

- **Self-Regulation in Financial Markets:
Results of an Exploratory Survey**

Ed.: Kyle L Brandon

- **Monthly Statistical Review and Year-End Wrap-Up**

By: Charles M. Bartlett, Jr.

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- 28.....**Monthly Statistical Review and Year-End Wrap-Up**, by Charles M. Bartlett, Jr. The Dow Jones Industrial Average, S&P 500 and NASDAQ Composite Indexes rose 16.3%, 13.6%, and 9.5% in 2006, respectively. Both share and dollar volume increased in 2006 on NASDAQ and the NYSE. Total underwriting activity of \$3,287.1 billion set another annual record with a 2.4% increase over last year's record year of \$3,210.7 billion. Announced US mergers and acquisitions deals totaled \$1.5 trillion in 2006, up 30.7% over 2005.

Self-Regulation in Financial Markets: Results of an Exploratory Survey¹

Introduction

The benefits of and limits to self-regulation in financial markets have attracted a great deal of attention over the past several years. Proponents of self-regulation contend that self-regulation contributes to greater efficiency in financial markets as it provides a mechanism for the expertise and practical experience of the industry to contribute to the development of regulatory policy. In addition, it is argued, rules that are informed by industry expertise will obtain greater buy-in from the industry and result in a higher level of voluntary compliance.

Much of the concern about self-regulation, on the other hand, has focused on the perception that the self-regulatory bodies are unduly influenced by the industry in the formation of regulatory policy and also may be subject to conflicts of interest between their regulatory responsibilities and their business operations. These concerns have become particularly acute over the past decade, due in part to increased public expectations regarding the need for vigorous and effective regulation to ensure that retail investors are adequately protected. The recent wave of demutualization and consolidation among stock exchanges, many of which continue to function as self-regulatory bodies, has also heightened concerns about the potential conflicts of interest faced by these organizations.

In an effort to bring greater clarity to the debate over the role of self-regulation in financial markets, the International Council of Securities Associations (ICSA) carried out a survey of self-regulatory organizations (SROs) in order to examine how self-regulation is actually practiced in today's financial markets. The objective of the survey was to arrive at a better understanding of the core responsibilities and activities that characterize SROs across national boundaries. Specifically, the survey looked at the sources of SROs' regulatory authority, their regulatory and other activities, and their relationships with their members and with government regulators. The results of the survey, in turn, served as the basis for a set of "Best Practices for SROs" that was issued by ICSA in late 2006.²

Self-Regulation in Financial Markets

Self-regulation in financial markets has a long and varied history. The first form of active self-regulation appeared at the precursor to the London Stock Exchange, which was established as The Stock Exchange in the early 1800s with specific rules intended to prevent "disorderly action" and thereby improve the reputation of its members. The exchange, which issued its first rulebook in 1812, had the ability to impose fines on members that were not in compliance with its rules and bar from its premises anyone who was not a member. Shortly afterwards, the New York Stock and Exchange Board – the precursor to the New York Stock Exchange – was established with a set of rules that governed trading, admission of new members and resolution of disputes between or among members.³ By 1820, the New York Stock and Exchange Board

¹ This paper is drawn largely from a September 2006 report prepared by the International Council of Securities Associations (ICSA), which is the global body bringing together SROs and trade associations from a large number of jurisdictions. Marilyn Skiles, Executive Director of ICSA, was the principal author of the report. For the original report, see <http://icsa.bz/pdf/Self-RegulationFinancialMarkets.pdf>.

² See <http://www.icsa.bz/pdf/ICSABestPracticesSRO.pdf>.

³ Self-regulation among "stock-jobbers" was important in both England and New York State in the 19th century because of legal prohibitions in both jurisdictions against some of the transactions that were then common at the stock exchanges.

had adopted a detailed set of bylaws along with a range of rules governing its members and listed companies, including member financial responsibility rules and listed company registration and financial reporting rules.

As stock exchanges developed in other parts of the world, most adopted some form of self-regulation. However, the extent and form of self-regulation has varied widely among exchanges, reflecting the legal and cultural framework in which the exchanges were embedded.⁴ In many jurisdictions, exchanges have exercised their regulatory authority solely on the basis of contracts with their members. In other jurisdictions, however, exchanges have statutory regulatory authority and/or authority that has been delegated to them from government regulators. These additional regulatory powers have been seen as necessary for the exchanges to effectively enforce their rules and regulations.

Along with the regulation exercised at the level of the exchanges, self-regulatory organizations that regulate a broad number of market participants have developed in a number of jurisdictions.⁵ In some cases these SROs regulate markets as well as market participants, but do not own or operate an exchange or market. In other cases these organizations both regulate markets and a broad number of market participants and also own or operate an individual exchange or market. Some of the national SROs also function as trade associations, and in that capacity represent the industry.

Importantly, these national self-regulatory organizations can be found in countries with widely different regulatory structures. Canada, for example, has several national SROs active in the securities market but does not have a national government securities regulator, relying instead on government securities regulators at the provincial level to establish the country's regulatory policies. Japan, on the other hand, has a unitary national government regulator that is responsible for regulating the entire financial sector and a number of SROs for the securities industry. Finally, the US has separate government regulators for the securities and futures markets and a number of SROs for both of those industries. The regulatory structures of Canada, Japan and the US are presented in charts in Appendix 2 at the end of this article.

For that reason, the rules resolving disputes between members at The Stock Exchange in London and at the New York Stock and Exchange Board provided the only dispute resolution mechanisms available for the enforcement of such transactions. See Stuart Banner, *Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860*, New York: Cambridge University Press, 1998. See also John Coffee, Jr., "The Rise of Dispersed Ownership: The Role of Law in the Separation of Ownership and Control," Columbia Law School Center for Law and Economic Studies, January 2001.

⁴ For example, while both the Stock Exchange in London and the New York Stock and Exchange Board were private entities owned by their members, the Paris Bourse was historically a state-chartered monopoly run under close governmental supervision. Stockbrokers at the Bourse were effectively civil servants who were appointed to their position by the Minister of Finance after having passed an exam. Unlike the situation in London and New York, brokers at the Paris Bourse did not own their seats or control the commission rates charged on stock transactions and, as a result, had neither the incentive nor the ability to develop a self-regulatory structure during the exchange's early history. See Coffee, *op. cit.*

⁵ In some cases the national self-regulatory bodies emerged out of the activities of trade associations that developed codes and rules of conduct for their members. This was the case in Canada, where the Investment Dealers Association of Canada (IDA) – then known as the Bond Market Association of the Toronto Board of Trade – began regulating in 1923 with the creation of a "Vigilance Committee." In a number of countries, however, the government and/or government regulator played a key role in the formation of self-regulatory bodies for the securities market. This was the case in Japan, for example, where the government stipulated that securities companies had to form one association in every prefecture in 1940 in order to facilitate wartime control of the securities markets. These individual associations were merged with one another in phases, and the Japan Securities Dealers Association (JSDA) was established as a single entity in 1973. In the US, the Roosevelt administration and the US Securities and Exchange Commission played a key role in the formation of the NASD in the 1930s. For the US, see Joel Seligman, *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporate Finance*, Boston, Massachusetts: Houghton Mifflin Company, 1982.

