>	<u>Stocks</u>	<u>Bonds</u>	<u>Total</u>
1975	\$ 26.0	\$ 25.9	\$ 51.9	\$ 3.3	\$ 11.1	\$ 14.4
1976	33.7	53.0	86.7	4.2	18.6	22.8
1977	25.6	65.2	90.8	4.9	21.2	26.1
1978	37.9	73.7	111.6	6.8	26.4	33.2
1979	43.9	96.3	140.2	10.1	29.3	39.4
1980	75.2	122.9	198.1	17.9	35.2	53.1
1981	75.5	151.4	227.0	18.9	40.6	59.5
1982	79.9	216.5	296.4	15.7	61.0	76.6
1983	134.1	301.0	435.1	30.3	75.9	106.2
1984	122.6	516.9	639.5	30.7	116.0	146.7
1985	159.0	1,126.2	1,285.2	45.7	166.4	212.1
1986	\$277.6	\$2,277.0	\$2,554.6	\$102.0	\$336.5	\$438.5

SOURCE: U.S. Treasury Bulletin (various issues)

Appendix Table II-J

INTERNATIONAL TRANSACTIONS IN U.S. AND FOREIGN DEBT SECURITIES  
(U.S. \$ Millions)

<u>Year</u>	<u>Foreign Activity in U.S. Debt Securities</u>			<u>U.S. Activity in Foreign Debt Securities</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	\$ 14,306	\$ 11,545	\$ 2,761	\$ 8,720	\$ 2,383	\$-6,337
1976	31,139	21,841	9,298	13,706	4,932	-8,774
1977	46,574	18,666	27,908	13,136	8,040	-5,096
1978	40,347	33,339	7,008	15,326	11,101	-4,225
1979	50,138	46,136	4,002	16,660	12,662	-3,998
1980	66,595	56,262	10,333	18,090	17,090	-1,000
1981	85,763	65,677	20,086	23,013	17,553	-5,460
1982	117,632	98,863	18,769	33,809	27,167	-6,642
1983	153,680	147,351	6,329	39,572	36,333	-3,239
1984	275,634	241,237	34,397	59,948	56,017	-3,931
1985	585,174	541,042	44,132	85,214	81,216	-3,998
1986	\$1,176,027	\$1,100,951	\$75,076	\$169,798	\$166,700	\$-3,098

SOURCE: U.S. Treasury Bulletin (various issues)



Appendix Table II-K

INTERNATIONAL TRANSACTIONS IN U.S. AND FOREIGN CORPORATE STOCKS  
(U.S. \$ Millions)

<u>Year</u>	<u>Foreign Activity in U.S. Stocks</u>			<u>U.S. Activity in Foreign Stocks</u>		
	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>	<u>Purchases</u>	<u>Sales</u>	<u>Net Capital Flow</u>
1975	\$ 15,355	\$ 10,678	\$ 4,677	\$ 1,730	\$ 1,542	\$ -188
1976	18,227	15,475	2,752	2,259	1,937	-322
1977	14,154	11,479	2,675	2,665	2,255	-410
1978	20,145	17,723	2,422	3,139	3,666	527
1979	22,783	21,104	1,679	5,434	4,617	-817
1980	40,298	34,870	5,428	10,044	7,897	-2,147
1981	40,686	34,856	5,830	9,586	9,339	-247
1982	41,881	37,981	3,900	8,504	7,163	-1,341
1983	69,770	64,360	5,410	17,046	13,281	-3,765
1984	59,834	62,814	-2,980	15,917	14,816	-1,101
1985	81,995	77,054	4,941	24,803	20,861	-3,942
1986	\$148,134	\$129,436	\$18,698	\$51,744	\$50,292	\$-1,452

SOURCE: U.S. Treasury Bulletin (various issue)

Appendix Table II-L

INTERNATIONAL TRANSACTIONS IN DEBT SECURITIES BY COUNTRY  
(U.S. \$ Millions)

