Primer: Capital Formation & Listing Exchanges

Analyzing the IPO Process and the Listing Exchanges Landscape

September 2024

SIFMA Insights Primers

The primer series from SIFMA Insights breaks down important technical and regulatory nuances. By fostering an understanding of the marketplace, we set the scene to address complex issues arising in today's markets. The primer series can be found here: www.sifma.org/primers

In addition to this primer, the series includes the following reports: Capital Markets, Global Equity Markets Comparison, Equities, Options, Exchange-Traded Funds (ETF), and Fixed Income Markets and Electronic Trading.

In this primer: Total 2023 IPO deal value was $20.1 billion, +135.5% Y/Y but -59.2% to the historical average. The total number of listed companies in the U.S. has been on the decline since the 1996 peak of 8,090. Despite the increase in IPOs in 2023, the number of listed companies declined -6.4% Y/Y to 5,704. This report explains the IPO process – where investment banks connect issuers with investors to sell their initial set of public shares – including mapping a sample deal timeline. This report also analyzes reasons IPOs have declined, regulations, and the market structure for listings exchanges.

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Executive Summary

An initial public offering (IPO) is when a private company raises capital by offering its common stock (equity) to the public in the primary markets for the first time. Companies may need capital for various business purposes. Earlier stage companies may need additional capital to grow to the next stage in the business life cycle. Companies also may need capital to expand organically or via acquisition, for example product or regional diversification. Companies utilize capital markets to acquire capital in many ways, including by conducting IPOs.

Total 2023 IPO deal value was $20.1 billion, +135.5% Y/Y. The total number of deals was 117, +36.0% Y/Y. While IPOs rebounded in 2023, deal value remained subdued to historical levels. The average annual IPO deal value going back to 1990 was $49.3 billion, making the 2023 figure -59.2% to this full time series average.

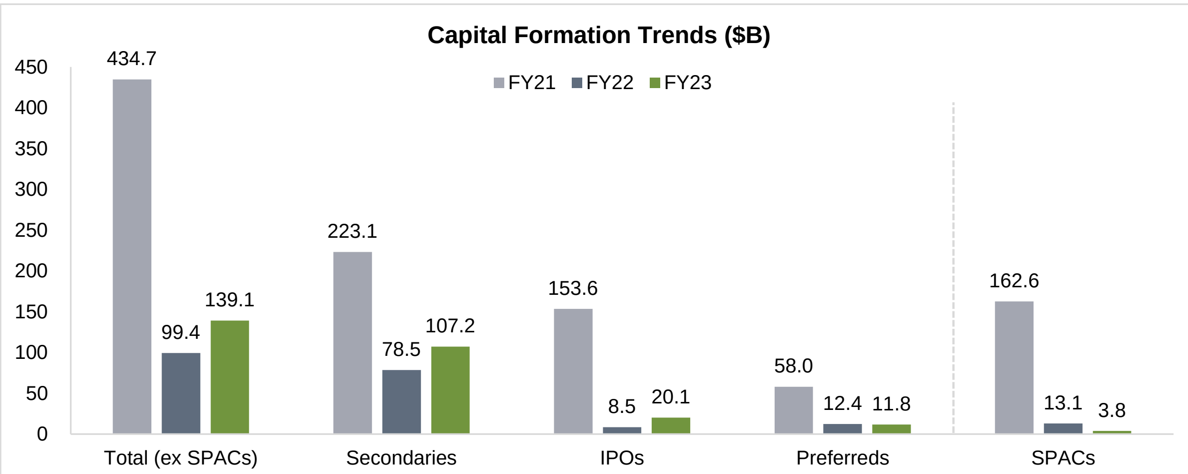
The total number of listed companies in the U.S. has been on the decline since the 1996 peak of 8,090. From this peak to the start of the 2000s, the number fell 11.1% to 7,194. On average since 2000, the downward trend continued, with the 2023 figure of 5,704 down 20.7% from 2000 (and -29.5% from the 1996 peak). The average annual number of total listed companies from 2000 to 2023 was 5,399. We saw an attempted reversal in the number of listed companies in 2020. By 2021, the total number of listed companies crossed the 6,000 threshold to reach 6,174 in 2021 and 6,093 in 2022. Unfortunately, the reversal was short lived, and the number fell in 2023 to 5,704. Despite the increase in IPOs in 2023, the number of listed companies declined -6.4% Y/Y.

This report explains the IPO process. Underwriting is the process during which investment banks (the underwriters) act as intermediaries, connecting the issuing company (issuer) with investors who purchase the issuer's initial set of public shares. The underwriters will work with the issuer to determine what the IPO should look like and the best time to bring the deal to the market. Underwriters guide the issuer through the process, not only handling all the required paperwork and performing a detailed analysis of the company, but also assisting management in addressing concerns of potential investors interested in the deal. This report also analyzes reasons IPOs may have declined and reasons a company might remain private.

Finally, this primer assesses the market structure for listings exchanges. When a company decides to go public, it will typically also seek to become listed on a national securities exchange. The listing exchanges have their own criteria for firms to qualify to list on their exchange (financial status, number and types of shareholders, percentage of public float after the IPO, etc.). The corporate listings business is highly competitive. As such, there are only two main listings exchanges in the U.S.: the New York Stock Exchange and Nasdaq.

Market Metrics

Capital markets recovered somewhat in 2023 versus the prior year but remained subdued to historical ranges. Total equity issuance (excluding SPACs) finished the year at $139.1 billion, +39.9% Y/Y. IPO deal value was $20.1 billion last year, +135.5% Y/Y. The following pages highlight equity issuance trends seen across the year.

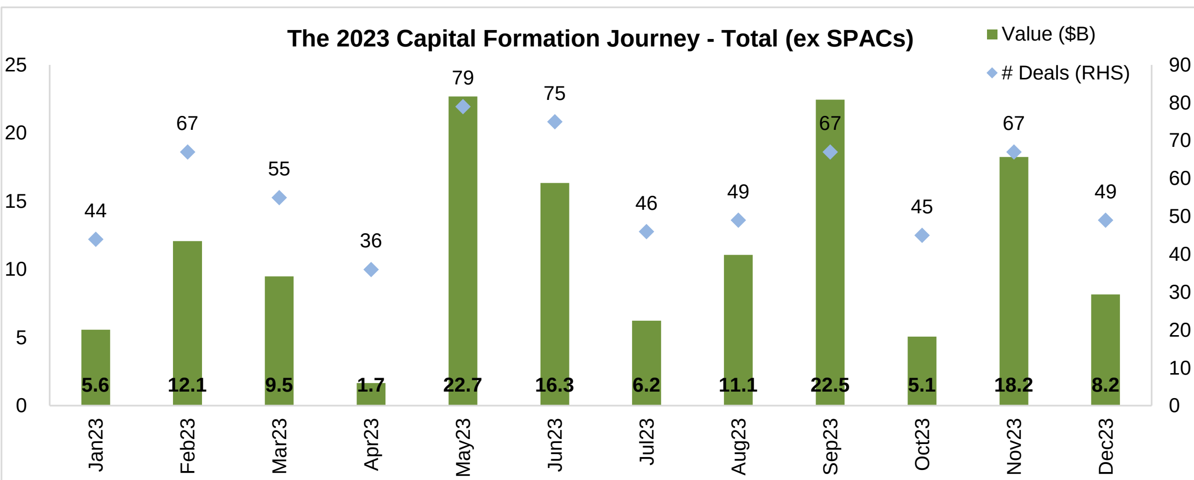


Source: Dealogic

Note: Total, secondaries, IPOs, and preferreds include rank eligible deals and exclude BDCs, SPACs, ETFs, CLEFs and rights offerings. SPAC value not included in the total value.

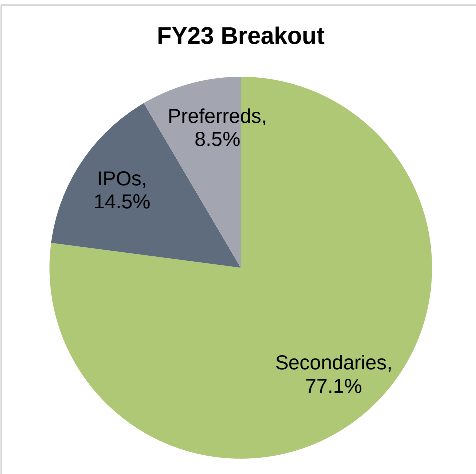
Total Issuance

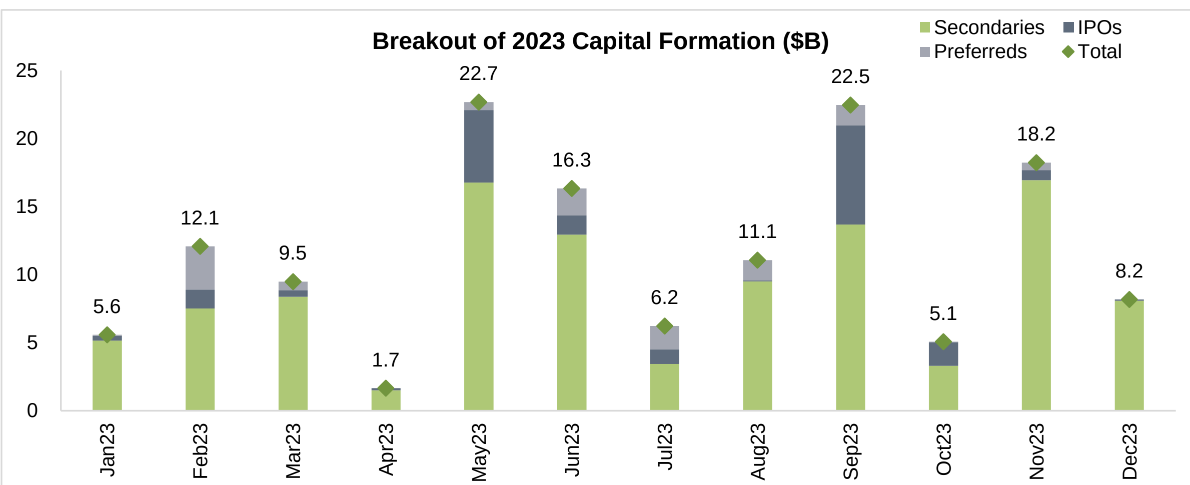
- Total annual deal value $139.1 billion in 2023, +39.9% Y/Y
    - Peak monthly level $22.7 billion
    - Lowest monthly level $1.7 billion
- Total annual number of deals 679, +36.6% Y/Y



Source: Dealogic
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offerings.

- Breakout of total capital formation (% of total issuance) in 2023
    - Secondaries 77.1%, -1.9 pps Y/Y
    - IPOs 14.5%, +5.9 pps Y/Y
    - Preferreds 8.5%, -4.0 pps Y/Y

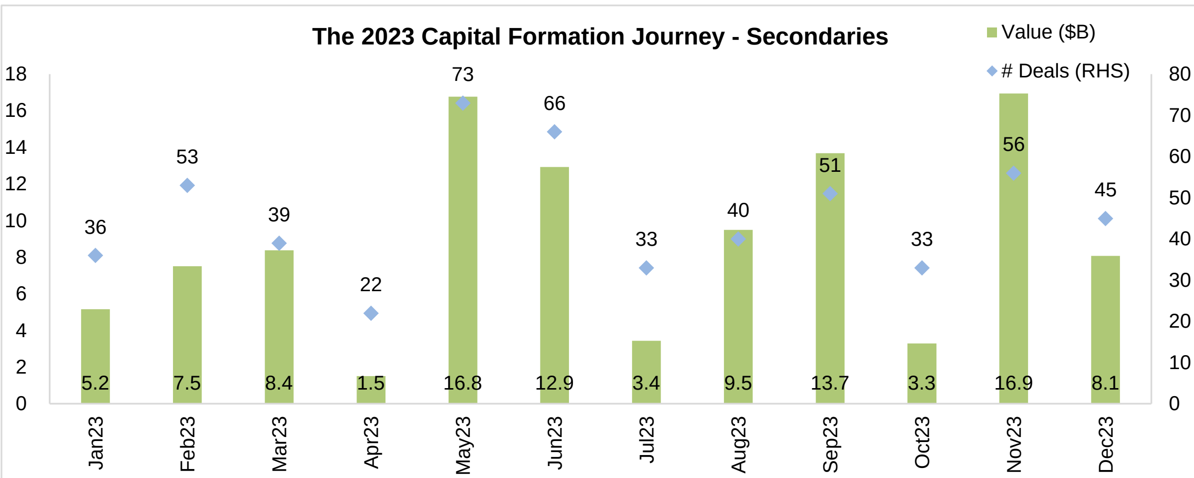




Source: Dealogic
Note: Total, secondaries, IPOs, and preferreds include rank eligible deals and exclude BDCs, SPACs, ETFs, CLEFs and rights offerings.

Secondary Issuance (Secondaries)

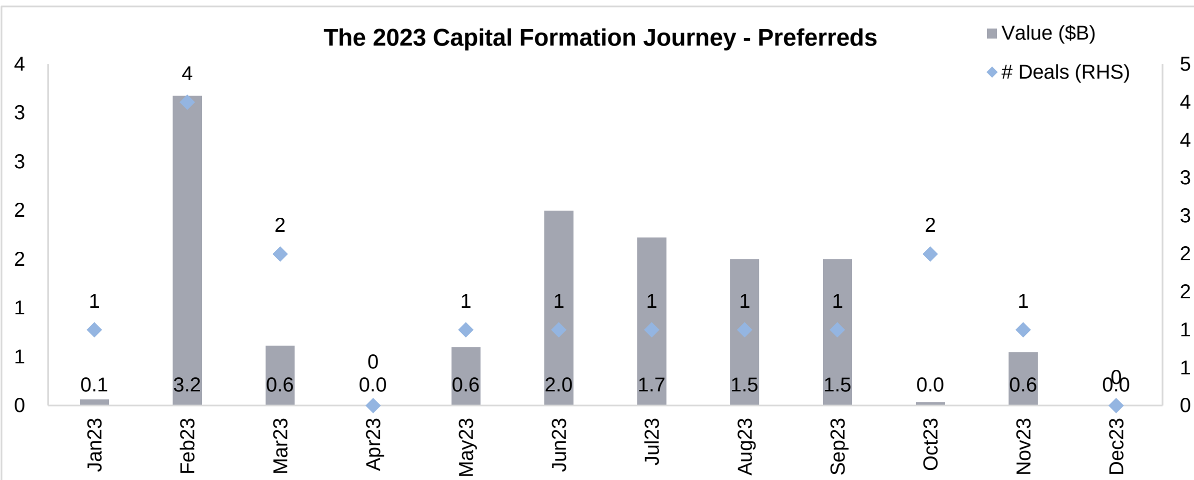
- Total annual deal value $107.2 billion in 2023, +36.5% Y/Y
    - Peak monthly level $16.9 billion
    - Lowest monthly level $1.5 billion
- Total annual number of deals 547, +41.0% Y/Y



Source: Dealogic
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offerings.