The self-regulatory systems existing in many countries have come under intense scrutiny during the past few years. This has been particularly true for exchanges, where concerns have been raised about the potential for greater conflicts of interest between the exchanges' self-regulatory operations and their commercial activities due to demutualization and the changing business models at many exchanges.⁶ Regulators, exchanges and other market participants have responded to these concerns in a variety of ways, resulting in the emergence of different models for managing conflicts of interest at demutualized exchanges.⁷ In general these changes have resulted in either a strengthening of the regulatory operations at exchanges or the assumption by the government regulator of many of the exchanges' regulatory powers. These models and some of the exchanges that have adopted each model can be summarized as follows⁸:

- Exchange functions as an SRO with regulatory powers – Chicago Mercantile Exchange, Chicago Board of Trade, Tokyo Stock Exchange
- Exchange creates separate entity to carry out regulation – Australian Stock Exchange
- Exchange's regulatory activities take place in a quasi-public entity that is completely separate from the commercial operations of the exchange – Frankfurt Stock Exchange
- Exchange contracts with third-party supplier of regulatory services – NASDAQ, Toronto Stock Exchange
- Government regulator has responsibility for most regulatory activities and exchange has limited regulatory authority – London Stock Exchange, Hong Kong Exchange and Clearing, Euronext Paris

In addition to the exchanges, the role of the national SROs has also been called into question in some jurisdictions.⁹ Similar to the exchanges, these organizations have been under scrutiny in part because of concerns over possible conflicts of interests. In addition, the national SROs have been criticized in some jurisdictions because of excessive and costly duplication between their regulations and the regulations imposed on market participants by the exchanges.

National SROs have responded in different ways to these concerns over the past several years. In Canada, the Investment Dealers Association (IDA) functioned for decades as both a trade association and an SRO. However, due in part to the perception that it could not adequately protect the public's interest if it continued to function as both a trade association and an SRO, IDA became solely an SRO in early 2006.¹⁰ IDA is currently merging with another SRO in Canada, Market Regulation Services (RS), which regulates Canada's equity exchanges. Once that merger is complete, the new SRO will be responsible for regulating all investment dealers in Canada as well as the country's equity, bond and money markets.

In Japan, the Japan Securities Dealers Association (JSDA) continues to function as both a trade association and an SRO for the national securities market. However, in response to concerns about a conflict of interest between JSDA's trade association activities and its self-regulatory

⁶ See International Organization of Securities Commissions (IOSCO), "Regulatory Issues Arising from Exchange Evolution," Final Report, November 2006.

⁷ See the Appendix 1 to this document for a more detailed discussion.

⁸ Modified and adapted from John Carson, "Conflicts of Interest in Self-Regulation: Can Demutualized Exchanges Successfully Manage Them?" The World Bank, December 2003.

⁹ In the US, for example, the SEC suggested a number of alternatives to the current regulatory system in a concept release that it published in early 2005. These included: (1) the abolition of all of existing SROs in favor of direct regulation by the SEC; (2) the abolition of all existing SROs and the establishment of a universal industry SRO; and (3) the abolition of all existing SROs and the establishment of a non-industry SRO. See SEC, "Concept Release Concerning Self-Regulation," Release No. 34-50700, March 8, 2005.

¹⁰ A new trade association for Canada's securities market, the Investment Industry Association of Canada, was established at the same time.

activities, the JSDA changed its governance structure in July 2004. As a result, the operations of the trade association are now completely separate from those of the SRO, and an independent board that includes public representatives now oversees JSDA's self-regulatory operations. Additional changes are likely going further, as the Japanese parliament recently approved new legislation that will allow the country's stock exchanges to contract out their self-regulatory activities to other SROs.

In the US, following the price collusion scandal on the NASDAQ market in the mid-1990s, NASD substantially strengthened its regulatory operations and eventually sold off its entire interest in NASDAQ. Continuing this trend, NASD is now in the process of merging its regulatory operations with those of NYSE Regulation. The new SRO, which has not yet been named, will regulate all securities brokers and dealers doing business with the public in the US.¹¹ The consolidation among SROs in the US, which is comparable to that taking place in Canada, will contribute to increased efficiency in the capital market as it will eliminate the duplicative and sometimes contradictory regulatory requirements that have been a source of discontent for much of the industry.

As is clear from this brief review, self-regulation continues to be an important and evolving component of the regulatory system in a variety of jurisdictions. This includes self-regulation by exchanges and by national SROs, where they exist. Over time, however, the nature of self-regulation in financial markets has changed and continues to evolve. Because self-regulation is such an important component of the regulatory structures in a large number of countries, the remainder of this paper will review the results of a recent survey of SROs, which are a key element of almost any regulatory system based on self-regulation.

Survey on SROs

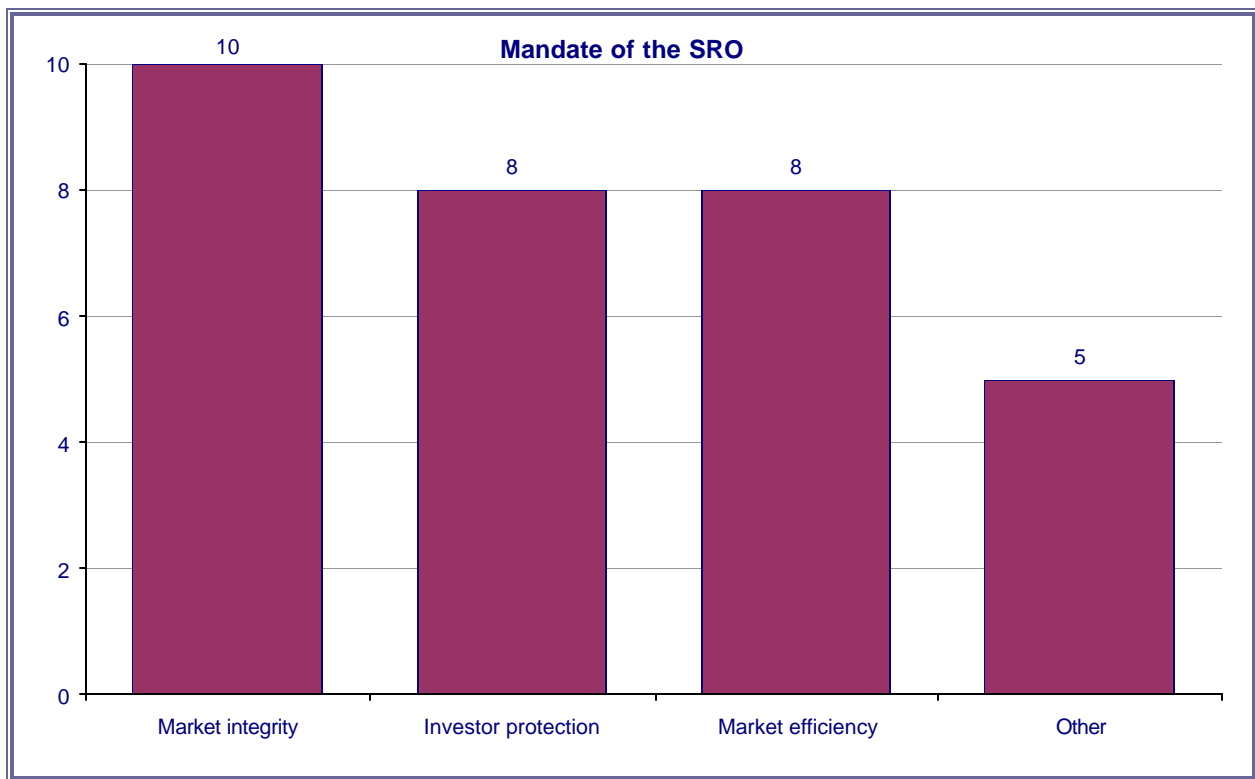
The objective of the ICSA survey of self-regulatory organizations, which was carried out in 2006, was to arrive at a better understanding of the core responsibilities and activities that characterize SROs across national boundaries.¹² The survey examined the sources of SROs' regulatory authority, their regulatory and other activities, relationships with their members and with government regulators and mechanisms for controlling conflicts of interest. The results of the survey are summarized on the following pages.

Mandate and Sources of Regulatory Authority

The surveyed SROs share a number of important characteristics. First, their mandates emphasize public interest objectives, including the enhancement of market integrity, investor protection and market efficiency. Some of the SROs in the survey noted that their mandates also include additional public interest objectives, such as improving the competitiveness of their capital markets and market infrastructures, providing education for market professionals and the general public, and increasing and/or maintaining investor confidence.

