

# Dramatic drop in US IPO activity can't be blamed on tougher regulations

March 4 2014

---



Craig Doidge is an Associate Professor of Finance at the University of Toronto's Rotman School of Management. His research and teaching interests include international financial markets and corporate finance. He has published numerous papers in leading finance journals, including the *Journal of Finance* and *Journal of Financial Economics*. His research on the valuation of firms with foreign listings won the Fama-DFA Prize for Best Paper in Capital Markets and Asset Pricing in 2004. Craig is Associate Editor of the *Review of Financial Studies* and a guest editor on corporate governance for the *Emerging Markets Review*. Credit: Rotman School

An extensive study of initial public offerings shows dramatic changes in the IPO landscape around the world over the past two decades, including a large decrease in the importance of IPOs in the United States while IPOs became more important in other countries. This drop in U.S. IPOs cannot be explained by stricter regulations enacted after the corporate and accounting scandals in the early part of the 2000s.

"One of the main things people point fingers at is the Sarbanes Oxley Act. We show that U.S. IPO activity became abnormally low before the Sarbanes Oxley Act was passed," said Craig Doidge, an associate professor of finance at the University of Toronto's Rotman School of Management.

"The declining IPO activity was not caused by the regulatory changes in the U.S. in the early 2000s," said Prof. Doidge, adding that further investigation is needed to determine why U.S. IPO dropped so dramatically.

The study looked at data for more than 33,000 IPOs from 88 different [countries](#) from January 1990 to December 2011. It found that U.S. IPO activity has "generally not kept pace" with that country's economic importance, and is particularly low among small companies.

Capital raised through IPOs outside of the U.S. increased by 65 per cent from the 1990s to the 2000s. But in the U.S., capital raised through IPOs fell by 8 per cent during that period.

Looking at the actual number of IPOs, if the U.S. was at one time "the land of the IPO, it is no longer so by the 2000s," the study concludes. Financial globalization has however benefited other countries, allowing them to overcome challenges to investment caused by weak domestic

institutions.

**More information:** Prof. Doidge co-wrote the paper with G. Andrew Karolyi of Cornell University and René M. Stulz of Ohio State University, which was recently published in the *Journal of Financial Economics*.

Provided by University of Toronto

Citation: Dramatic drop in US IPO activity can't be blamed on tougher regulations (2014, March 4) retrieved 23 June 2024 from <https://phys.org/news/2014-03-ipo-blamed-tougher.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.