<u>Foreign Activity in U.S. Debt Securities</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 14,339	\$ 18,125	\$ 34,205	\$ 185,295	\$ 618,828
United Kingdom	51,195	57,619	112,784	249,148	531,954
Germany	19,377	17,108	29,951	39,164	68,130
Canada	3,649	8,706	22,805	44,874	80,111
Switzerland	5,552	8,201	11,544	25,278	59,593
France	4,060	5,295	8,972	13,514	22,779
Italy	52	93	161	336	1,208
Australia	62	250	674	5,524	8,938
Netherlands	7,383	9,364	10,409	11,250	22,862
All Other	110,826	176,270	285,366	551,833	862,575
Total	\$216,495	\$301,031	\$516,871	\$1,126,216	\$2,276,978

<u>U.S. Activity in Foreign Debt Securities</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$10,739	\$10,747	\$ 24,253	\$ 33,852	\$ 84,976
United Kingdom	22,473	33,650	52,492	72,652	150,782
Germany	1,197	919	1,623	3,210	12,891
Canada	7,084	7,589	8,734	12,624	16,529
Switzerland	1,414	2,056	2,803	2,751	4,842
France	2,033	2,356	3,140	2,866	4,764
Italy	50	49	94	214	539
Australia	442	945	190	549	2,711
Netherlands	298	461	530	594	1,466
All Other	15,246	17,133	22,106	37,118	56,998
Total	\$60,976	\$75,905	\$115,965	\$166,430	\$336,498

NOTE: Data includes both purchases and sales.

SOURCE: U.S. Treasury Bulletin (various issues)

## Appendix Table II-M

INTERNATIONAL TRANSACTIONS IN CORPORATE STOCK BY COUNTRY  
(U.S. \$ Millions)

<u>Foreign Activity in U.S. Stocks</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 1,991	\$ 3,257	\$ 2,748	\$ 7,805	\$ 27,003
United Kingdom	18,785	28,206	27,516	37,622	64,584
Germany	3,382	7,536	6,163	6,136	10,659
Canada	10,033	16,423	16,752	22,141	34,575
Switzerland	14,214	26,192	20,052	21,605	36,982
France	5,010	7,990	5,658	6,041	9,581
Italy	171	250	162	269	987
Australia	323	848	834	1,364	3,087
Netherlands	2,083	4,030	3,457	3,956	6,245
All Other	23,870	39,398	39,306	52,110	83,866
Total	\$79,862	\$134,130	\$122,648	\$159,049	\$277,570

<u>U.S. Activity in Foreign Stocks</u>					
<u>Country</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Japan	\$ 4,331	\$ 8,244	\$ 9,099	\$11,584	\$ 28,175
United Kingdom	3,619	6,683	7,933	13,310	32,553
Germany	517	1,242	866	1,909	6,127
Canada	2,939	4,969	4,426	6,838	9,836
Switzerland	706	1,778	1,322	1,633	3,218
France	801	1,440	1,012	1,225	3,958
Italy	8	182	105	458	1,096
Australia	154	383	425	872	1,607
Netherlands	434	1,153	1,308	1,914	3,777
All Other	2,158	4,253	4,237	5,919	11,689
Total	\$15,667	\$30,327	\$30,733	\$45,664	\$102,036

NOTE: Data includes both purchases and sales.

SOURCE: U.S. Treasury Bulletin (various issues)