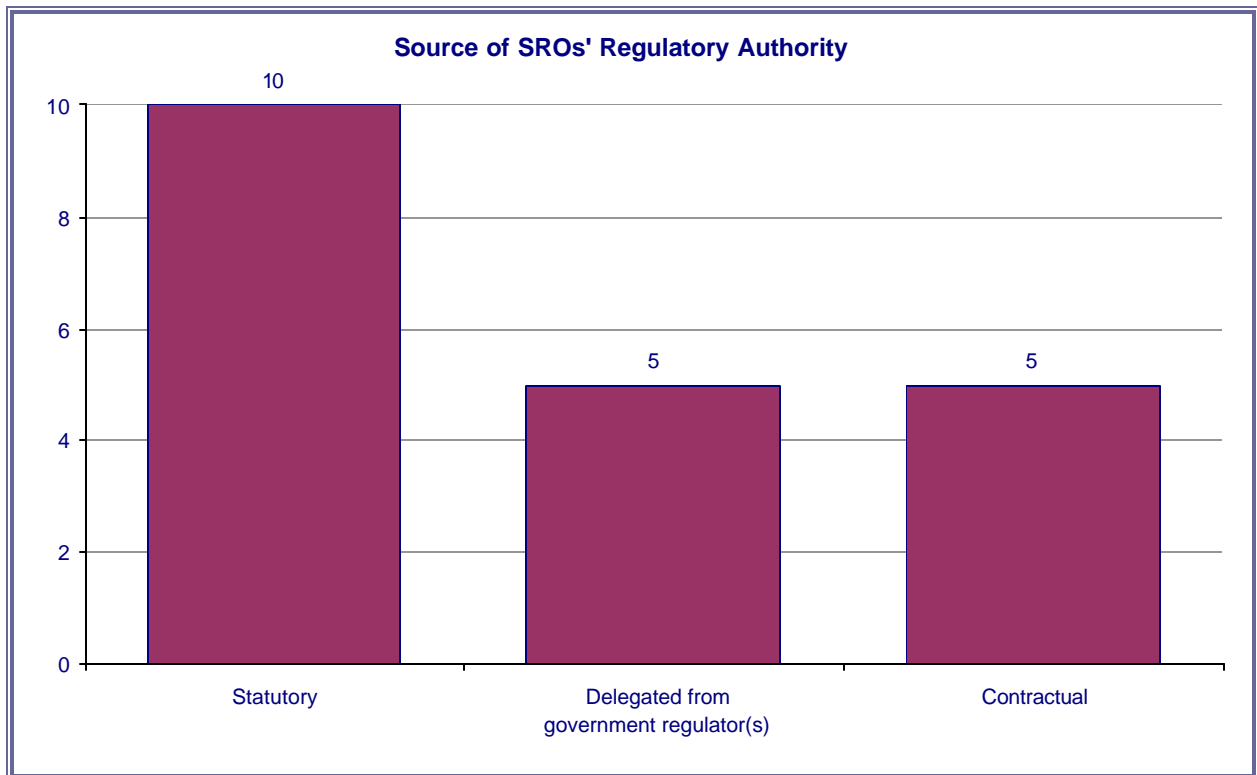
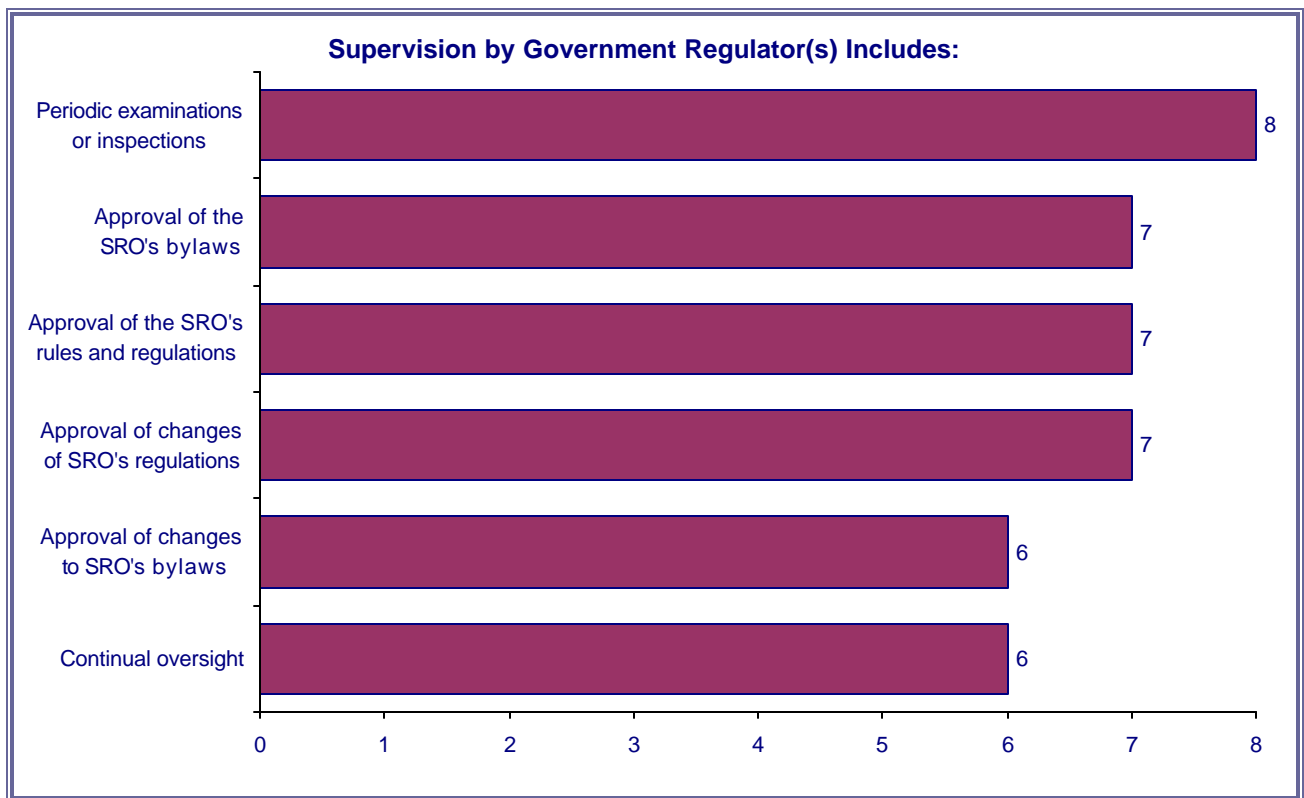
¹¹ Specifically, the new SRO will consist of the current 2,400-person NASD organization and approximately 470 of NYSE Regulation's member regulation, arbitration and related enforcement team. See www.nasd.com/PressRoom/NewsReleases/2007NewsReleases/NASDW_018334.

¹² A list of respondents to the survey may be found on page 18 of this article.



Government regulators actively supervise all of the SROs surveyed. This supervision is carried out primarily through periodic examinations and/or inspections, although more than half of the SROs reported that government regulators exercise continual oversight over their operations. In addition, in most cases government regulators must approve SROs' bylaws, rules and regulations and any changes to those bylaws, rules and regulations. Along with the formal supervision of SROs, government regulators are able to initiate rulemaking for more than half of the surveyed SROs.