Preferreds Issuance

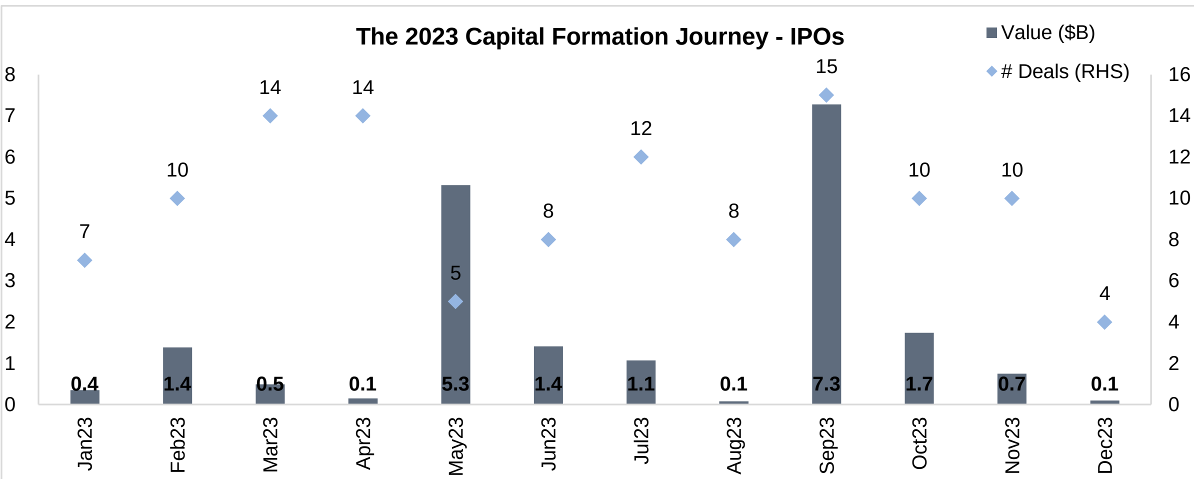
- Total annual deal value $11.8 billion in 2023, -4.7% Y/Y
  - Peak monthly level $3.2 billion
  - Lowest monthly level $0.0 billion
- Total annual number of deals 15, -34.8% Y/Y



Source: Dealogic
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offerings.

IPO Issuance

- Total annual deal value $20.1 billion in 2023, +135.5% Y/Y
  - Peak monthly level $7.3 billion
  - Lowest monthly level $0.1 billion
- Total annual number of deals 117, +36.0% Y/Y



Source: Dealogic, SIFMA estimates
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offerings.

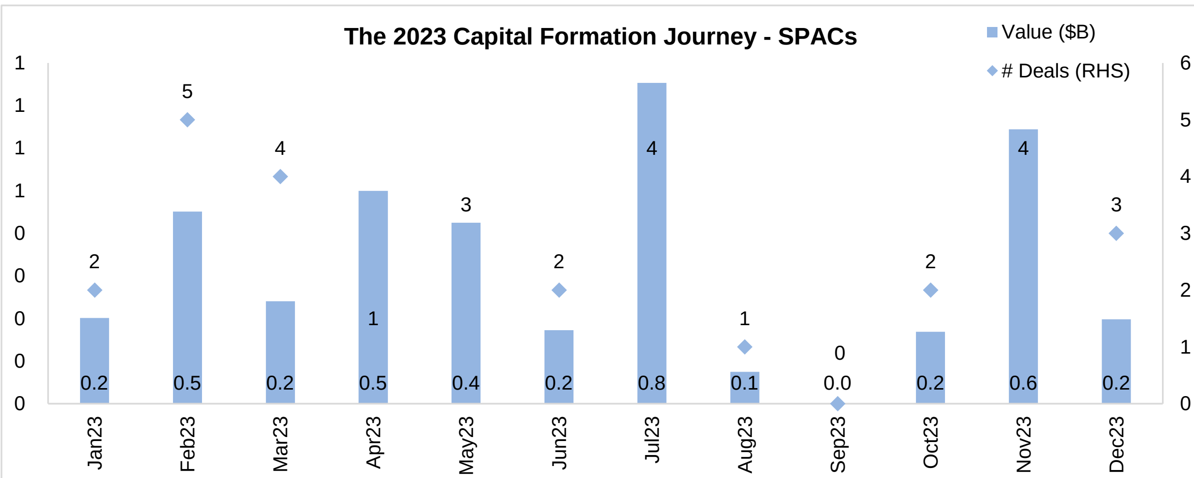
Looking at the breakout of issuance by sector in 2023, we highlight:

- Computers & electronics on top at 41.0%
- Followed by consumer products at 29.3%
- Then came healthcare at 13.8%

Source: Dealogic, SIFMA estimates
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offerings. Comp/Elec = computers & electronics; cons prod = consumer products; prof serv = professional services; din/lodg = dining & lodging; food/bev = food & beverage

SPAC Issuance

- Total annual deal value $3.8 billion in 2023, -70.8% Y/Y
    - Peak monthly level $0.8 billion
    - Lowest monthly level $0.0 billion
- Total annual number of deals 31, -63.5% Y/Y



Source: Dealogic

Note: Includes rank eligible BCC/SPAC deals; SPAC totals are separate from the IPO/secondaries/total capital formation figures discussed above.

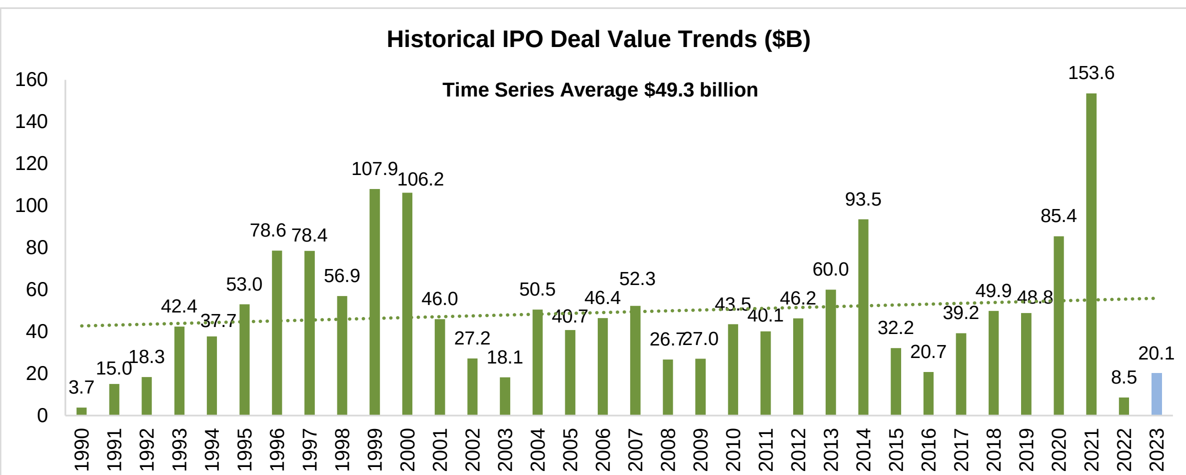
Historical Trends

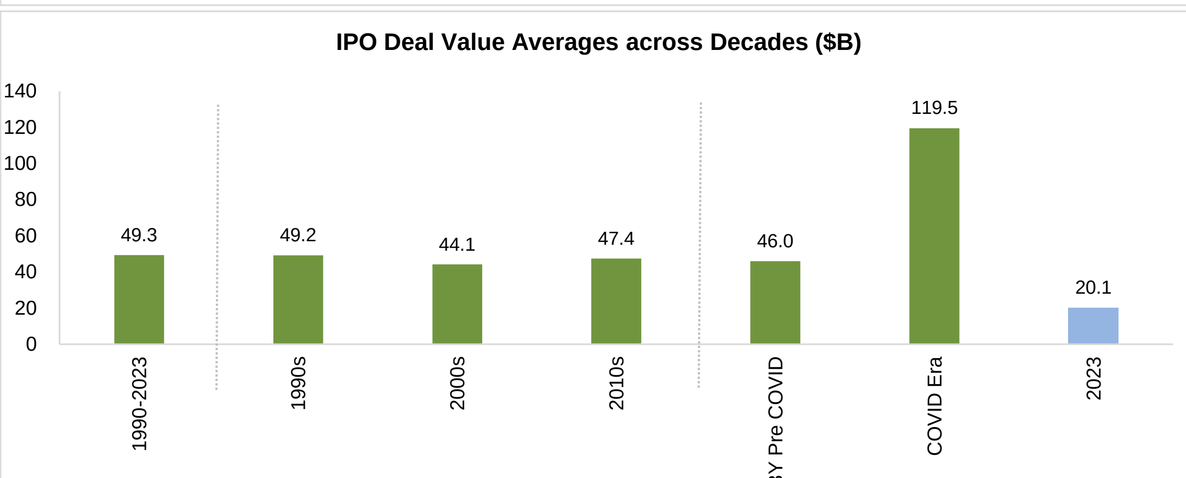
IPOs

The $20.1 billion IPO deal value in 2023 was a rebound from the prior year but remains subdued to historical levels. The average annual IPO deal value going back from 2023 to 1990 was $49.3 billion (the full time series average). While the $20.1 billion deal value in 2023 was +135.5% Y/Y, it was -59.2% to the full time series average.

The overall trend line for IPOs since 1990 is slightly upward sloping, yet issuance has much room to grow to return to historical levels. Looking at IPO deal value averages across decades, excluding the COVID era, the 2023 level ranged from -54.4% to -59.1% to the decade averages for the 2000s and the 1990s respectively. The $20.1 billion deal value in 2023 was:

- -59.1% to the 1990s
- -54.4% to the 2000s
- -57.6% to the 2010s





Source: Dealogic, SIFMA estimates

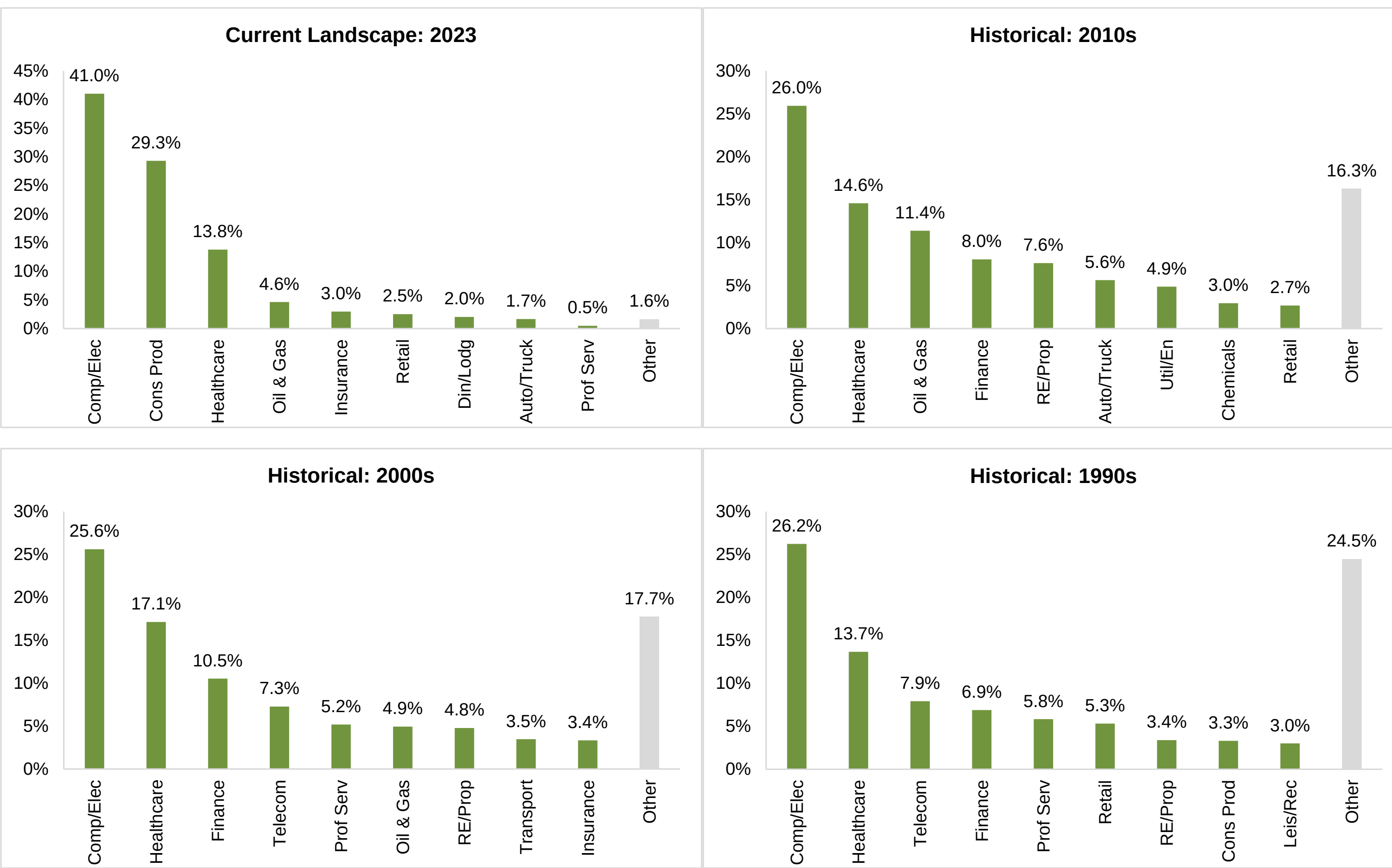
Note: Includes rank eligible deals; excludes BDCs, SPACs, ETFs, CLEFs and rights offers. COVID era = 2020, 2021

IPO Sector Breakout

The following charts show the sector breakout for IPOs across the decades. We note that while Computers & Electronics (technology) consistently ranked first across the decades, this category weighting in 2023 was 1.6x the historical average of roughly 26%. Healthcare also consistently ranked in the top three positions.

The top three sectors across the decades were:

- 2023: Computers & Electronics 41.0%, Consumer Products 29.3%, and Healthcare 13.8%
- 2010s: Computers & Electronics 26.0%, Healthcare 14.6%, and Oil & Gas 11.4%
- 2000s: Computers & Electronics 25.6%, Healthcare 17.1%, and Finance 10.5%
- 1990s: Computers & Electronics 26.2%, Healthcare 13.7%, and 8% Telecommunications 7.9%



Source: Dealogic

Note: U.S. domiciled companies listed on U.S. exchanges. Excludes BDCs, SPACs, ETFs, CEFs, and rights offerings. Comp/Elec = computers and electronics; Cons Prod = consumer products; Din/Lodg = dining and lodging; Prof Serv = professional services; RE/Prop = real estate and property; Util/En = utilities and energy; Telecom = telecommunications; Transport = transportation; Leis/Rec = leisure and recreation.

