ADVOCACY

NASDAQ'S BLUEPRINT FOR MARKET REFORM

A Q&A with Nasdaq's CEO on revitalizing the U.S. capital markets.

BY TED ALLEN

In spring 2017, Nasdaq released a report, "The Promise of Market Reform: Reigniting America's Economic Engine," that includes a series of recommendations on market structure, proxy voting and corporate governance, litigation, taxes, and long-termism. The following is an *IR Update* Q&A with Nasdaq President and CEO Adena Friedman. More information on Nasdaq's blueprint for market reform can be found at www.business.nasdaq.com/revitalize.

What was your inspiration for developing this blueprint?

We are concerned about why companies are avoiding the public markets by either choosing to remain private or abandoning a public listing. The U.S. equities markets have long been dynamic engines for job and wealth creation. However, as good as the U.S. markets perform, they have become more costly for issuers. This is particularly the case for publicly listed small and mid-cap companies and for private companies that might consider public offerings.

Our plan is focused on reestablishing a balance between private and public markets and to ensure that all investors have an opportunity to participate in the growth and success of the great companies in the United States. Moreover, we see that 74 percent of all corporate job creation over the last 16 years occurred after a company went public. If companies continue to avoid the public markets, it could limit the number of jobs and adversely affect our economy.

The imbalance that exists today is the result of regulation and structural issues that need to be addressed. We want to reassert a balance and make sure that the U.S. equities markets remain robust, accessible and the envy of the world.

Some have argued that U.S. IPOs started to decline before regulations like Sarbanes-Oxley and Dodd-Frank went into effect. What other drivers are preventing companies from tapping the public markets?

It's the cumulative weight of a host of drivers that are hurting the public company experience. We believe that the path forward centers in three core areas: modernizing market structure, reshaping the regulatory framework that exists today, and promoting long-term thinking in the markets.

Today's markets have become more fragmented, which has made it harder for smaller companies to access liquidity. We need to create a healthier balance between supply and demand in these smaller growth companies.

Second, it is widely held that the regulatory framework governing our financial markets today is outdated and in some cases, arbitrary. We need to move beyond a one-size-fits-all approach to corporate disclosure requirements and believe that companies of all sizes would benefit from comprehensive proxy voting, litigation, and tax reforms. The complex patchwork of regulation that we have today is adversely affecting market participation.

Third, and finally, we need to promote long-term thinking in our financial markets. There is increased pressure to satisfy short-term investors on a quarterly basis to the detriment of long-term benefits.

For investor relations officers, we believe one solution is to balance short interest transparency. Legitimate short selling contributes to efficient price formation and enhances liquidity. However, the lack of information between investors with long and short positions deprives companies of insights into trading activity and limits their ability to engage with investors. Creating a more level playing field is the critical balance we are advocating.

You highlight in the blueprint Nasdaq's support of dual-class share structures. Can you explain your position on this?

We believe that public companies should have flexibility to determine a class structure that is most appropriate for them, so long as this structure is transparent and disclosed up-front so that investors have complete visibility into the company. Dual-class structures allow investors to invest side-by-side with innovators and high-growth companies, enjoying the financial benefits of these companies' success.

The Nasdaq blueprint highlights how certain unintended consequences of existing market structure is negatively impacting small- and mid-sized public companies. How have listed companies responded?

In general, our clients agree with our view. But more importantly, they welcome the opportunity to be an active participant in the process and are supportive of the notion of choosing the liquidity profile most suitable for them. Small and medium-size issuers have for years struggled with understanding how their stock is trading. Disproportionate price volatility, in the long run, can impact their ability to attract new investors, raise additional capital, and execute on their long-term plan.

That said, we view a big part of this effort as an educational process. We have appreciated the opportunity to partner with our issuers and bring these important ideas into the mainstream conversation. We will continue to work closely towards a solution that benefits all participants. NIRI can be of great assistance in this education process.

What's in it for IR professionals – and how can they help with this effort?

Having a dialogue is a big part of it. And to that end, we want to hear from investor relations professionals. IROs should understand how the proposals we are offering in the areas like market structure, proxy advisory rules, and the shareholder process are impacting a company's ability to adequately tap the public markets. Not only is our Nasdaq Revitalize website (www.business.nasdaq.com/revitalize) a resource, but we encourage IROs to engage directly with us on these key issues.

What results can market participants – especially investors – expect from the campaign?

Nasdaq has always focused on the creation of a robust ecosystem that supports the efficient access to capital by entrepreneurs and growth companies. When the markets perform as intended with transparency and price discovery and are assessable by all participants, they help create jobs and drive our economy.

America's equity markets attract the deepest and most diverse community of investors and market participants as you'll find anywhere in the world. However, more must be done to ensure they continue to evolve and flourish to benefit all participants involved – and that is the primary focus of our efforts at Nasdaq today.

For more information on Nasdaq's recommendations and other proposals for regulatory reform, please visit the Advocacy Call to Action page on the NIRI website at www.niri.org/advocacy/call-to-action. IR

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