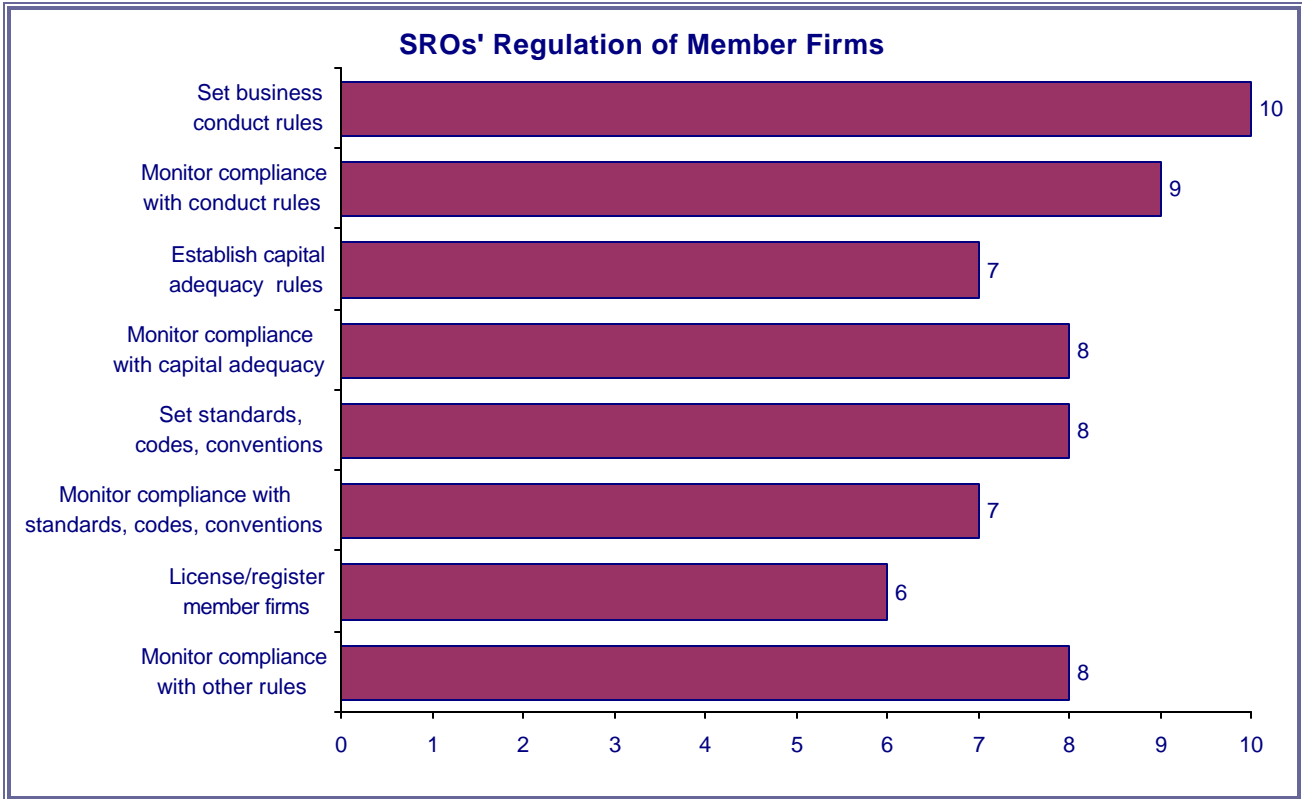
Finally, all of the SROs surveyed have statutory authority for their regulatory activities and half also have authority delegated to them from the government regulator(s). Historically, SROs have relied on contracts with their members as the principal and, in many cases, the sole source of authority for their regulatory activities. However, none of the SROs in the survey replied that they rely exclusively on contractual authority with their members, which is an indication of the important shifts that have taken place in self-regulation.



Regulatory and Related Activities of SROs

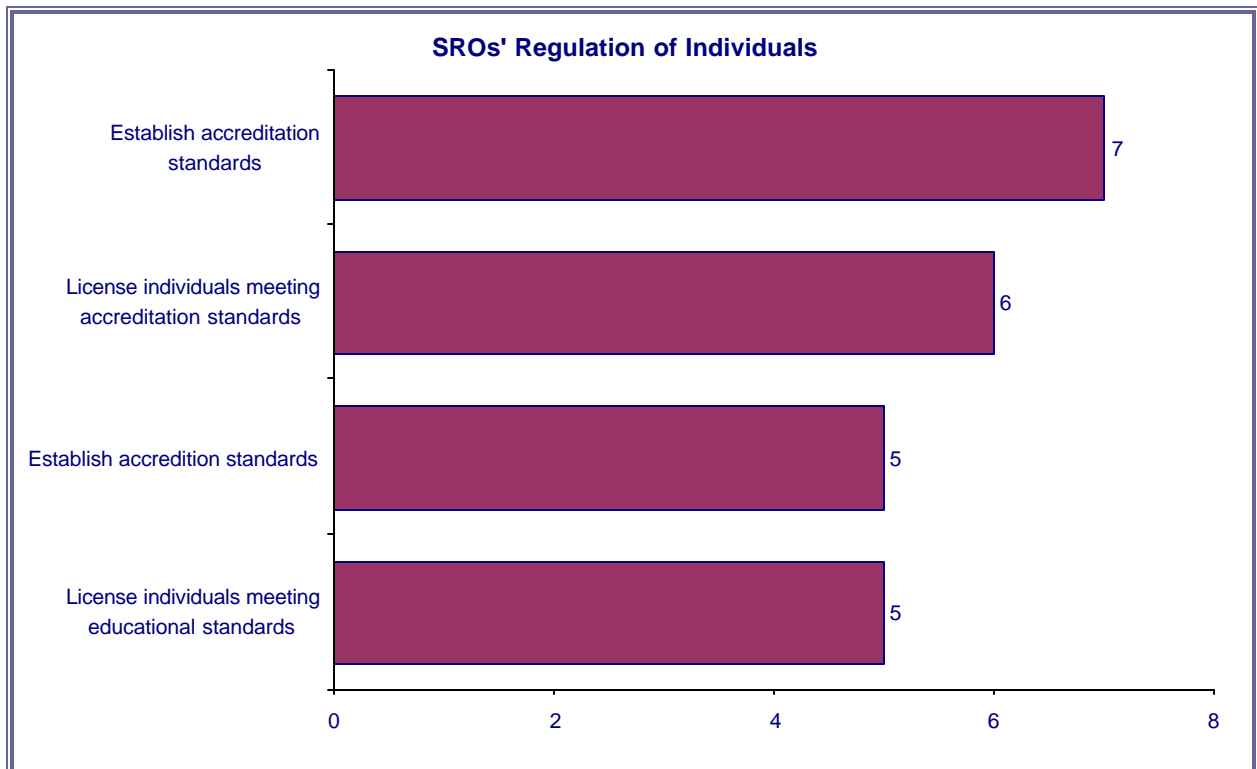
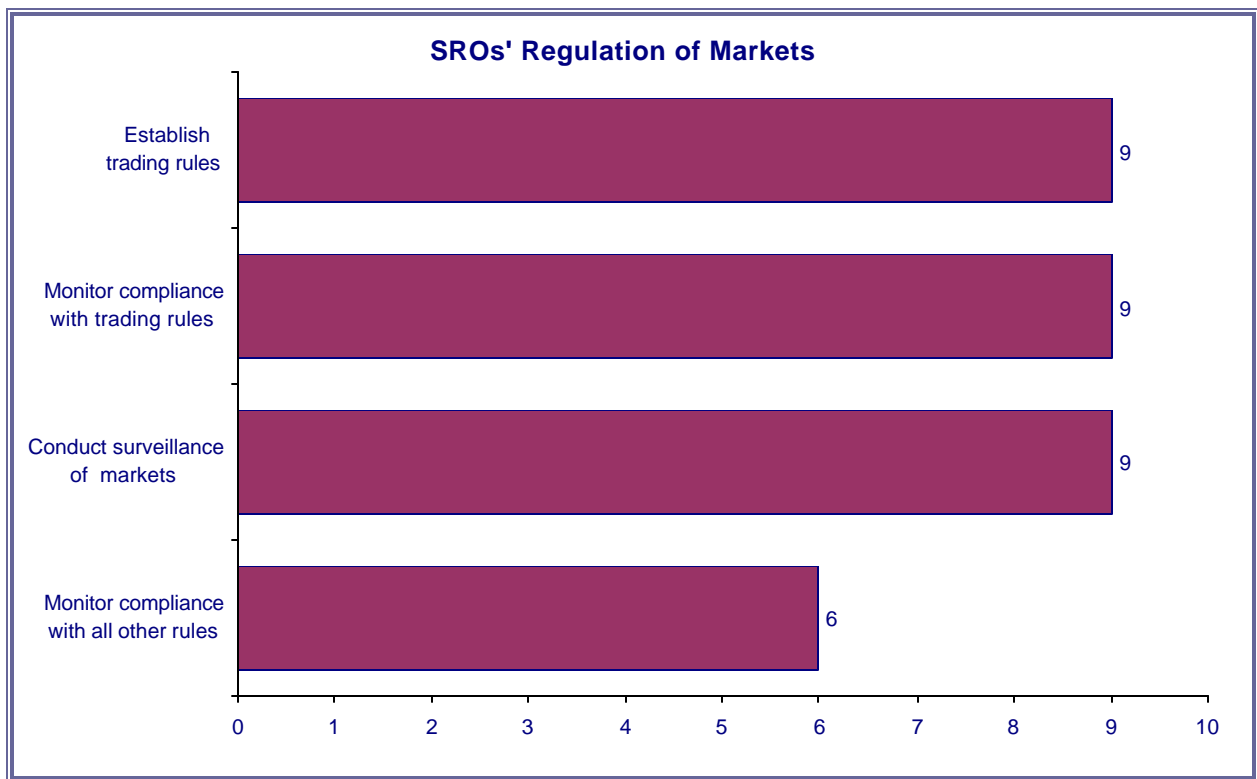
All the SROs surveyed carry out their regulatory activities by: (1) establishing rules and regulations for firms and individuals subject to their regulatory authority; (2) monitoring compliance with those rules and regulations; and (3) disciplining firms and individuals who violate those rules and regulations. The extent to which each of the individual SROs carries out these activities, however, depends on its regulatory reach.