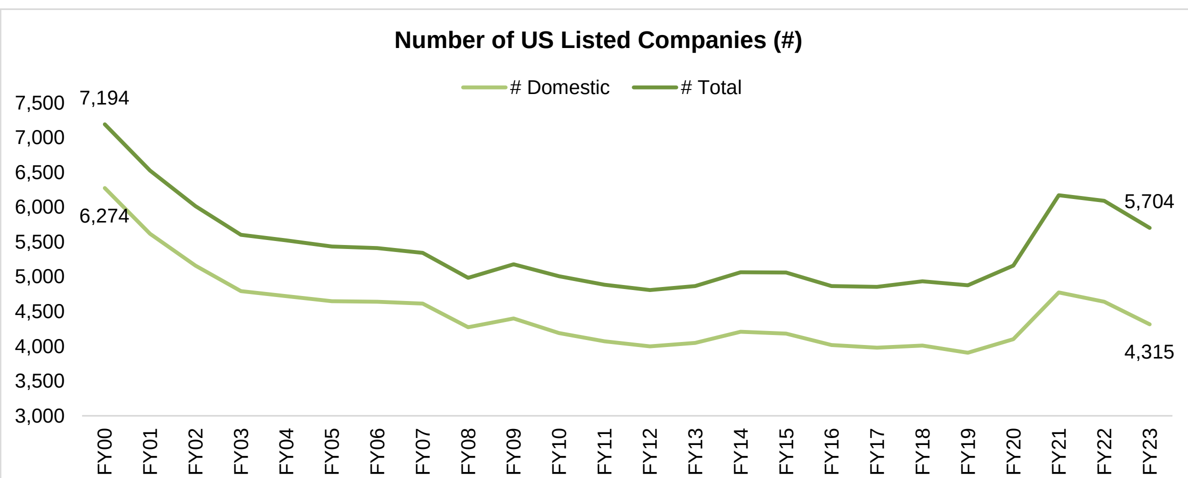
Listed Companies

The total number of listed companies in the U.S. has been on the decline since the 1996 peak of 8,090. From this peak to the start of the 2000s, the number fell 11.1% to 7,194. On average since 2000, the downward trend continued, with the 2023 figure of 5,704 down 20.7% from 2000 (and -29.5% from the 1996 peak). The average annual number of total listed companies from 2000 to 2023 was 5,399.

We saw an attempted reversal in the number of listed companies in 2020. By 2021, the total number of listed companies crossed the 6,000 threshold to reach 6,174 in 2021 and 6,093 in 2022. Unfortunately, the reversal was short lived, and the number fell in 2023 to 5,704. Despite the increase in IPOs in 2023, the number of listed companies declined -6.4% Y/Y.

We highlight the following for 2023:

- Total listed operating companies 5,704
    - Y/Y -6.4%
    - Down 20.7% since 2000
    - Up 18.6% from the 2012 trough
- Total domestic listed operating companies 4,315
    - Y/Y -7.0%
    - Down 31.2% since 2000
    - Up 10.4% from the 2019 trough

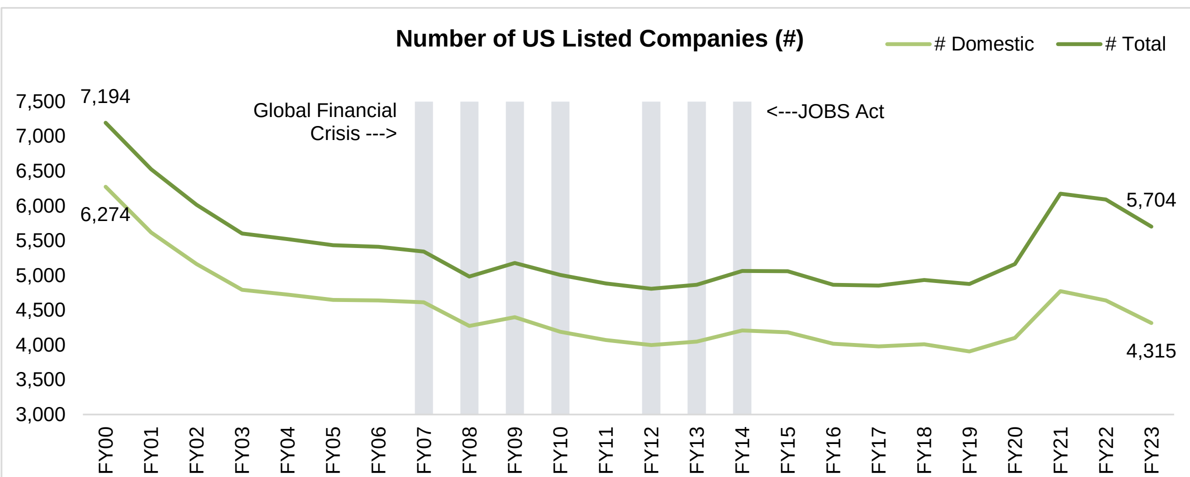


Source: World Federation of Exchanges

As the regulatory environment made going public less appetizing for companies – among other factors – the number of total listed companies has continued to decline from the 1996 peak. The trend continued through the global financial crisis, when rapidly declining market capitalizations triggered automatic delistings. From 2007 to 2008, the total number of listed companies in the U.S. declined 6.7%. NYSE and Nasdaq both temporarily lowered minimum market capitalization requirements to stave off an even greater decline in listings.

Then, in 2012, the JOBS Act was signed into law to ease regulatory burdens for smaller companies and facilitate capital formation. The objective was to boost small company IPOs, thereby creating more jobs and stimulating the economy. By 2014, the total number of listed companies increased 5.3% from 2012 levels. This upward trend was unfortunately short-lived, as the total number of listed companies stagnated for the next several years.

During the COVID time period, the total number of listed companies began to increase again, +5.8% Y/Y in 2020 and +19.6% Y/Y in 2021. The trend shifted to the negative in 2022, -1.3% Y/Y, and the downward trend continued through 2023, -6.4% Y/Y.



Source: World Federation of Exchanges

The Importance of Capital Formation

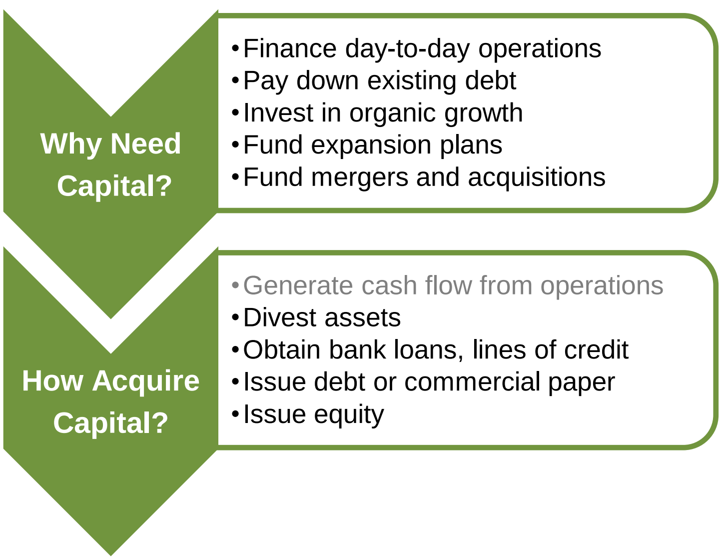
Defining Capital Formation

Companies may need capital for various business purposes. Earlier stage companies may need additional capital to grow to the next stage in the business life cycle. Or companies may need capital to expand organically or via acquisition, whether it be for product or regional diversification.

Firms have several ways they can acquire capital. Outside of generating cash from operations, firms can go to either the capital markets or loan markets. With capital markets, debt issuance is a more efficient and less restrictive form of borrowing for corporations than standard loan transactions. Capital markets typically function as shock absorbers during times of economic or market stress – whereas bank lending can dry up under strain – making capital markets a more stable source of funding. In the U.S., debt capital markets represent 74.9% of total financing for non-financial corporations (as of FY23).

Another capital markets vehicle is an initial public offering (IPO), during which a private company raises capital by offering its common stock (equity) to the public in the primary markets for the first time. Securities are issued at an established price, and the process is facilitated by investment banks acting as financial intermediaries. Shares then continue to trade between investors in the secondary market on exchanges or other trading venues.

Companies utilize capital markets to acquire capital in many ways, including:



Why Go Public?

This report focuses on companies issuing IPOs to acquire capital. IPOs allow businesses to grow, innovate, and better serve their customers. IPOs provide ways for innovative startups to become market leaders – think Amazon, Starbucks, or Apple – allowing them to grow more quickly, thereby increasing their contribution to the economy.

Further, being public creates significant public transparency for the business, as the requirements for public companies – including public financial statements and related earnings calls – allow investors to better understand the firm's strategy and financials, as well as the overall state of the industry in which a company competes. Going public brings can also bring added stability by providing a permanent and liquid source of capital.

Additionally, an IPO can assist a private company in:

- Incentivizing and rewarding employees who have worked to get the startup company running by providing liquidity opportunities to them through payouts at the IPO.
- Allowing the company to acquire other companies with its stock (going public may make raising debt easier as well). Many private company's shares are not valued as highly as they would be in public markets.[1]

For individuals, IPOs can provide an avenue for wealth creation. Private companies typically have a smaller number of shareholders than public companies, which can consist of early investors (founders, family members, and friends) and institutional and accredited investors (angel investors, venture capitalists, high net worth individuals). Individual investors typically do not participate in private markets or directly in the IPO process. Rather, when a company conducts an IPO, individual investors usually participate by getting access through their mutual funds or retirement plans – which are types of institutional investors – that received an allocation of shares in the IPO.

With many IPOs backed by private equity or venture capital sponsors, these sponsors will have a voice into the issuer's decision to go public or not. An alternative for a small business to go public is to be acquired by a larger company. Merger and acquisition (M&A) exits have become the primary liquidity vehicle for venture capital investors to exit their positions, a reversal from the past when IPOs dominated. Looking at SEC data from 2001 to 2011, IPOs represented less than 20% of private company exit transactions each year. This figure was around 50%+ for most of the years in the 1990s.

[1] There are exceptions, such as the unicorns (private companies valued at greater than $1 billion).

Market participants note it is common for technology and life sciences firms to choose M&A, in which the firms look to be sold to a technology giant or big pharmaceutical firm rather than conduct an IPO. The sector breakout for the S&P 500 at the end of 2023 indicated technology and health care represented 28.9% and 12.6% of the index respectively, or cumulatively 41.5%. If this percentage was to represent a proxy for the percentage of private firms deciding to conduct a sale via M&A rather than IPO, this could represent a large part of the recent population of companies that have not gone public.

In recent years, legislators and regulators regularly look to take steps to spur public capital formation. The objective typically is to give individual investors more access to invest in IPOs and to bring companies public earlier in their lifecycle before valuations get too high in the private markets, which can make the companies' shares more accessible to individual investors if the share prices are lower.

The IPO Process

Understanding Underwriting

Underwriting is the process during which investment banks (the underwriters) act as intermediaries, connecting the issuing company (issuer) with investors who purchase the issuer's initial set of public shares. Typically, companies sell 20-30% of their shares to the public – called the free float – although this varies by the company's stage in its business lifecycle, industry, etc. Investors may consider the deal riskier the lower the issued float, which could lower the demand for the IPO, unless it is a "hot" IPO (for example, Facebook issued only ~11% of its shares).

There are several types of common underwriting agreements, including:

- **Best Efforts Agreement** – Underwriters do not guarantee the amount of money to be raised for the issuer. Rather, underwriters agree to make a best effort to sell the shares on behalf of the issuer. The underwriters do not hold the liability of reselling the shares.

- **Firm Commitment** – Underwriters purchase the whole offering from the issuer and resell the shares to investors. This is the most common type of underwriting agreement, as it guarantees the issuer a fixed amount of money will be raised. The underwriters hold the liability of reselling the shares.

- **Syndicate** – While not a type of agreement per se, we note IPOs can be managed by a single underwriter, i.e. sole managed, or by a group of managers, a syndicate. In a syndicate, one investment bank is chosen as the lead manager or book runner. This bank chooses the other members of the syndicate, forming strategic alliances to ensure each investment bank sells a fixed amount of the IPO. This diversifies the risk (or liability) across a group of firms.

The underwriters will work with the issuer to determine what the IPO should look like and the best time to bring the deal to the market. Underwriters guide the issuer through the process, not only handling all of the required paperwork and performing a detailed analysis of the company, but also assisting management in addressing concerns of potential investors interested in the deal. For an investment banking team, timing of the IPO process itself will vary by deal and could take 6 months or longer. The pre-IPO process and winning the mandate to conduct the offering will also take many months (and realistically can take years to build a relationship with an issuer).

The length of time can vary by deal size, issuer size, and deal complexity. For example, a typical financial audit for a startup can take 30 days. This can grow to 60 to 120 days for a large operating company. The SEC review of the registration statement can take 60 to 120 days, assuming no complications. The stock exchange review – looking at the number of shareholders, amount of capital invested, shareholders' control of public float, etc. – can range from two weeks to three months. While this gives an indication of the amount of time spent by an investment banking team up to the IPO date, post IPO support from the sales and trading staff and research analysts will be ongoing.

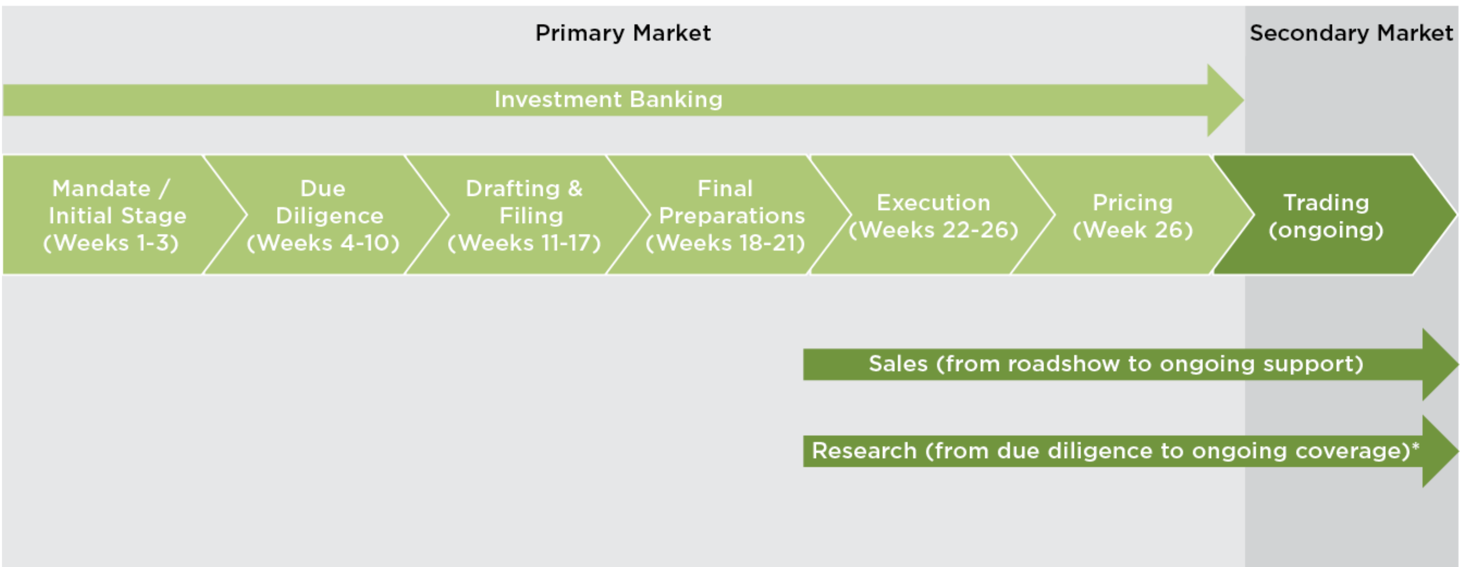
It is also important to note that the IPO can be withdrawn at any time prior to pricing. Frequently, private equity or venture capital sponsored companies will run a dual track process, including: (1) underwriters beginning the IPO process, due diligence, etc.; and (2) the sponsor firm shopping the company for an outright sale to another company, i.e. the company will not go public. Market participants estimate ~70% of IPOs are sponsor backed. These private equity or venture capital sponsors will therefore have a voice into the issuer's decision to go public or not.