Appendix Table II-N

DOMESTIC AND FOREIGN SECURITIES LISTED ON U.S. EXCHANGES

Year	Equity				Bonds				Total			
	Domestic		Foreign		Domestic		Foreign		Domestic		Foreign	
	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)	Number of Issues	(U.S. \$ Billions)
1976	3,746	\$ 899	116	\$31	2,923	\$ 403	175	\$ 5	6,669	\$1,301	291	\$ 37
1977	3,559	837	115	32	-	-	-	-	3,771	837	-	32
1978	3,459	828	106	37	2,961	462	177	8	6,520	1,290	283	45
1979	3,377	1,021	96	57	3,190	464	174	8	6,567	1,485	270	65
1980	3,557	1,350	99	81	3,350	514	157	8	6,907	1,864	256	89
1981	3,498	1,238	103	70	3,405	582	148	8	6,903	1,820	251	78
1982	3,530	1,390	103	63	3,579	776	134	9	7,109	2,166	237	72
1983	3,484	1,609	111	85	3,831	900	128	9	7,315	2,509	239	93
1984	3,421	1,587	114	74	4,043	1,026	121	10	7,464	2,613	235	84
1985	3,374	1,952	113	90	4,215	1,348	117	10	7,589	3,300	230	101
1986	3,360	\$ 2,206	123	\$94	4,002	\$1,471	105	\$11	7,362	\$3,676	228	\$105

SOURCE: Directorate of Economic and Policy Analysis

Appendix Table II-O

VOLUME OF DOMESTIC AND FOREIGN ISSUES REGISTERED  
AND OFFERED IN THE U.S

Volume U.S. \$ Millions

Year	Domestic and Foreign Issues Combined			Foreign Issues			
	Debt	Equity	Total	Corporate Issues		Government	Total
				Debt	Equity	Issues Debt	
1977	\$ 26,213	\$10,299	\$ 36,512	\$ 50	\$ 414	\$4,248	\$4,712
1978	23,319	9,614	32,933	270	40	4,101	4,411
1979	29,216	11,174	40,390	480	454	4,273	5,207
1980	44,452	22,902	67,354	582	1,669	2,009	4,260
1981	40,487	27,188	67,675	894	298	3,194	4,386
1982	45,994	28,572	74,566	769	484	1,275	2,528
1983	51,053	52,921	103,974	714	1,865	1,568	4,174
1984	62,877	26,370	89,247	129	750	3,394	4,273
1985	90,120	42,806	132,926	689	1,110	3,841	5,640
1986	\$162,230	\$66,213	\$228,443	\$661	\$1,639	\$4,102	\$6,402

Number of Issues

Year	Domestic and Foreign Issues Combined			Foreign Issues			
	Debt	Equity	Total	Corporate Issues		Government	Total
				Debt	Equity	Issues Debt	
1977	427	544	971	1	8	42	51
1978	373	673	1,046	3	4	26	33
1979	361	772	1,133	3	6	23	32
1980	588	1,392	1,980	8	21	14	43
1981	502	1,807	2,309	9	21	21	51
1982	674	1,432	2,106	9	13	21	43
1983	716	2,679	3,395	14	66	12	92
1984	664	1,867	2,531	3	22	11	36
1985	1,123	2,018	3,141	4	35	16	55
1986	1,622	2,862	4,484	4	27	21	52

NOTE: The U.S. domestic issues are corporated debt and business equity issues. The foreign issues also include government debt offerings. Cash offerings are included while secondary and exchange offers are excluded.

SOURCE: Directorate of Economic and Policy Analysis

Appendix Table II-P

DISTRIBUTION OF FOREIGN ISSUES REGISTERED AND OFFERED IN THE U.S.

	Total (U.S. \$ Billions)	Foreign Issues as a Percent of Foreign and Domestic Combined	Type of Foreign Issues as a Percent of Total				Canadian Issues as a Percent of All Foreign Issues
			Corporate Debt	Corporate/ Business Equity	Government Debt	Total	
1977	\$4.7	13%	1%	9%	90%	100%	30%
1978	4.4	13	6	1	93	100	58
1979	5.2	13	9	9	82	100	43
1980	4.3	6	14	39	47	100	68
1981	4.4	6	20	7	73	100	87
1982	2.5	3	30	19	51	100	70
1983	4.1	4	17	45	38	100	55
1984	4.2	5	3	18	79	100	26
1985	5.6	4	12	18	70	100	42
1986	\$6.4	3%	1%	39%	65%	100%	23%

SOURCE: Directorate of Economic and Policy Analysis