All of the surveyed SROs have the authority to regulate member firms. This is carried out first and foremost by establishing and monitoring compliance with sales practice and business conduct rules. The SROs surveyed also establish and monitor compliance with capital adequacy standards and other standards, codes and conventions; license or register member firms; and monitor compliance with all other rules and regulations, such as anti-money laundering and customer identification requirements. Almost all of the SROs also regulate markets, principally by establishing and monitoring compliance with trading rules and conducting surveillance of trading activities.¹³ The SROs that regulate markets also monitor compliance with all other relevant rules and regulations.



Most of the SROs surveyed also regulate employees of member firms and, in some jurisdictions, independent contractors that are active in the regulated markets. SROs regulate individuals primarily by setting accreditation/proficiency standards and licensing or registering the individuals who meet those standards. A large percentage of the SROs that regulate individuals also set educational standards and license or register the individuals who meet their educational standards.

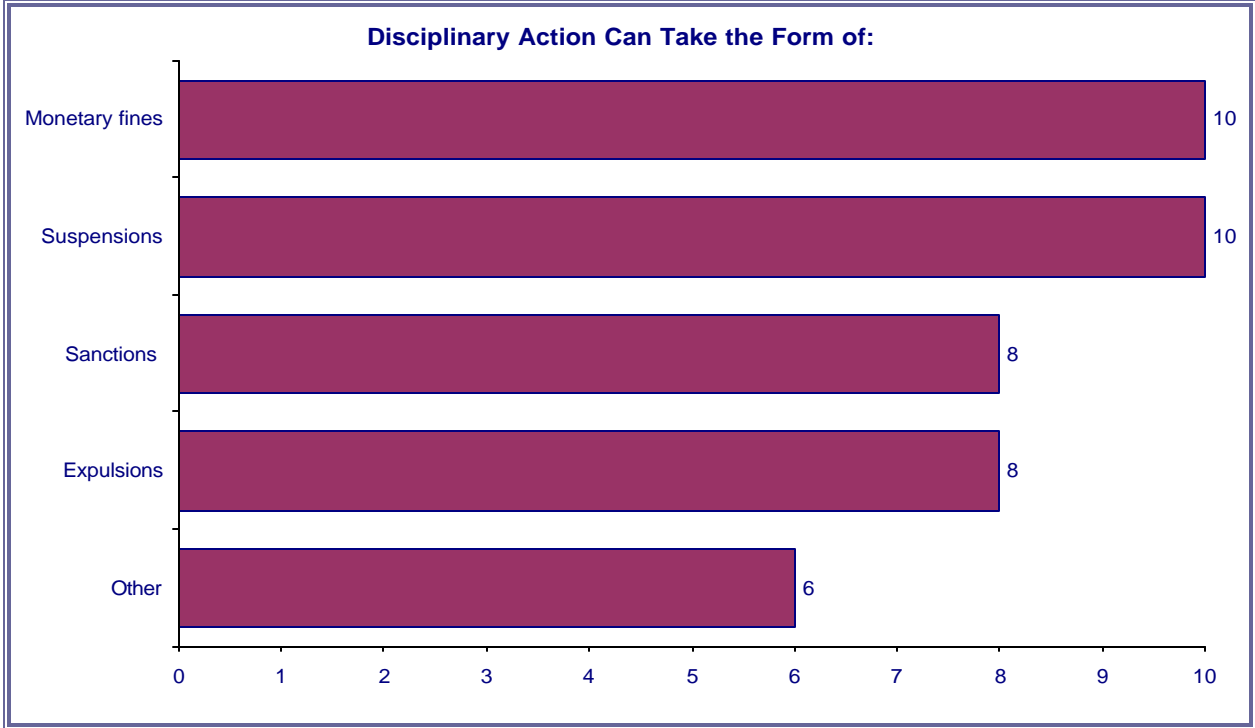
¹³ Surveillance is defined as the timely review of trading activity conducted on an exchange or market.



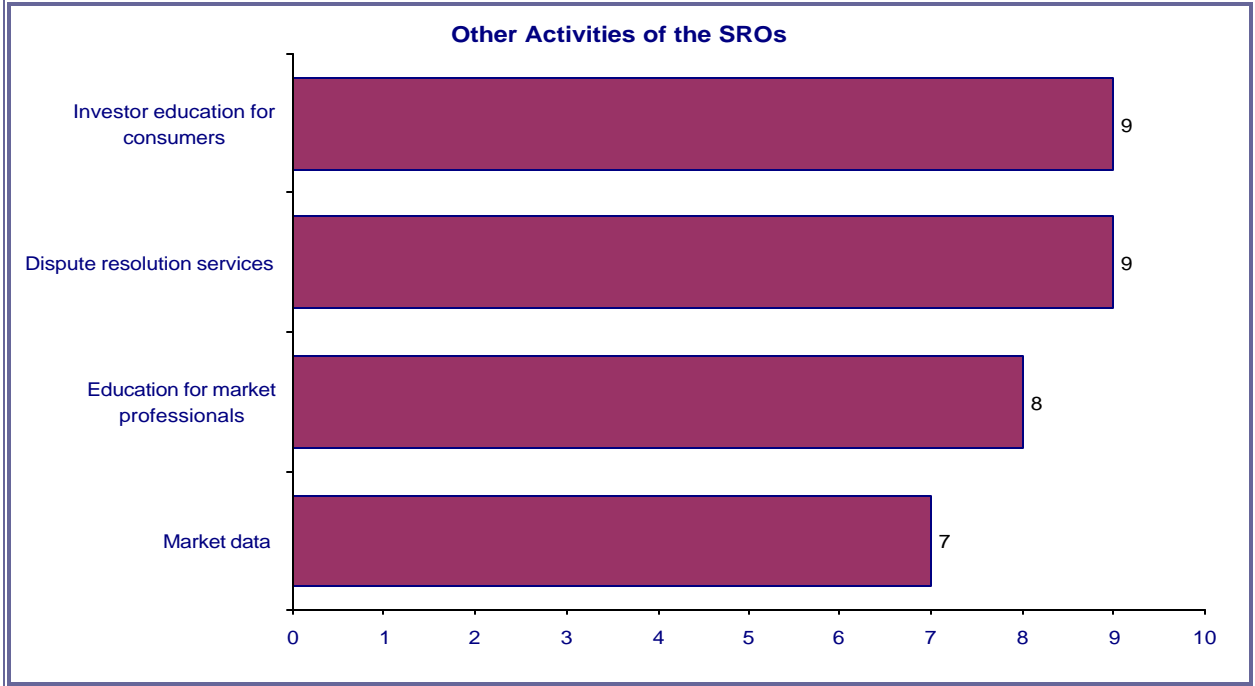
A relatively small number of SROs in the survey (four) also regulate issuers. All of the SROs that regulate issuers do so by establishing and monitoring compliance with disclosure, listing and corporate governance standards.