Market participants indicate one out of every five deals brought to an investment bank are withdrawn prior to the IPO pricing date. Yet, the underwriters still have to perform all of the work and outlay the money for their own due diligence efforts, outside accounting services, and third party legal fees.

The underwriters take on the risk and opportunity cost – time that could have been spent on another deal or project – without a guarantee of deal completion.

Steps in the IPO Process

To illustrate the IPO process, we first diagram the steps in a sample deal. We note that this is a general description and timing can vary by deal:



Note: This is a general description, and timing can vary by deal. Firms may use different procedures or terminology. The research analysts' due diligence and launch of coverage is performed separately from the work by the investment banking team.

Next, we detail what is involved in these steps, again noting that these are general descriptions:

- **Pre-IPO Process** – Investment bankers meet with the company to discuss what they believe the firm is worth and how much stock they can reasonably sell. They are also updating the issuer on what value add their firm brings to the table, such as: industry expertise, reputation or IPO track record, and quality of research department and/or distribution capabilities (sales and trading capabilities, institutional client relationships, retail investor distribution). Relationship building between the investment bank and the issuer prior to the IPO will vary significantly based on prior association and other factors. The timing of this stage will vary as well.
- **Mandate/Initial Stage** – The issuing company selects the investment banks to underwrite its offering. A bank's past relationship with an issuer can be one factor in choosing both the lead and additional underwriters. The issuer plays a role in determining the number of underwriters in the syndicate. Most IPOs have at least a few book runners and a few more investment banks in the syndicate as co-managers (either due to past relationships or different distribution capabilities). Investment bankers will also select the auditor and meet with the listings exchanges (NYSE, Nasdaq) in this phase.
- **Due Diligence** – The due diligence process begins with the kick-off meeting, attended by all parties: company management, accountants and auditors, lawyers, and the investment bankers of the underwriters. This meeting sets the scene for who is responsible for what and the timing for the filing. Then the ongoing due diligence will begin.
    - **Investment Banking Team** – Investment bankers will analyze company financials, strategy, and operations. They will study industry trends to determine the future state of the industry. They will make customer calls – asking about their relationship with the company, if they have plans to increase/decrease business, etc. – to determine the company's reputation in the marketplace.
    - **Legal Team** – Lawyers will review contracts, registration forms, etc., as they begin preparing the registration statement.
    - **Accounting Team** – Accounts and auditors will need to vet the company's historical financial statements, tax returns, etc. A formal financial audit must be performed.

- **Drafting & Filing** – During this stage, the investment bankers will develop all necessary legal documentation and file the required SEC documents. This includes:
    - **Engagement Letter** – This is a standard letter determining the relationship between the issuer and underwriters and setting deal terms, including the underwriting fee (i.e., gross spread or underwriting discount).
    - **Letter of Intent** – This legal document states the investment banks' commitment to the issuer to underwrite the IPO. It also states the issuer's commitment to provide all relevant information and cooperate in the due diligence process. It often includes an agreement to provide the underwriter a 15% overallotment option (ability to sell more shares than the number originally agreed upon, up to a set percentage; often called a greenshoe option). It does not include the final offering price.
    - **Underwriting Agreement** – Once the securities are priced, the underwriting agreement is executed. The underwriters are now contractually bound to purchase the shares from the issuer at the specified price if it is a firm commitment deal agreement.
    - **Registration Statement (S-1)** – After a complete review of the issuing company, referred to as due diligence, the registration statement document is prepared. This document is designed to provide investors with adequate information to perform their own due diligence on the company prior to investing. It contains the historical financial statements of the company, management backgrounds, insider holdings, ongoing legal issues, and pertinent IPO information, including the ticker to be used once listed. It is split into: (1) the prospectus, the public document distributed to all investors and (2) private filings, or information for the SEC to review but not distributed to the public. (During this stage, investment bankers will also respond to any comments or questions from the SEC.) After the prospectus is filed with the SEC and before the IPO, the issuer's communications with investors about the deal are restricted while the SEC reviews the documentation. This cooling off period typically lasts 20 days.
- **Final Preparations** – During this stage, the investment bankers will respond to any additional comments from the SEC. They will also be preparing for the roadshow. Once the investment bankers finalize the valuation of the company, they will receive Board of Directors approval from the issuer.

- **Execution** – After receiving the go/no-go decision from the issuer, the initial prospectus[2] document is filed and used by underwriters and the issuer to market – or explain the company's story to investors – the IPO during a road show to investors interested in buying shares in the offering. This marketing period typically lasts around two weeks and enables underwriters to gauge the demand for the shares. As investors indicate how many shares they would be willing to buy and at what price, this information is used in pricing the shares.
- **Pricing** – Once approved by the SEC, an effective date is set for the IPO. One day prior to this date, underwriters and the issuer will determine the offering price, or the price the shares will be sold to the public, and the number of shares to be sold. The stock is priced at the market clearing level, based on demand gauged during the road show and other market factors. The price is set to attempt to ensure the issue is fully subscribed by investors. After the deal is priced, underwriters (along with issuer input) will allocate shares to investors. The objective is to maximize allocation to investors who will remain as long-term holders of the stock and promote a liquid after market.
- **Research Team Role** – Research analysts will begin their due diligence separately from the investment banking team. Management and the investor relations team of the issuer will meet with all of the research analysts in the sector to run through the company's strategic plans and financial statements. Analysts will develop their financial models and write their initiation of coverage research reports. In this stage, the analyst develops his or her investment thesis for the company and how it will rank against peers in the sector, i.e. stock recommendations. At the same time (but separately) the investment banking team is running the road show, research analysts will also be speaking with clients interested in taking part in the IPO about company fundamentals, growth potential, and how the company stacks up against the rest of his/her coverage universe. The stock recommendation is not issued at this time.
- **Stabilization** – Once the IPO is priced and the stock begins trading on exchange, the underwriters' job is not finished. They must provide market stabilization for the stock price for a short period of time after the IPO. For example, if order imbalances exist, i.e. the buy and sell orders do not match, underwriters will purchase shares at a certain level below the offering price to rectify the imbalance. Underwriters are responsible for providing liquidity, or market making, to maintain orderly markets immediately after the IPO.
- **Trading** – Underwriting firms will continue to make a market in the stock after the stabilization period. Market makers are firms which stand ready to buy and sell stocks on a regular and continuous basis at a publicly quoted price, i.e. facilitate trading (buying and selling) of the stock in the secondary markets and maintain liquidity in the stock. Market making will be an ongoing function of the trading desks.
- **Analyst Research** – Once an IPO opens, it trades as an uncovered stock, i.e. no analyst coverage. The SEC mandates a quiet period on research recommendations, lasting 10 days (formerly 25 days). Analysts will launch research coverage on the stock after this quiet period ends, making for a noisy trading day when all of the coverage reports come out.

[2] This is often referred to as the red herring document, which is an initial prospectus for investors containing company details but not inclusive of the effective date or the offering price.

Public Alternatives to IPOs

Direct Public Offerings

As an alternative to a traditional IPO, a direct public offering (DPO, also known as a direct placement) is where the company offers its securities directly to the public, without the use of underwriters as with an IPO. A direct listing is a form of a DPO in which the company becomes listed on an exchange (NYSE or Nasdaq) simultaneously with the offering. Since the company typically is selling existing shares, there is no dilution to existing shareholders and no capital is raised for the company. The terms of the deal are up to the issuer, including: offering price, effective date, length of offering period, minimum investment per investor, limit on the number of securities an investor can buy, etc. A DPO can be attractive to companies with an established and loyal customer base.

The process is typically less expensive and less time consuming than an IPO. Yet, a DPO is not without costs, which may include: marketing (traditional or social media ads, the roadshow with investors, etc.), attorney, and accountant fees. Additionally, if there are a large number of shares to sell or timing is crucial, the issuer may need to recruit a broker to sell a portion of the shares to its clients on a best effort basis.

Preparing a DPO can last days to a few months. Depending on the type of offering conducted by the company, the company may need to register its shares with the states or the SEC. The SEC has a number of exemptions from the requirement to register a securities sale with the SEC that could be relied upon in connection with a DPO, such as Regulation D. A DPO will still have to meet regulatory requirements of exchanges if it wants to be listed and traded on an exchange.

While potentially a shorter time period and less expensive, the company's stock could end up being less liquid than with an IPO. Lower liquidity means it will be harder for investors to sell or trade their shares and could also make the stock more volatile. With the possible exception of direct listings, the company will also most likely not have research coverage as with IPO stocks, whose syndicate investment banks begin covering the stock after the quiet period ends. This typically makes it more difficult to attract investors in the DPO.

While DPOs have been around for decades, they are not very common. One well known example was the ice cream company Ben & Jerry's, raising $750,000 from 1,800 investors in 1984 by selling shares directly to Vermont residents. Traditionally, it is small companies in industries such as food, technology, and biotech which conduct DPOs. More recently, direct listings have become more prevalent. For example, Spotify in April 2018 became one of the first large companies to list via a DPO on the NYSE.

Dutch Auction IPO

A Dutch auction, also is known as a descending price auction or a uniform price auction, is a price discovery process which can be used in an IPO to figure out the optimum price for a stock offering (the U.S. government also uses this process for the public offering of Treasuries). The price is not set by the underwriters. Instead, the company determines the number of shares they would like to sell and the price is determined by the bidders. Buyers submit a bid with the number of shares they would like to purchase at a specified bid price. A list is created, with the highest bid at the top. Once all the bids are submitted, the allotted placement is assigned to the bidders from the highest bids down, until all of the allotted shares are assigned. However, the price that each bidder pays is based on the lowest price of all the allotted bidders, or essentially the last successful bid. A Dutch auction encourages aggressive bidding because the nature of the auction process means the bidder is protected from bidding a price that is too high.

In 2004, Google (now Alphabet) decided to go with a Dutch auction IPO. In its regulatory filings, Google stated, “Many companies going public have suffered from small initial share float and stock price volatility that hurt them and their investors in the long run…we believe our auction-based IPO will minimize these problems.” Another reason for the choice of the Dutch auction was Google's business model was based on algorithmically auctioning advertising space alongside search results. Given its unique (at the time) business model, the company decided it also made sense to choose a different kind of auction to create its shareholder base. Its offering closed with a market capitalization of over $27 billion.

However, the success of Google did not set a new trend for untraditional IPOs, as the Google deal remains an anomaly.

Why Remain Private

Many market participants, regulators, academics, and legislators have weighed in over the years on the reasons for the decline in listed companies and number of IPOs. We review a few of those reasons here.

Litigation Concerns[3]

In December 1995, the U.S. Congress passed the Private Securities Litigation Reform Act (PSLRA) to try to prevent meritless securities lawsuits. From 1996 to 2023, 6,862 federal securities class actions had been filed (excluding IPO laddering filings, 313 in total). In 2023, there were 228 new cases filed, +10.7% Y/Y. For standard case filing allegations (90.4% of total filings), 31% related to missed earnings guidance, 29% related to misled future performance, and 11% related to merger integration issues. In 2023, the number of resolved cases declined to 190, 83.3% of total filings: 90 settlements, 47.4% of total resolutions; 100 dismissals, 52.6% of total filings. This was a 15% decline Y/Y and marked both a six-year decline and the lowest recorded level in the last ten years. Aggregate settlements for 2023 totaled $3.9 billion, -7.1% Y/Y (on inflation adjusted totals), with an average settlement value of $46 million, +17.9% Y/Y (albeit the increase in the average was largely driven by a single $1 billion settlement). The ten largest settlements in 2023 ranged from $90 million to $1 billion, accounting for over 66% of the total.[4]

These settlements can lead to significant investor losses. Since 2014, annual median investor losses ranged from $358 million in 2017 to $984 million in 2022. In 2023, the median was $923 million, -6.2% Y/Y but the second highest recorded value in this time series.[5] However, these figures could be underestimated, since losses can occur prior to lawsuit announcement dates. Investors typically anticipate lawsuit filings earlier than this date, once the company issues corrective disclosures to financial statements which usually lead to class action lawsuits. Additionally, this figure did not incorporate other negative impacts on shareholders, such as: reduced firm innovation and investment, higher insurance premiums for corporations, and a more conservative approach to voluntary corporate disclosures.

As such, litigation concerns have been listed as a reason companies choose not to go public. We note that this is only one reason, not the only concern for companies deciding to go public or not. Looking at one – not the only – example of litigation concerns, were turn back the clock to the then highly anticipated Saudi Aramco IPO in 2018. Litigation concerns were cited as one reason – not the only reason – Saudi Aramco decided not to list in the U.S. This IPO was, at the time, expected to raise around $200 billion, creating a roughly $2.0 trillion market cap company. This would have been a significant feat at the time, since there were not $1 trillion market cap companies on average for 2018 (though AAPL had around a three month period where its market cap was above this level). At the writing of this report, we had six companies with market caps over $1 trillion and five companies over $2 trillion.

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[3] This section references private securities litigation, not enforcement actions by the SEC.
[4] Source: NERA
[5] Source: NERA. To estimate the potential aggregate loss to investors as a result of investing in the defendant's stock during the alleged class period, NERA has developed a proprietary variable, NERA-Defined Investor Losses, using publicly available data.

A New York listing would have given the company access to the deepest pool of investors. However, the company noted that, among other reasons, a U.S. listing risked class action lawsuits based on violations of U.S. regulations on how and when to make disclosures (there are strict rules on reserves and data disclosures for oil companies). Legal advisors to the company noted that, in addition to potential class action lawsuits, the U.S. had aggressive shareholder lobby groups.

This could have made its assets in the U.S., including Motiva, open to legal action. Motiva Enterprises is a fully owned affiliate of Saudi Refining Inc. (controlled by Saudi Aramco), headquartered in Houston, Texas and operating as a U.S. company. At that time, Motiva operated three refineries (1.1 million barrels of crude oil per day), including the largest oil refinery in the U.S. in Port Arthur, Texas (crude capacity over 630,000 barrels per day). Under exclusive, long-term brand licenses for the Shell and 76 brands, Motiva's marketing operations supported over 5,000 retail gasoline stations. Motiva had around 2,300 employees. Concerns at that time were that litigation could put its Motiva's operations and growth plans to invest in the U.S. – develop a petrochemicals business, increase refining capacity and expand commercial operations – in jeopardy.

Instead of listing in the U.S., in 2019, Saudi Aramco listed on the Tadawul Stock Exchange in Saudi Arabia.