In addition to establishing rules and regulations for their members and monitoring compliance, all of the SROs surveyed have the authority to investigate complaints against the firms and

individuals that are subject to their authority and to take disciplinary action against those that are found to have violated their rules and regulations. The SRO disciplinary actions most commonly take the form of monetary fines, suspensions and sanctions. Most of the SROs surveyed can also expel members and force the disgorgement of profits, among other actions, in order to discipline firms and individuals.

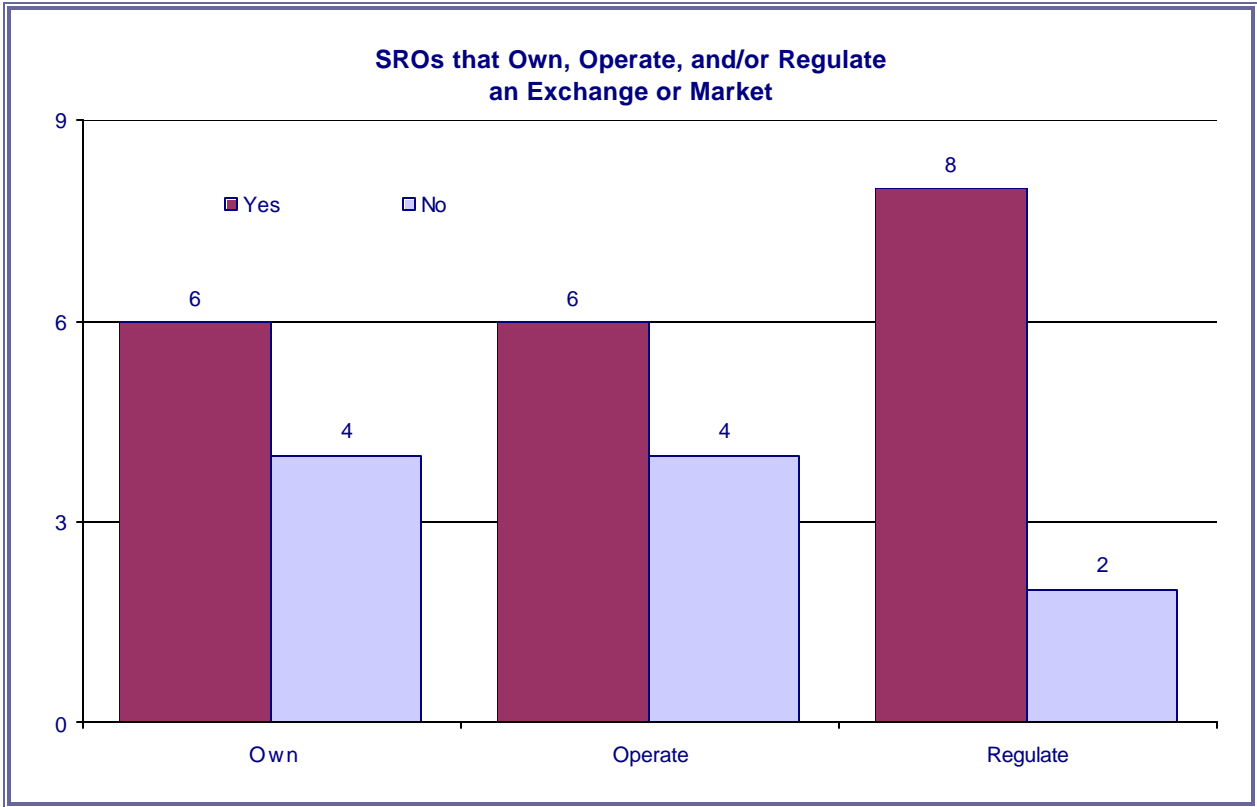


Finally, almost all of the surveyed SROs also carry out a variety of non-regulatory activities. These activities may include the provision of investor education, dispute resolution services for members, and educational services for market professionals. A number of SROs also carry out certain commercial activities, such as the provision of detailed market data.

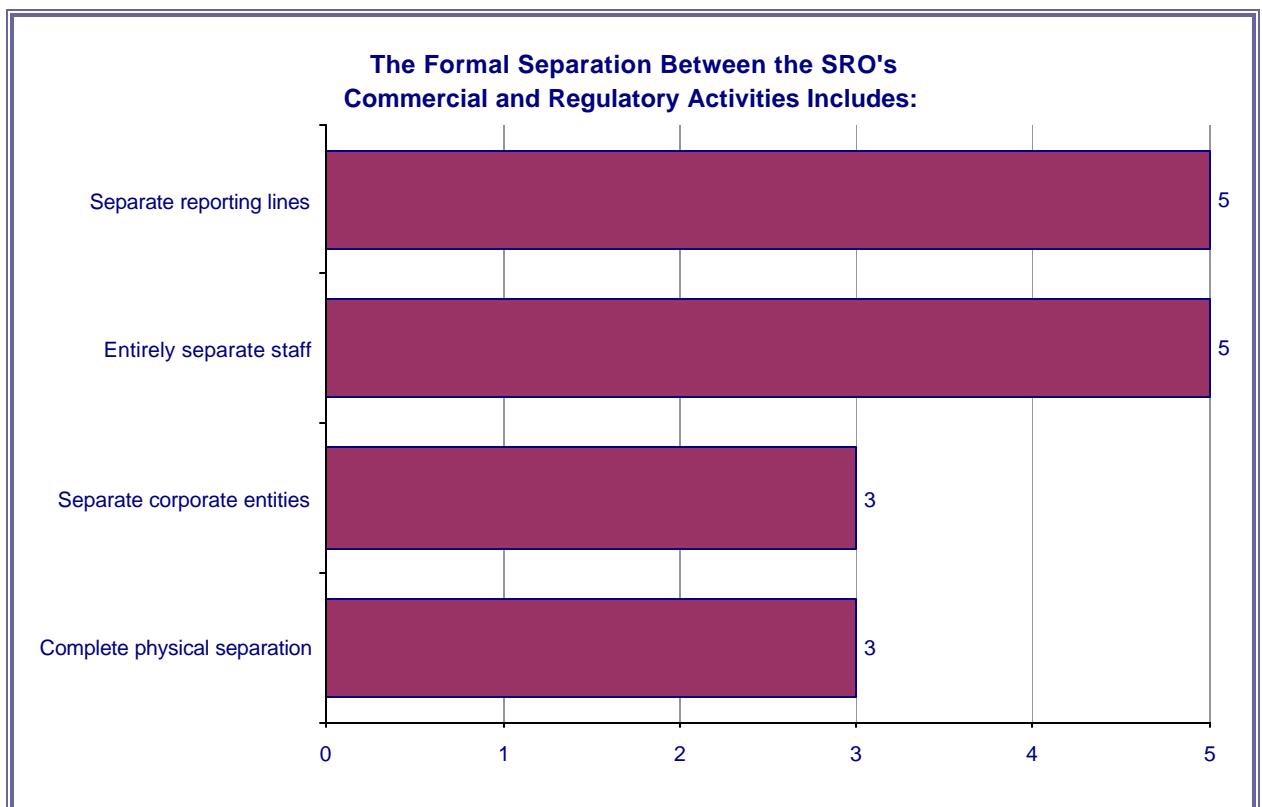
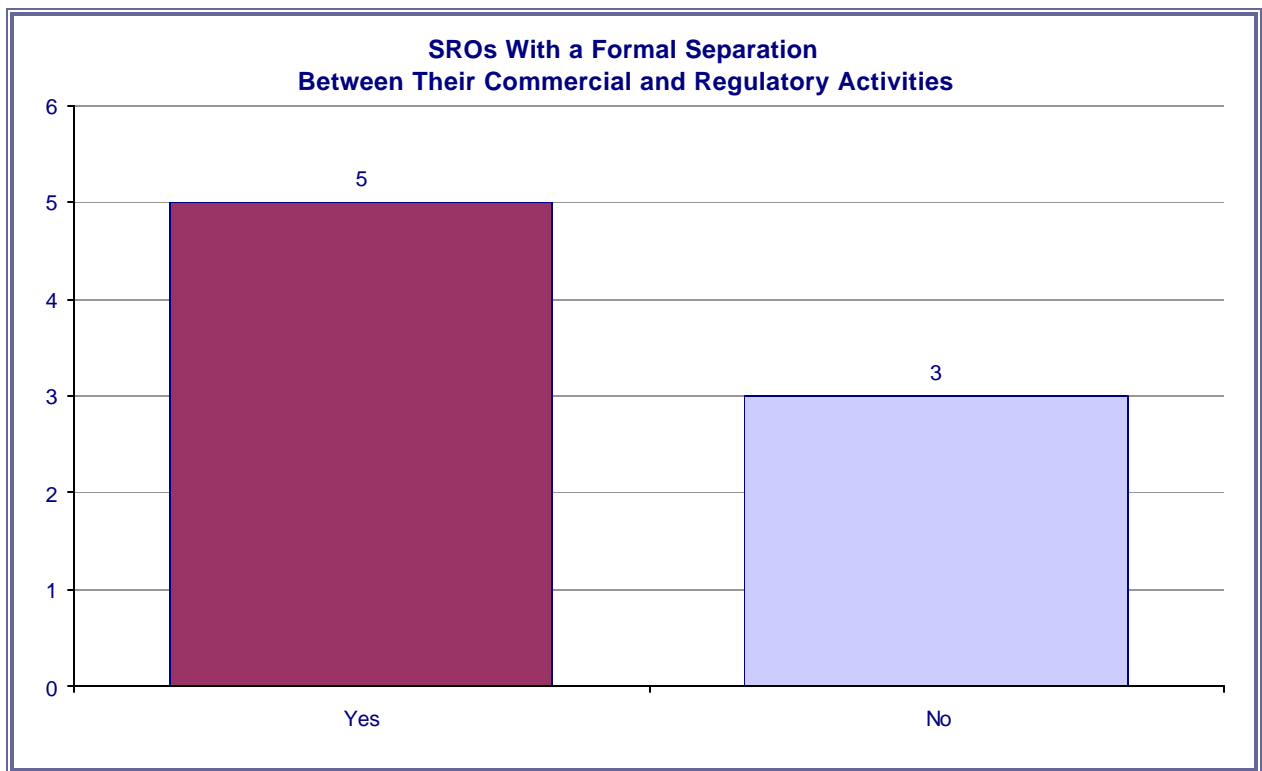