Declining Research Coverage

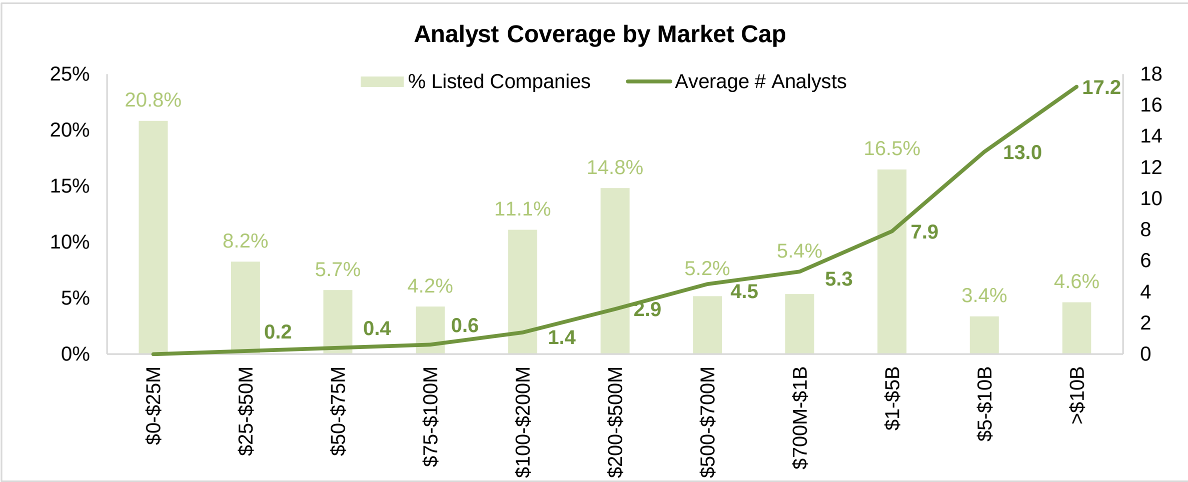
Sell side analysts play a critical role in guiding investors' investment decisions. Decreased analyst coverage creates concerns that investors are not as well informed and would, therefore, not be able to adjust quickly to shifts in market trends or updates to company fundamentals or growth trajectories. This is particularly true for small cap companies, which have fewer analysts to help explain their story to investors. Therefore, lack of analyst coverage can potentially be a deterrent to going public.

For many asset managers to hold a company's stock, the company needs to have research coverage. After the 2003 global research settlement, resources to support sell side research declined, at a time when industry consolidation and decreasing commissions were already pressuring the cash equities business. From 2012 to 2017, according to prior Coalition research (now Coalition Greenwich), cash equity revenues at the twelve largest investment banks declined 16.4%.

As revenues declined, it became more difficult for analysts to pick up coverage of small and mid cap names. Junior/emerging analysts looking to launch first-time coverage could present a business case to management to pick up smaller names. For example, the recommended company develops a niche product which competes with a larger company covered by the senior analyst, meaning the new coverage would complement the coverage of the larger stock. Management would have to make a call based on a cost/benefit analysis. It was not always an easy case to win. (It has also been said that the growth in passive investments and the impacts of MiFID II made the economics even harder.)

As such, research headcount and budgets came down. According to prior Coalition research, from 2012 to 2016, headcount in research departments at the twelve largest investment banks declined 9.8%. Over the same time period, prior Frost Consulting research showed research budgets at major investment banks declined 20.0%. The declines at research departments can create impediments to capital formation. Since many institutional investors cannot invest in companies without research coverage, companies that do not anticipate broad coverage may not go public.

As shown in an old SEC analysis, the number of analysts covering a stock is linear from small cap to large cap companies. It is therefore logical that as the number of research analysts continues to decline, the impact will be proportionately larger on small caps. Market participants indicate the average company with a market cap of $500 million or less used to have three to four analysts covering it; this figure has moved downward to one to two analysts.



Source: SEC Office of Economic Analysis

Note: Data includes 6,754 companies from Vickers, I/B/E/S & Compustat as of December 31, 2004 (market cap as of March 31, 2005); excludes ADRs. The number of sell-side analysts is the number of 1-year ahead earnings forecasts; missing values for number of analysts are set equal to zero.

Growth in Index Investments

Along with declining budgets and MiFID II (among other factors), some market participants attribute the growth in index, or historically referred to as passive, investments – investments benchmarked to an index, such as mutual funds or exchange-traded funds (ETFs), as well as direct indexing – as another reason for the decline in research coverage. Since these investments hold stock positions to match weightings in the index, individual stock analysis is not as relevant, if at all. This results in less analyst coverage, particularly for small and mid cap companies.

For investors, more analyst coverage provides for greater information amalgamation and communication of this information. For issuers looking to go public, research coverage is essentially a requirement for many institutional investors to buy their stock. As such, a lack of research coverage is considered a deterrent to companies considering an IPO.

Index investing has continued to grow. At the end of 2023, mutual fund AUM was $25.5 trillion, +15.4% Y/Y with a 7.6% five-year CAGR. ETF AUM was $8.1 trillion, +24.8% Y/Y with a 19.1% five-year CAGR. (In comparison, total equity market cap ended 2023 at $49.0 trillion.)

The breakout for mutual funds in 2023 was: 52.1% equity funds, versus 23.2% money market funds, 18.6% bond funds, and 6.1% hybrid funds. For ETFs, the breakout was: 79.4% equities, versus 18.5% bonds, and 1.7% commodities, and 0.4% hybrid. The ETF style breakout was: 92.1% index, 6.4% active, and 1.5% other[6]. Additionally, we note that, as of the end of 2023, ETFs as a percent of total U.S. cash equities volumes averaged 20.4%.

This means that over half of mutual funds and over three quarters of ETFs were equity focused in 2023, providing alternatives to single stock investing, making analyst coverage not as – if at all – necessary.

[6] Non 1940 Act/not SEC registered.

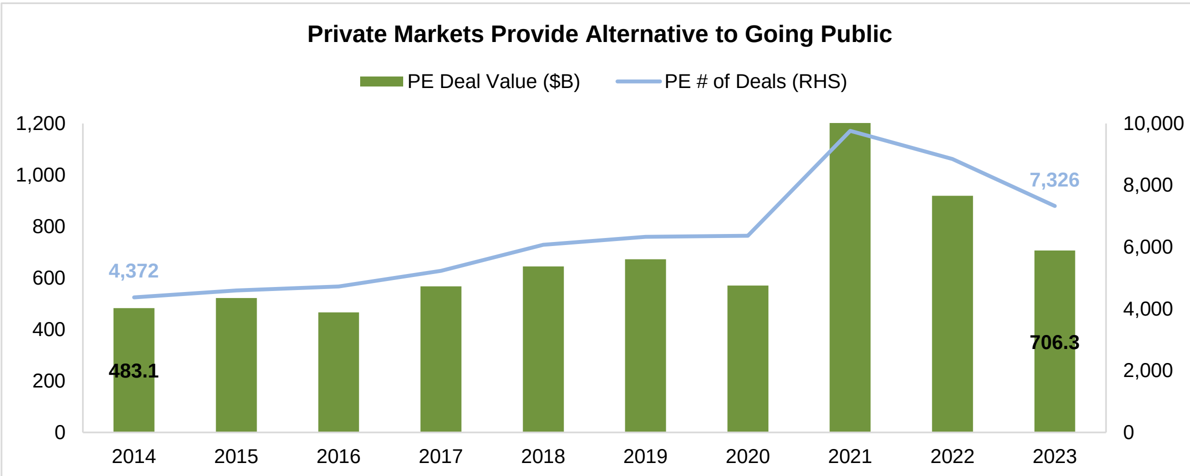
Growth in Private Markets

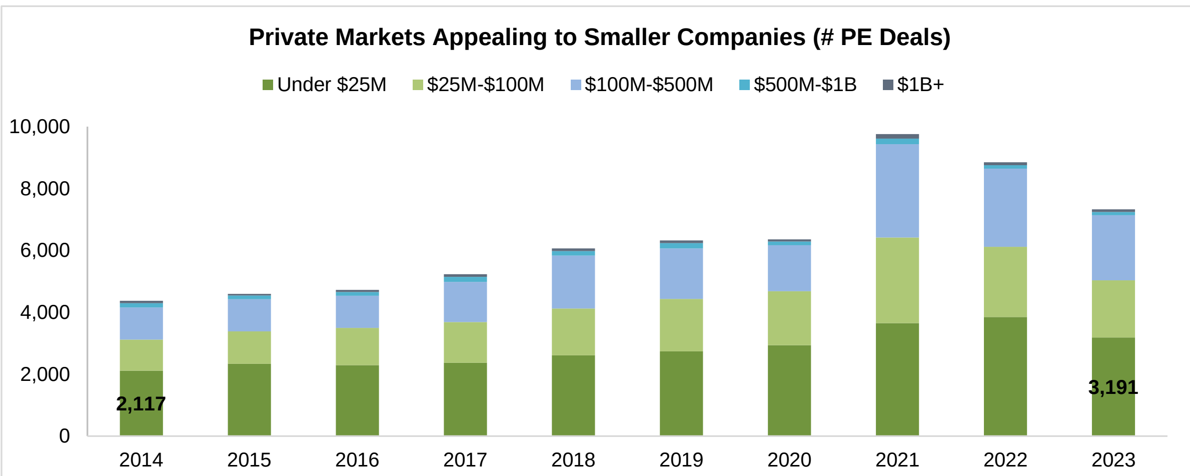
Since the global financial crisis, private markets have been readily available for companies to raise capital – particularly growing companies – and these markets continue to grow. In the private markets, new and emerging companies can obtain access to capital to grow their businesses without being subject to the expenses and burdensome logistics of reporting and other ongoing obligations associated with public companies. Going public may make sense for mature companies that need a large capital raise for further expansion and development. In contrast, private companies tend to be smaller and in the early development stage for products and/or services. These companies require capital, but not at the scale where public markets make sense.

For private companies, the founders' and general partners' expertise, desire to grow, and hard work are essential to the company's success. Such companies generally seek limited partner funding to spread the risk and obtain capital in amounts necessary to get to the next stage of development. With minimal track record, these companies often match with investors accustomed to evaluating the opportunities and risks of early-stage companies. Keeping the investor base small and private enables these companies to focus on growing the company. Even as a private company matures, remaining private may continue to be preferable. These companies may prefer to continue working with a small group of private investors rather than multiple public shareholders on the equity side or utilize private credit markets instead of issuing bonds or obtaining bank loans on the credit side.

The growth in the private markets has provided greater opportunities for companies and investors alike, thereby making private financing more attractive. On the other hand, private markets are typically less liquid than public markets given the smaller pool of investors, more bespoke investments, and smaller issuers with limited track records. Public capital markets have more stable long-term investors, more prospective investors, and market makers to provide liquidity and keep markets functioning efficiently, in addition to a robust regulatory structure supporting these markets. Additionally, public markets are available to all investors – including retail investors – while private markets are more limited to institutional and high net worth investors.

Historically, concerns existed about the longevity and stability of private markets under times of economic or market stress. Private markets continue to adapt and mature to mitigate structural risks and drawbacks relative to public markets. Companies and investors each weigh the factors and trade-offs associated with different forms of financing offered across markets.





Source: PitchBook, SIFMA estimates

Listing Exchanges

When an operating company decides to go public, it will become listed on a national securities exchange. The listing exchanges have their own criteria – in addition to the SEC requirements for a company to go public – for firms to qualify to list on their exchange. These quantitative requirements typically focus on the financial status of a company (revenue, income, cash flows, operating history, etc.), as well as the number and types of shareholders, the amount and value of publicly held shares after the IPO, and the percentage of public float. Exchanges also have qualitative listing standards – for example, public policy considerations – and hold broad discretion regarding the listing of a company. Once a stock lists on one exchange, it may then trade on the other exchanges.

The corporate listings business is highly competitive. As such, there are only two main listings exchanges for operating companies in the U.S., the New York Stock Exchange[7] (NYSE) and Nasdaq.[8] As of 2023, Nasdaq listed 3,389 operating companies and NYSE listed 2,260 operating companies.[9] These incumbent exchanges have long track records and strong brand power to attract new issuers. On an ongoing service basis, these exchanges offer not only their trading capabilities, but also additional listing-related services such as investor relations services, use of conference and meeting space, data analytics tools, etc.

As shown in the table, Nasdaq listed deals went from 3,215 in the 1990s to 760 in the 2010s, in line with the overall decline in industry IPOs. NYSE went from 779 to 559. So far, for the first four years of the 2020s, Nasdaq had 631 deals and NYSE 172.

	1990s	2000s	2010s	2020s
Nasdaq				
# Deals	3,215	950	760	631
$ Billion	139	111	123	165
NYSE				
# Deals	779	431	559	172
$ Billion	155	219	237	102
Total				
# Deals	3,994	1,381	1,319	803
$ Billion	293	329	360	268

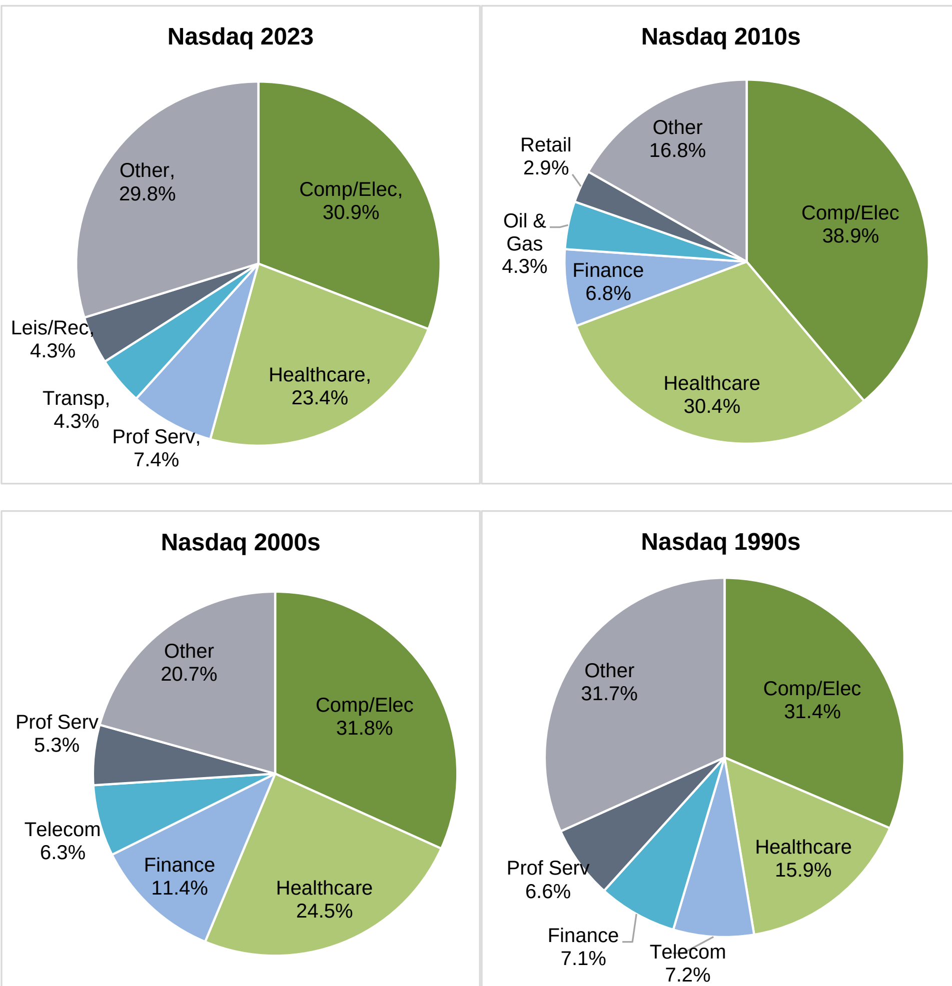
Source: Dealogic
Note: 2020s through 2023. Excludes BDCs, SPACs, ETFs, CEFs, and rights offers.