Dealing with Potential Conflicts of Interest

Ongoing exchange demutualization over the past decade has raised significant concerns about potential conflicts of interest between the exchanges' regulatory activities and their commercial operations. In light of these concerns, it is interesting to note that slightly more than half of the SROs surveyed own or operate an exchange or market that they also regulate. In addition, two of the SROs in the survey function as third-party suppliers of regulatory services, as they regulate exchanges that they do not own or operate. Finally, two SROs do not regulate exchanges or markets at all.



The majority of surveyed SROs that regulate an exchange or market that they also own or operate maintain a formal separation between their regulatory and commercial activities. In all cases, these separations include separate reporting lines and completely separate staff for the SRO's regulatory and commercial activities. In addition, three of the five SROs that have formal separation between their commercial and regulatory activities have also established completely separate corporate entities for their regulatory activities.

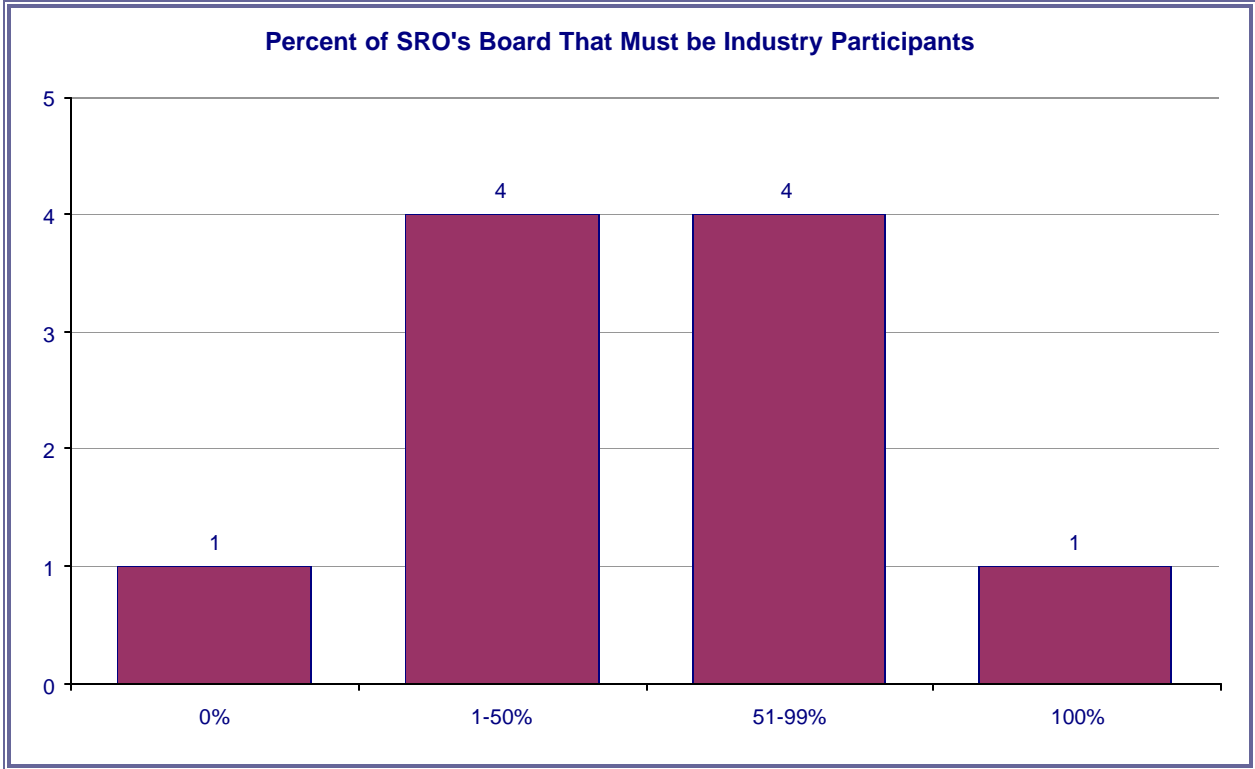


Three of the surveyed SROs that regulate an exchange or market that they own and/or operate do not have formal separation between their regulatory and commercial activities. However, two of those three SROs have formal policies and procedures in place for managing potential conflicts of interest when they arise, which have been reviewed by relevant government regulators.