[7] Intercontinental Exchange (ICE) owns the NYSE exchanges, as well as other exchanges and clearing houses.
[8] We note that this is for the listing of operating companies, not listing of ETFs, options, etc. We also note that there are other exchanges listing operating companies – Cboe global Markets for its own stock, MEMX, and LTSE – just not at the same scale given business preferences.
[9] Source: World Federation of Exchanges

Sector Breakout Across Exchanges

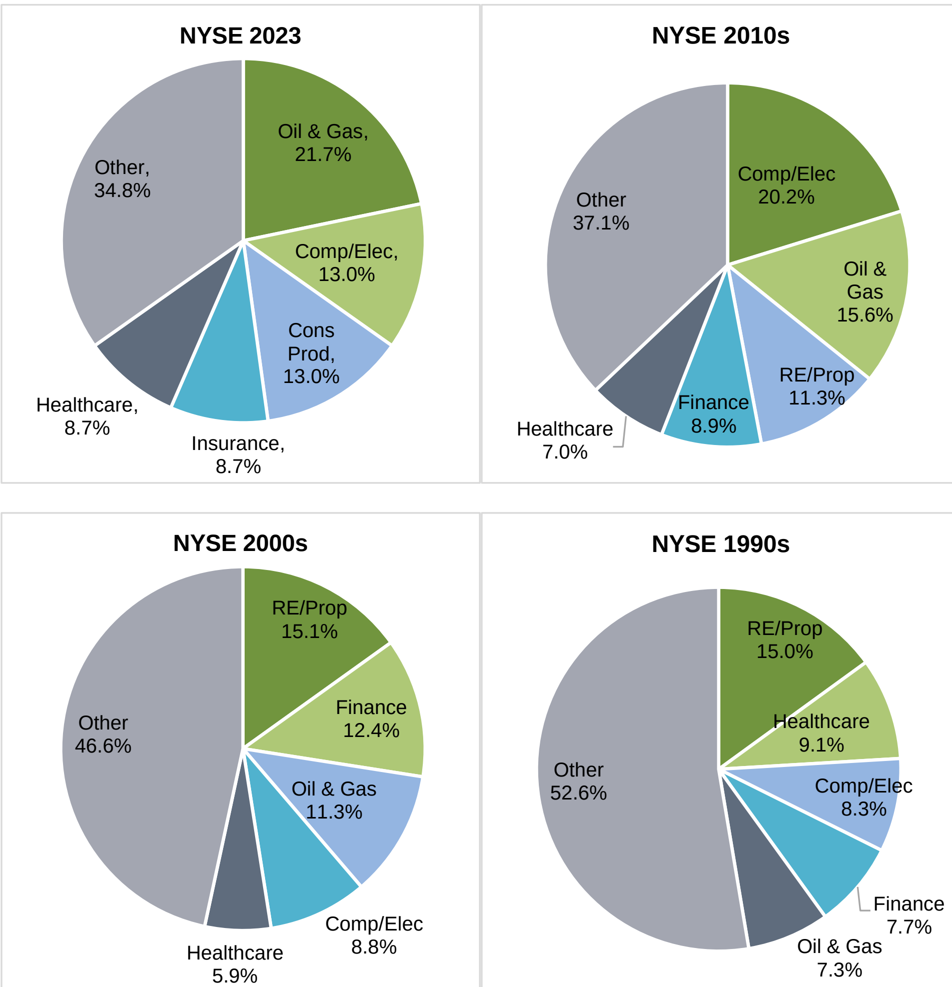
As noted above, in 2023, the total market IPO breakout was: Computers & Electronics 41.0%, Consumer Products 29.3%, and Healthcare 13.8%. On the following pages, we show the IPO sector breakout by each listing exchange:

Nasdaq: Computers & Electronics (technology) has remained the top IPO sector, roughly around 30% over the decades (closer to 40% in the 2010s). Healthcare remained in the second spot.



Source: Dealogic
Note: Excludes BDCs, SPACs, ETFs, CEFs, and rights offers. Comp/Elec = Computers & Electronics; Telecom = telecommunications; Leis/Rec = leisure and recreation; Transp = transportation; Prof. Serv. = Professional Services.

NYSE: NYSE remains diversified in its IPO sector breakout. Computers & Electronics (technology) has been in the top five throughout decades, at 13.0% in 2023.



Source: Dealogic
Note: Excludes BDCs, SPACs, ETFs, CEFs, and rights offers. Comp/Elec = Computers & Electronics; Telecom = telecommunications; Leis/Rec = leisure and recreation; Transp = transportation; Prof. Serv. = Professional Services.

Regulation & Legislation

Sarbanes-Oxley Act (SOX, 2002)

https://www.congress.gov/bill/107th-congress/house-bill/3763
https://www.govinfo.gov/content/pkg/COMPS-1883/pdf/COMPS-1883.pdf

Catalyst: Accounting malpractice in the early 2000s (Enron Corporation, Tyco International, WorldCom)

Objective: To improve financial disclosures by corporations and prevent accounting fraud.

Details:

In July 2002, the Sarbanes-Oxley Act was passed to weed out corporate accounting fraud by holding management of and auditors to public companies accountable to assess and attest to internal controls for financial reporting, as well as other changes, including the following:

- Section 404 holds CEOs personally responsible for errors in accounting audits, requiring corporate executives to certify the accuracy of financial statements personally. If violations are found, CEOs could face criminal penalties including jail time. It also requires public companies to maintain adequate internal controls and procedures for financial reporting. Public companies' auditors also have to attest to these controls and disclose material weaknesses.
- SOX created the Public Company Accounting Oversight Board (PCAOB) to oversee the accounting industry and set standards for audit reports, requiring all auditors of public companies to register with them. The PCAOB investigates and enforces compliance with these standards and prohibits accounting firms from doing consulting business with the companies they are auditing (excluding tax consulting).
- It banned company loans to executives and directors, with certain exemptions (standard credit card or other type of loans made to the general public on similar market terms).
- SOX gave protections to employees (and contractors) reporting fraud against their employers. Companies cannot change the terms and conditions of employment, reprimand, fire, or blacklist whistleblowers.
- SOX established rules around research analysts' potential conflicts of interest, including: restricting the approval of research reports by persons either engaged in investment banking activities or not directly responsible for investment research; limiting the supervision and compensatory evaluation of research analysts to personnel not engaged in investment banking activities; prohibit retaliation against a research analyst as a result of unfavorable research adversely affecting the investment banking relationship; and separating research analysts from the review, pressure, or oversight of personnel involved in investment banking activities. SOX also directed research analysts and broker-dealers to disclose specified conflicts of interest.

Jumpstart Our Business Startups Act (JOBS, 2012)

https://www.sec.gov/spotlight/jobs-act.shtml
https://www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf

Catalyst: Decline in small company IPOs

Objective: Encourage business startups and improve access to public capital markets for emerging growth companies.

Details:

In April 2012, the JOBS Act was signed into law. With the objective of boosting small company IPOs to create more jobs and stimulate the economy, it was an effort to ease regulatory burdens for smaller companies and facilitate capital formation. This act made amendments to Securities Act of 1933 and the Securities Exchange Act of 1934, including:

- **Title I – Reopening American Capital Markets to Emerging Growth Companies**: Title I established a new definition for an emerging growth company (EGC), defined as an issuer: (a) with total annual gross revenues of less than $1 billion during its most recently completed fiscal year, (b) that does not have greater than $700 million in public float following the IPO, and (c) has not sold common equity securities as of December 8, 2011 (the first sale of equity securities is not limited to a company's initial primary offering; for example, offering common equity in an employee benefit plan would constitute a sale of equity securities). A company may continue to be an EGC for the first five fiscal years following the IPO, unless: total annual gross revenues reach $1.07 billion or more, it issued greater than $1 billion in non-convertible debt in the past three years or it becomes a large accelerated filer. EGCs are authorized to include less narrative disclosures, particularly around executive compensation, and provide audited financial statements for two years versus the standard three. EGCs do not need auditor attestation to SOX and can defer complying with certain changes in accounting standards. Further, EGCs may use test-the-waters communications with qualified institutional and accredited investors during its IPO. Title I also eased restrictions on communications between a research analyst and a potential investor during an EGC IPO, as well rules prohibiting research analysts from participating in communications with the EGC management team when other associated persons of a broker-dealer are in attendance.
- **Title II – Access to Capital for Job Creators**: Title II revised prohibitions under the Securities Act against general solicitation and advertising. The prohibitions in these rules cease to apply to Rule 506 offerings, if all purchasers are accredited investors, or to Rule 144A offerings, if the securities are only sold to qualified institutional buyers. Title II also provided exemptions from broker-dealer registration for securities offered under Rule 506 if the entity only maintains a platform offering, selling, purchasing, or negotiating securities or permits general solicitation/advertising.
- **Title III – Crowdfunding**: Crowdfunding is the raising of capital from a large number of investors whose individual investments are limited. Title III permits crowdfunding by U.S. domiciled issuers if the aggregate amount sold, including amounts sold pursuant to crowdfunding in the prior 12 months, is not greater than $1 million. Additionally, the total amount sold to an individual investor, including amounts sold pursuant to crowdfunding in the prior 12 months, cannot exceed: the greater of $2,000 or 5% of the investor's annual

income or net worth, if the investor's annual income or net worth is less than $100,000; or 10% of the investor's annual income or net worth not to exceed $100,000, if the investor's annual income or net worth is greater than $100,000. The transaction must be conducted through an intermediary, and the issuer is required to comply with SEC disclosure and filing obligations, limitations on advertising, limitations on compensating promoters and disclose results of operations and financial statements not less than annually.

- **Title IV – Small Company Capital Formation**: Title IV expanded exemptions from registration under Section 3(b) of the Securities Act, building on Regulation A (exemptions from certain registration requirements for public offerings of securities not exceeding $5 million in any one-year period). There are two tiers of offerings under Regulation A+: Tier 1, for securities offerings up to $20 million in a 12-month period; and Tier 2, for securities offerings up to $50 million in a 12-month period. Rules for offerings under Tier 1 and Tier 2 speak to issuer eligibility, offering circular contents, testing the waters and bad actor disqualification. The filing process for all offerings aligns practices for registered offerings and creates additional flexibility for issuers, while establishing an ongoing reporting regime for certain issuers. Tier 2 issuers are required to include audited financial statements in their offering documents and to file annual, semiannual, and current reports with the SEC on an ongoing basis. Apart from securities that will be listed on a national securities exchange, purchasers in Tier 2 offerings must either be accredited investors or be subject to certain limitations on their investment. Tier 2 offerings are not required to register with state securities regulators and are therefore exempt from state Blue Sky reviews. Tier 2 offerings may be sold to non-accredited investors, if no more than: (a) 10% of the greater of annual income or net worth; or (b) 10% of the greater of annual revenue or net assets at fiscal year end (non-natural persons). This limit does not apply to securities that will be listed on a national securities exchange.
- **Title V – Private Company Flexibility and Growth and Title VI – Capital Expansion**: Under the JOBS Act, an issuer is not required to register under Section 12(g) of the Securities Act until it has over $10 million in assets and a class of equity securities (other than exempted securities) held of record (excluding securities received in an employee compensation plan) by either 2,000 persons or 500 persons who are not accredited investors. An issuer that is a bank, bank holding company or savings and loan holding company is required to register a class of equity securities if it has greater than $10 million in total assets and the securities are held of record by 2,000 or more persons, and they may terminate or suspend registration if the securities held of record are by fewer than 1,200 persons.

Jobs Act 2.0 (2015)

https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf
https://www.sec.gov/news/pressrelease/2016-6.html

Catalyst: Decline in small company IPOs

Objective: Ease regulatory burdens for small companies to facilitate capital formation

Details:

In December 2015, the Fixing America's Surface Transportation Act (FAST Act) was signed into law. This act represents JOBS Act 2.0, as it included several provisions to enhance the JOBS Act. The focus was on improving access to the capital markets for small businesses by easing regulatory burdens, without removing investor protections. It included the following changes to reporting and disclosures, among others:

- **Title LXXI – Improving Access to Capital for Emerging Growth Companies:** This section reduced the number of days an EGC must publicly file its IPO registration statement before its roadshow to 15 from 21 and established a grace period for EGCs that lose their EGC status while in registration for their IPO (actively in the SEC review process), allowing EGC rules to apply throughout the process. If the EGC loses its EGC status during the confidential review of its draft IPO registration statement, it would need to publicly file a registration statement to continue the review process and comply with current non-EGC regulations. This section also permitted smaller reporting companies to use forward incorporation by reference to update information in a Form S-1 or Form F-1 after the registration statement is declared effective. This enables the IPO prospectus to stay current through the automatic inclusion of the issuer's current and future filings, avoiding costs and delays associated with updates via prospectus supplements or post-effectiveness amendments. This section further enabled EGCs to omit from their IPO registration statements certain historical financial information otherwise required by Regulation S-X, provided: the omitted financial information relates to a historical period that the EGC reasonably believes will not be required to be included in the Form S-1 or Form F-1; and the registration statement is amended to include all financial information required by Regulation S-X prior to the distribution of a preliminary prospectus to investors.
- **Title LXXII – Disclosure Modernization and Simplification:** This section permitted companies to submit a summary page on Form 10-K, as long as each item on the summary page includes a cross-reference to the related material in Form 10-K. It simplified Regulation S-K (reporting requirements for SEC filings for public companies), scaling or eliminating certain requirements to reduce the burden on all public companies, except large accelerated filers, while still providing all material information to investors. This section also called for the elimination of provisions under Regulation S-K, for all issuers, that are duplicative, overlapping, outdated or unnecessary. The act simplified the disclosure provisions under Regulation S-K to modernize and simplify it in a manner that reduces costs and burdens on issuers, including: a company-by-company approach to eliminate boilerplate language and static requirements; and methods of information delivery and presentation that discourage repetition and the disclosure of immaterial information.

Markets in Financial Instruments Directive (MiFID II, 2018)

https://www.esma.europa.eu/policy-rules/mifid-ii-and-mifir

Catalyst: Updates to MiFID (applicable since November 2007)

Objective: Strengthen investor protection and make financial markets more efficient, resilient, and transparent.

Details:

Financial markets in the European Union had been operating under the Markets in Financial Instruments Directive (MiFID) since November 2007. MiFID was meant to increase the competitiveness of Europe's financial markets by creating a single market for investment services and activities and to ensure a high degree of harmonized protection for investors in financial instruments. In June 2014, the Markets in Financial Instruments repealing Directive and the Markets in Financial Instruments Regulation (MiFID II and MiFIR) were published in the EU Official Journal. The objective was to ensure fairer, safer, and more efficient markets and facilitate greater transparency for all market participants, including: new reporting requirements to increase the amount of information available and reduce the use of dark pools and over-the-counter (OTC) trading; rules governing high-frequency-trading to impose a strict set of organizational requirements on investment firms and trading venues; and provisions regulating non-discriminatory access to central counterparties, trading venues, and benchmarks to increase competition.

Rules for investment research payments under MiFID II, which went live on January 3, 2018, sought to increase transparency by unbundling payments for execution and research.

Update to MiFID II: SEC No-Action Relief (2018-2023)

https://www.sec.gov/news/statement/uyeda-statement-staff-no-action-letter-07-05-2023

Catalyst: Update to MiFID II (applicable since November 2018)

Objective: End SEC no-action relief

Details:

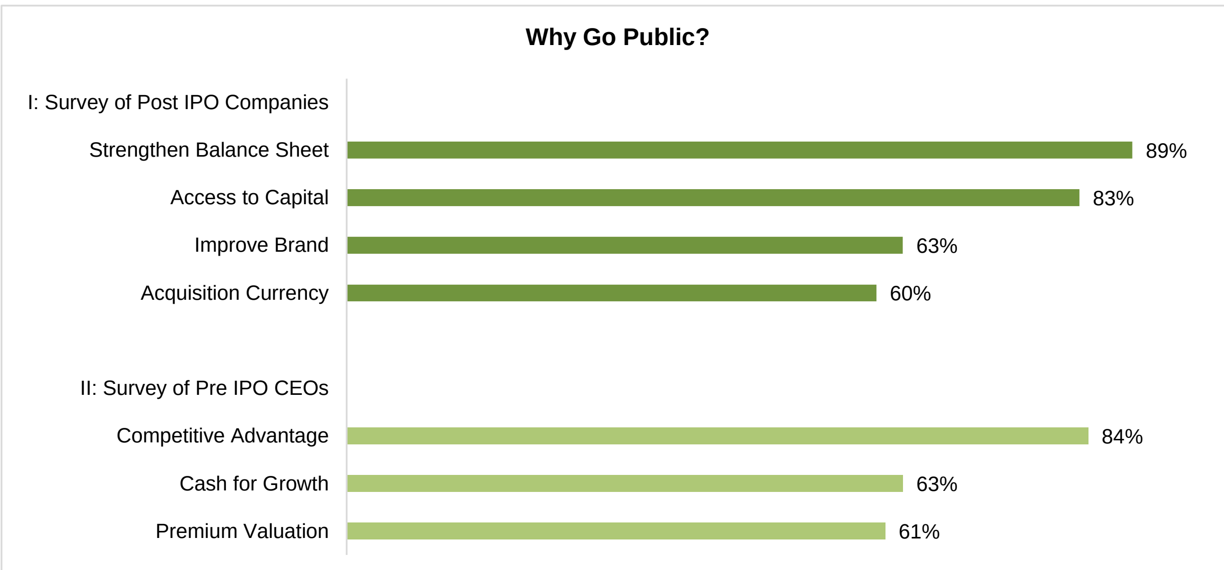
While MiFID II was technically a European regulation, financial services is a global business. As MiFID II presented challenging conflicts of law issues as to how U.S. broker-dealers could be paid for research, the SEC staff provided time-limited relief in the form of a no-action letter to permit broker-dealers to receive separate payments for research without being subjected to regulation as investment advisers.

On July 3, 2023, the no-action relief expired. The expiration of the SEC MiFID II no-action letter was anticipated to have significant implications on the research and asset management industries. In a 2023 SIFMA survey, 96% of sell-side respondents indicated that they were unsure if their firms will be forced to terminate or restrict access to research as a result of the expiration of the no-action relief.

Appendix: 2011 SEC Study

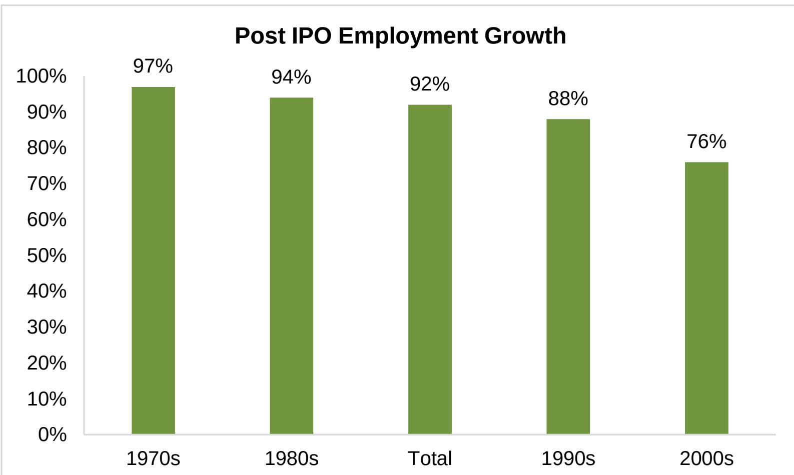
In the original version of this primer, we included a study from the SEC IPO Task Force's August 2011 CEO Survey. The survey was undertaken ahead of the passing of the JOBS Act. While we still find the results interesting – and believe much of it is still applicable to today's business environment – the survey is over a decade old. As such, we have moved it to the appendix.

The CEO's interviewed noted the following reasons they chose to go public:



Source: SEC IPO Task Force August 2011 CEO Survey
Note: Respondents could select multiple reasons, not meant to sum to 100%. I: Survey of post IPO companies – why go public? II: Survey of pre IPO CEOs – why target an IPO to finance growth.

From an economic perspective, capital formation benefits the economy and promotes job growth. According to the same SEC report, on average since the 1970s, 92% of a company's job growth occurs after the IPO, with most of that occurring within the first five years. The post IPO employment growth figure dropped to 76% on average for the 2000s, as shown in the chart below. (In another SEC survey of 35 CEOs going public in 2006 or later – 57% IT, 29% life sciences and 9% non-high tech companies – the average post IPO job growth figure was 86%.)



Source: SEC IPO Task Force August 2011 CEO Survey (also sourcing Venture Impact 2007, 2008, 2009, & 2010 by IHS Global Insight)

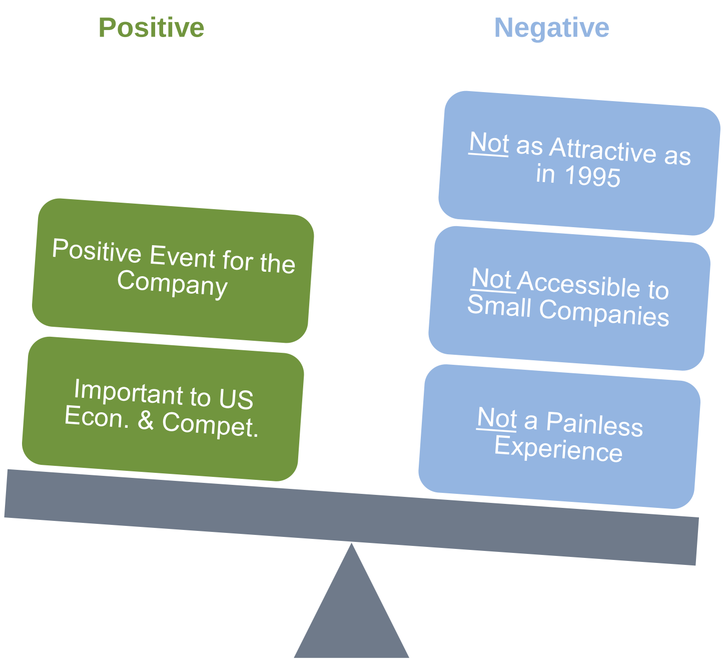
According to the same SEC study, public companies originally backed by venture capital represented 21% of total U.S. GDP from 2008-2010. Revenue growth at these same companies was 1.6% from 2008-2010, outpacing total U.S. sales growth of -1.5% for the same time period.

However, with an estimated 70% of IPOs sponsor backed, these private equity or venture capital sponsors will have a voice into the issuer's decision to go public or not. An alternative for a small business to going public is to be acquired by a larger company. M&A exits have become the primary liquidity vehicle for venture investors to exit their positions, a reversal from the past where IPOs dominated. Looking at SEC data from 2001 to 2011, we estimated IPOs represented less than 20% of private company exit transactions each year. This figure was around 50%+ for most of the years in the 1990s.

While companies have many reasons for wanting to go public and still need capital, the CEO's interviewed in the SEC survey swayed to the negative when assessing their IPO experience:[10]

- 100% agreed a strong and accessible IPO market is important to the U.S. economy and global competitiveness; in a second survey, 94% agreed a strong and accessible IPO market is critical to maintain U.S. competitiveness.
- 86% agreed it is not as attractive an option to go public today as in 1995; 85% agreed in a second survey.
- 83% agreed going public has been a positive event – but not experience – in the company's history.
- 23% agreed the U.S. IPO market is accessible for small companies; in a second survey, 9% agreed the U.S. IPO market is currently easily accessible for small cap companies.
- 17% agreed going public was a relatively painless experience

The IPO Experience



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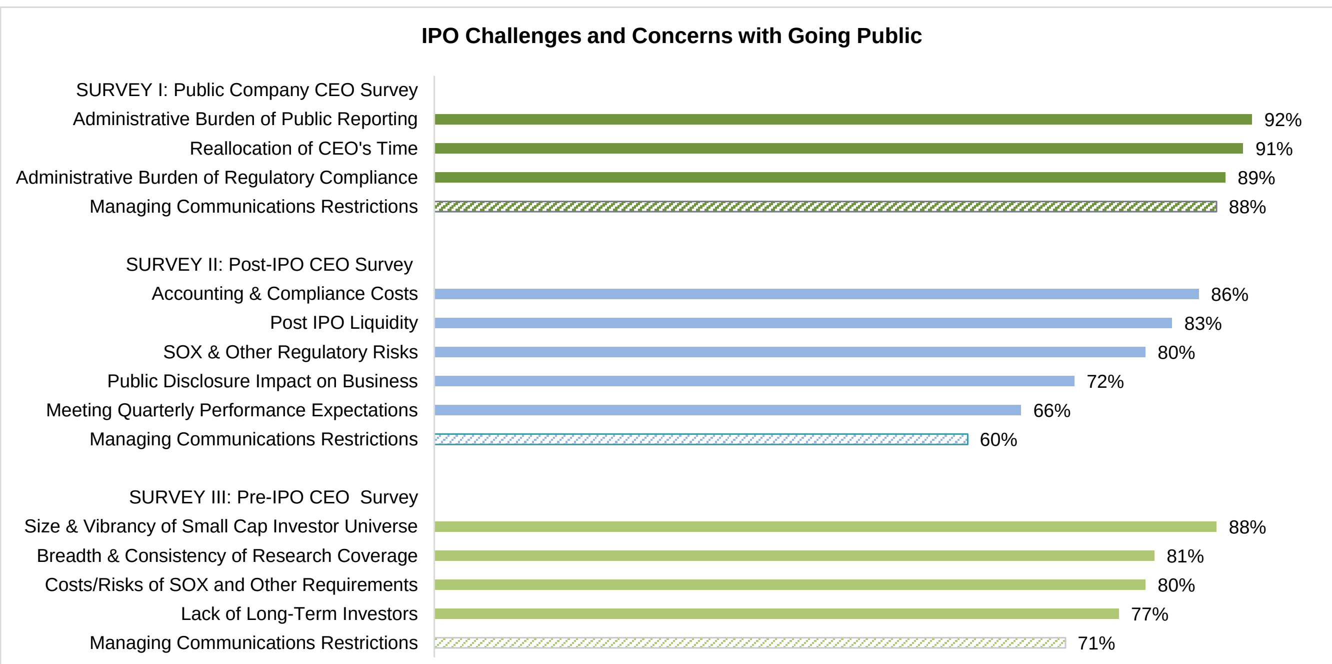
[10] SEC IPO Task Force August 2011 CEO Survey. First survey = public company CEOs; second survey = pre-IPO CEO sentiments on U.S. IPO market. Econ = economy; compet = competitiveness.

We grouped together results from several CEO interviews in the SEC survey report, as concerns related to managing communications restrictions appear in all three surveys, ranging from 88% for public companies to 60% for post-IPO survey responses. Throughout the lifecycle – pre IPO, post IPO, established public company – restrictions on communications are always top of mind for CEOs. According to the three surveys shown below, this concern appears to grow as companies move deeper into their public life. This points to both regulatory requirements and litigation concerns as deterrents to going public.

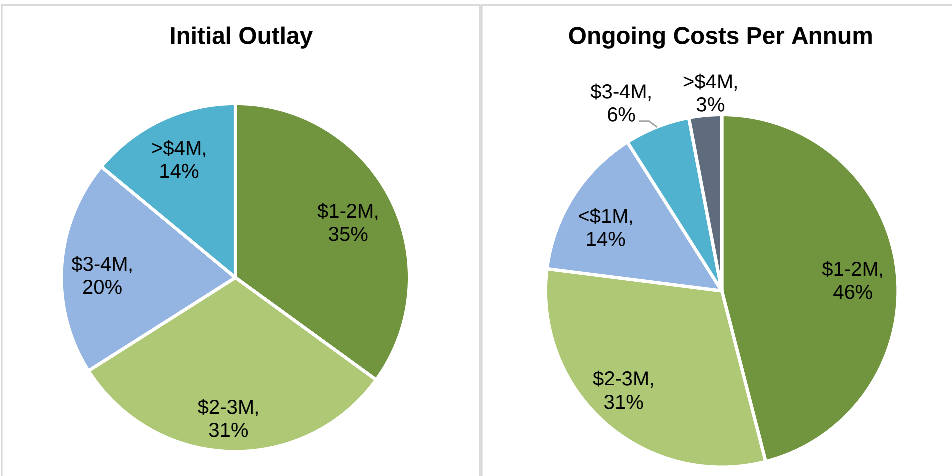
- Administrative burden scores quite high, for both public reporting (92%) and regulatory compliance (89%).
- On the cost side, accounting and compliance as well as SOX and other requirements score high (86% and 80% respectively).
- The opportunity cost of reallocating the CEO's time also scores very high (91%).
- Both size and vibrancy of investor universe and breadth and consistency of research coverage score high as well (88% and 81% respectively).



Source: SEC IPO Task Force August 2011 CEO Survey

Note: Respondents could select multiple reasons, not meant to sum to 100%. I: Survey of public company CEOs – most significant IPO challenges. II: Survey of post-IPO CEOs – biggest concerns about going public. III: Survey of pre-IPO CEOs – concerns regarding implications of going public.

Additionally, the SEC study showed the average cost of going public is $2.5 million, with another $1.5 million per annum to remain public. These costs include SOX compliance and other legal and accounting expenses.



Source: SEC IPO Task Force August 2011 CEO Survey

There is an old investment banking adage, once a company has $100 million in annual revenue and two quarters of profitability, it is time to consider going public. Looking at the figures above, this means almost half of the $100 million revenue companies looking to IPO should expect to spend 1%-2% per annum just on SOX, legal, and accounting costs to adhere to regulations for public companies. In 2017, the average earnings before interest, taxes and depreciation and amortization (EBITDA, a normalized proxy for ongoing profitability) for the S&P 500 was $261.9 million, or 21.3% of total revenue. Extrapolating this percent to a company with $100 million in revenue, SOX, legal and accounting costs would represent a 4.7%-9.4% hit to EBITDA.

What this analysis did not show was the opportunity cost of complying with regulations for public companies. For example, the compliance costs associated with quarterly earnings reports can be substantial. Firms must: prepare fully compliant presentations; update this information on their public website; perform the conference call; spend time with analysts and investors after the call; etc. Management must also spend time meeting with analysts and investors throughout the year, commonly called non-deal roadshows, as well as presenting at multiple industry conferences. These actions are business as usual and do not include any one-off items that might require a disclosure of a Form 8-K, etc.

These compliance obligations can take time away from running the business. There are costs associated with conducting an IPO and remaining public – in terms of both dollar amount and management's time – something management of a company must balance with the benefits and returns of going public.

Appendix: Industry Classifications

General Industry Group	Specific Industry Group	General Industry Group	Specific Industry Group
Aerospace	Aircraft	Finance	Accounts Receivables/Factoring
Agribusiness	Agriculture		Acquisitions/Restructurings
Auto/Truck	Manufacturers		Automobile
	Mobile Homes		Capital Pool Companies
	Parts & Equipment		Commercial & Savings Banks
	Repair		Credit Cards
	Sales		Development Banks/Multilateral Agencies
Chemicals	Diversified		Home Equity Loan
	Fertilizers		Investment Banks
	Plastic		Investment Management
	Specialty		Leasing Companies
Computers & Electronics	Components		Manufactured Homes
	Measuring Devices		Miscellaneous
	Memory Devices		Mortgages/Building Societies
	Miscellaneous		Provincial Banks
	Networks		Savings & Loan
	PCs		Special Purpose Vehicles
	Peripherals		Student Loan
	Semiconductors	Food & Beverage	Alcoholic Beverages
	Services		Beer
	Software		Canned Foods
Construction/Building	Air Conditioning/Heat		Confectionary
	Cement/Concrete		Dairy Products
	Commercial Building		Flour & Grain
	Engineering/R&D		Meat Products
	Infrastructure		Miscellaneous
	Maintenance		Non-Alcoholic Beverages
	Miscellaneous		Wholesale Items
	Residential Building	Forestry & Paper	Packaging
	Retail/Wholesale		Pulp & Paper
	Wood Products		Raw Materials
Consumer Products	Cleaning Products	Healthcare	Biomed/Genetics
	Cosmetics & Toiletries		Drugs/Pharmaceuticals
	Footwear		Health Management Organizations
	Furniture		Hospitals/Clinics
	Glass		Instruments
	Household Appliances		Medical/Analytical Systems
	Miscellaneous		Miscellaneous Services
	Office Supplies		Nursing Homes
	Precious Metals/Jewelry		Outpatient Care/Home Care
	Rubber		Practice Management
	Tobacco		Products
	Tools	Holding Companies	Conglomerates
Defense	Contractors/Products & Services	Insurance	Accident & Health
Dining & Lodging	Hotels & Motels		Brokers
	Restaurants		Life
			Multi-line
			Property & Casualty

Source: Dealogic

Appendix: Capital Markets Terms to Know

Statistics	
Y/Y	Year over Year
Q/Q	Quarter over Quarter
M/M	Month over Month
W/W	Week over Week
D/D	Day over day
YTD	Year to Date
QTD	Quarter to Date
MTD	Month to Date
WTD	Week to Date
BPS	Basis Points
PPS	Percentage Points
CAGR	Compound Annual Growth Rate
RHS	Right hand side (for charts)

Other	
AUM	Assets Under Management
DCM	Debt Capital Markets
ECM	Equity Capital Markets

Regulators	
North America	
FINRA	Financial Industry Regulatory Authority (United States)
SEC	Securities and Exchange Commission (United States)
CSC	Canadian Securities Administrators
European Union	
ESMA	European Securities and Markets Authority
AMF	Autorité des marchés financiers (France)
BaFin	Federal Financial Supervisory Authority (Germany)
FINMA	Swiss Financial Market Supervisory Authority (Switzerland)
United Kingdom	
FCA	Financial Conduct Authority
AsiaPac	
ASIC	Australian Securities and Investments Commission
CSRC	China Securities Regulatory Commission
SFC	Securities and Futures Commission (Hong Kong)
SEBI	Securities and Exchange Board of India
FSA	Financial Services Agency (Japan)
MAS	Monetary Authority of Singapore

Trading	
ADV	Average Daily Trading Volume
Algo	Algorithm (algorithmic trading)
ATS	Alternative Trading System
Best Ex	Best Execution
BPS	Basis Points
CLOB	Central Limit Order Book
D2C	Dealer-to-Client
D2D	Dealer-to-Dealer
ECN	Electronic Communication Network
ETP	Electronic Trading Platforms
HFT	High-Frequency Trading
IDB	Inter-Dealer Broker
IOI	Indication of Interest
MM	Market Maker
OTC	Over-the-Counter
SDP	Single-dealer platform
Bid	An offer made to buy a security
Ask, Offer	The price a seller is willing to accept for a security
Spread	The difference between the bid and ask price prices for a security, an indicator of supply (ask) and demand (bid)
NBBO	National Best Bid and Offer
Locked Market	A market is locked if the bid price equals the ask price
Crossed Market	A bid is entered higher than the offer or an offer is entered lower than the bid
Opening Cross	To determine the opening price of a stock, accumulating all buy and sell interest prior to the market open
Closing Cross	To determine the closing price of a stock, accumulating all buy and sell interest prior the market close

Order Types	
AON	All or none; an order to buy or sell a stock that must be executed in its entirety, or not executed at all
Block	Trades with at least 10,000 shares in the order
Day	Order is good only for that trading day, else cancelled
FOK	Fill or kill; must be filled immediately and in its entirety or not at all
Limit	An order to buy or sell a security at a specific price or better
Market	An order to buy or sell a security immediately; guarantees execution but not the execution price
Stop	(or stop-loss) An order to buy or sell a stock once the price of the stock reaches the specified price, known as the stop price

Post Trade	
DTCC	The Depository Trust and Clearing Corporation
CSD	Central Securities Depository
CCP	Central Counterparty Clearing House
CP	Counterparty
IM	Initial Margin
VM	Variation Margin
MPR	Margin Period at Risk
T	Trade Date
T+1	Settlement Date

Investors	
Institutional	Asset managers, endowments, pension plans, foundations, mutual funds, hedge funds, family offices, insurance companies, banks, etc.; fewer protective regulations as assumed to be more knowledgeable and better able to protect themselves
Individual	Self-directed or advised investing

Equities	
EMS	Equity Market Structure
NMS	National Market System
Reg NMS	Regulation National Market System
SIP	Security Information Processor; aggregates all exchange's best quotes, sent back out to the market in one data stream
PFOF	Payment For Order Flow
Tick Size	Minimum quote increment of a trading instrument
CAT	Consolidated Audit Trail
SRO	Self Regulatory Organization

ETFs/Funds	
AP	Authorized Participant
PCF	Portfolio Composition File
NAV	Net Asset Value
IIV	Intraday Indicative Value
ETF	Exchange-Traded Fund
ETP	Exchange-Traded Product
MF	Mutual Fund
OEF	Open-End Fund
CEF	Closed-End Fund
UIT	Unit Investment Trust

Options	
Call	The right to buy the underlying security, on or before expiration
Put	The right to sell the underlying security, on or before expiration
Holder	The buyer of the contract
Writer	The seller of the contract
American	Option may be exercised on any trading day on or before expiration
European	Option may only be exercised on expiration
Exercise	To put into effect the right specified in a contract
Underlying	The instrument on which the options contract is based; the asset/security being bought or sold upon exercise notification
Expiration	The set date at which the options contract ends, or ceases to exist, or the last day it can be traded
Stock Price	The price at which the underlying stock is trading, fluctuates continuously
Strike Price	The set price at which the options contract is exercised, or acted upon
Premium	The price the option contract trades at, or the purchase price, which fluctuates constantly
Time Decay	The time value portion of an option's premium decreases as time passes; the longer the option's life, the greater the probability the option will move in the money
Intrinsic Value	The in-the-money portion of an option's premium
Time Value	(Extrinsic value) The option premium (price) of the option minus intrinsic value; assigned by external factors (passage of time, volatility, interest rates, dividends, etc.)
In-the-Money	For a call option, when the stock price is greater than the strike price; reversed for put options
At-the Money	Stock price is identical to the strike price; the option has no intrinsic value
Out-of-the-Money	For a call option, when the stock price is less than the strike price; reversed for put options

Equity Capital Formation	
IPO	Initial Public Offering; private company raises capital buy offering its common stock to the public for the first time in the primary markets
SPAC	Special Purpose Acquisition Company; blank check shell corporation designed to take companies public without going through the traditional IPO process
Bought Deal	Underwriter purchases a company's entire IPO issue and resells it to the investing public; underwriter bears the entire risk of selling the stock issue
Best Effort Deal	Underwriter only guarantees the issuer it will make a best effort attempt to sell the shares to investors at the best price possible; issuer can be stuck with unsold shares
Secondary	(Follow-on) Issuance of shares to investors by a public company already listed on an exchange
Direct Listing	(Direct placement, direct public offering) Existing private company shareholders sell their shares directly to the public without underwriters. Often used by startups or smaller companies as a lower cost alternative to a traditional IPO. Risks include, among others, no support for the share sale and no stock price stabilization from the underwriter after the share listing.
Underwriting	
Underwriting	Guarantee payment in case of damage or financial loss and accept the financial risk for liability arising from such guarantee in a financial transaction or deal
Underwriter	Investment bank administering the public issuance of securities; determines the initial offering price of the security, buys them from the issuer and sells them to investors.
Bookrunner	The main underwriter or lead manager in the deal, responsible for tracking interest in purchasing the IPO in order to help determine demand and price (can have a joint bookrunner)
Lead Left Bookrunner	Investment bank chosen by the issuer to lead the deal (identified on the offering document cover as the upper left hand bank listed)
Syndicate	Investment banks underwriting and selling all or part of an IPO
Arranger	The lead bank in the syndicate for a debt issuance deal
Greenshoe	Allows underwriters to sell more shares than originally planned by the company and then buy them back at the original IPO price if the demand for the deal is higher than expected, i.e. an over-allotment option
Documentation	
Pitch	Sales presentation by an investment bank to the issuer, marketing the firm's services and products to win the mandate
Mandate	The issuing company selects the investment banks to underwrite its offering
Engagement Letter	Agreement between issuer & underwriters clarifying: terms, fees, responsibilities, expense reimbursement, confidentiality, indemnity, etc.
Letter of Intent	Investment banks' commitment to the issuer to underwrite the IPO
Underwriting Agreement	Issued after the securities are priced, underwriters become contractually bound to purchase the issue from the issuer at a specific price
Registration Statement	Split into the prospectus and private filings, or information for the SEC to review but not distributed to the public, it provides investors adequate information to perform their own due diligence prior to investing
The Prospectus	Public document issued to all investors listing: financial statements, management backgrounds, insider holdings, ongoing legal issues, IPO information and the ticker to be used once listed
Red Herring Document	An initial prospectus with company details, but not inclusive of the effective date of offering price, filed with the SEC
Tombstone	An announcement that securities are available for sale. (Also a plaque awarded to celebrate the completion of a transaction or deal)
Process	
Roadshow	Investment bankers take issuing companies to meet institutional investors to interest them in buying the security they are bringing to market
Non-Deal Roadshow	Research analysts and sales personnel take public companies to meet institutional investors to interest them in buying a stock or update existing investors on the status of the business and current trends
Pricing	Underwriters and the issuer will determine the offer price, the price the shares will be sold to the public and the number of shares to be sold, based on demand gauged during the road show and market factors
Stabilization	Occurs for a short period of time after the IPO if order imbalances exist, i.e. the buy and sell orders do not match; underwriters will purchase shares at the offering price or below to move the stock price and rectify the imbalance
Quiet Period	(Cooling off period) The SEC mandates a quiet period on research recommendations, lasting 10 days (formerly 25 days) after the IPO
SEC Filings	
Reg S-K	Regulation which prescribes reporting requirements for SEC filings for public companies
Reg S-X	Regulation which lays out the specific form and content of financial reports, specifically the financial statements of public companies
Form S-1	Registration statement for U.S. companies (described above)
Form F-1	Registration statement for foreign issuers of certain securities, for which no other specialized form exists or is authorized
Form 10-Q	Quarterly report on the financial condition and state of the business (discussion of risks, legal proceedings, etc.), mandated by the SEC
Form 10-K	More detailed annual version of the 10Q, mandated by the SEC
Form 8-K	Current report to announce major events shareholders should know about (changes to business & operations, financial statements, etc.), mandated by the SEC
EGC	Emerging Growth Company; qualified companies may choose to follow disclosure requirements that are scaled for newly public

Fixed Income	
CUSIP	Committee on Uniform Securities Identification Procedures; a nine character security identifier
FICC	Fixed Income, Currencies and Commodities
FI	Fixed Income
TRS	Total Return Swap

Rates Markets	
UST	U.S. Treasury Securities
FRN	Floating Rate Note
T-Bill	U.S. Treasury Bill
T-Note	U.S. Treasury Note
T-Bond	U.S. Treasury Bond
TIPS	Treasury Inflation Protected Securities
Repo	Repurchase Agreement; also have reverse repos
Agency	Federal Agency Securities
FAMC	Farmer Mac/Federal Agricultural Mortgage Corporation
FCS	Farm Credit System
FHLB	Federal Home Loan Banks
FHLMC	Freddie Mac/Federal Home Loan Mortgage Corporation
FNMA	Fannie Mae/Federal National Mortgage Association
GNMA	Ginnie Mae/Government National Mortgage Association
TVA	Tennessee Valley Authority

Credit Markets	
Corporates	Corporate Bonds
HY	High Yield Bond
IG	Investment Grade Bond
Munis	Municipal Securities
GO	General Obligation Bond
Revenue	Revenue Bond

Securitized Products	
MBS	Mortgage-Backed Security
CMO	Collateralized Mortgage Obligation
CMBS	Commercial MBS
RMBS	Residential MBS
ABS	Asset-Backed Securities (auto, credit card, home equity, student loans, etc.)
CDO	Collateralized Debt Obligation

Money Markets (MM)	
CP	Commercial Paper
ABCP	Asset-Backed Commercial Paper
MMF	Money Market Funds

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SIFMA Insights: www.sifma.org/insights

- Ad hoc reports on timely market themes
- Annual Market Structure Compendiums: Equity and Fixed Income
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- Statistics on volatility and equity and listed options volumes
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Market Structure Primers: www.sifma.org/primers

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- Global Equity Market Comparison
- Capital Formation & Listings Exchanges
- Equities
- Options
- ETFs
- Fixed Income & Electronic Trading

Conference Debriefs

- Insights from market participants into top-of-mind topics
- Pre-Conference Survey Comparison, compares survey results across various conferences

Equity Market Structure Analysis

- The ABCs of Equity Market Structure: How US Equity Markets Work and Why
- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

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