Governance Arrangements and the Role of SROs' Members

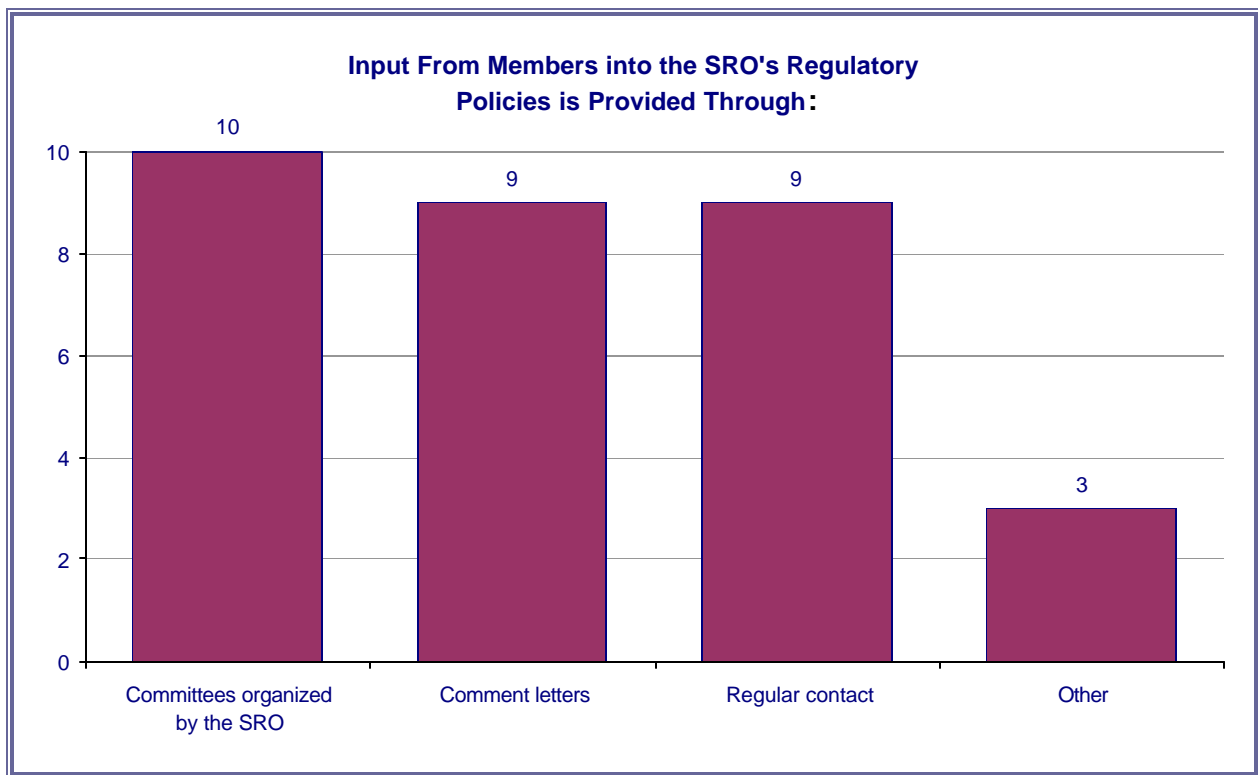
The role that members play in influencing the direction of SROs' activities has changed significantly over the past decades, due in part to market developments as well as to the growth of a professional and increasingly sophisticated staff at most SROs. In addition, many SROs have responded to concerns about potential conflicts of interest by incorporating a larger percentage of independent directors on their boards, which has also had the effect of reducing the role and importance of industry participants. Finally, government regulators have become more involved in SRO rulemaking, both directly and indirectly. Therefore, although members continue to play an important role at all SROs, in general their role and influence has declined relative to what it was in the past.

The changing role of industry participants is reflected in governance arrangements at SROs. Half of the surveyed SROs reported that industry participants account for less than half of their board members while the other half reported that industry participants account for the majority of their board members.¹⁶

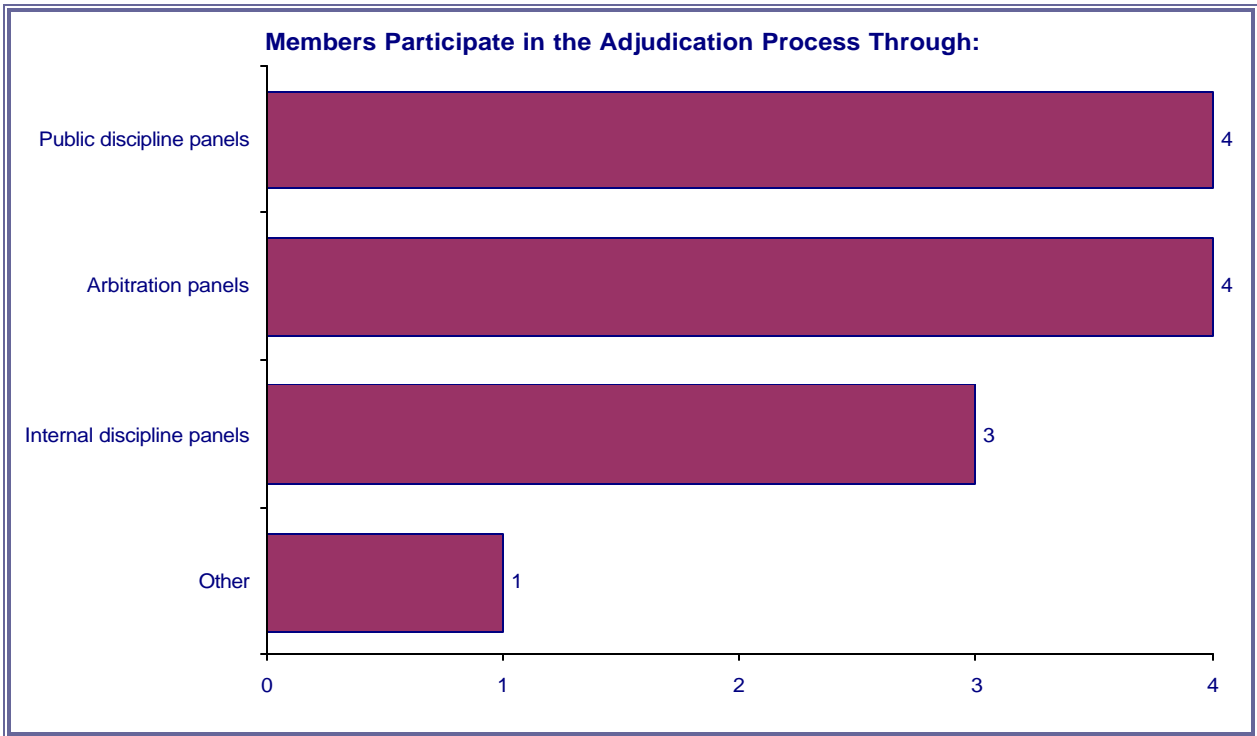


It is difficult to determine the actual role that members play in influencing regulatory policy. All of the surveyed SROs reported that members play an important role in the development of their regulatory policies, primarily through committees organized by the SRO, comment letters and regular contact with the SRO. However, in a previous survey carried out by ICSA, all SROs reported that they also rely extensively on analysis by their own staffs and on developments in other jurisdictions when formulating new regulatory policies.

¹⁶ The remaining board members are independent directors plus, in almost all cases, the CEO. In almost all cases, independent directors are defined as individuals who have no material relationship with the SRO or its subsidiaries or members of the SRO or, in the case of SROs that regulate markets, with listed firms.



On the other hand, members play an important role in the enforcement process at most surveyed SROs. Most SROs surveyed reported that their members are not involved in the initial decision to investigate a complaint against another member. However, once the SRO has made a decision to investigate a member firm or individual, eight out of ten of the surveyed SROs reported that their members play a role in the adjudication process. In general, members participate in the adjudication process through public or private disciplinary panels and arbitration panels. Six out of the ten SROs surveyed also reported that members play a role in the decision to take disciplinary action against member firms or individuals that have been found to have violated the SRO's rules and regulations.



Core Characteristics of SROs

The results of this survey show that it is possible to construct a definition of SROs that describes the core characteristics that are common among SROs in a wide variety of jurisdictions. Specifically, based on the results of this survey, SROs could be defined as non-governmental organizations that

1. Share a common set of public interest objectives including the enhancement of market integrity, market efficiency and investor protection;
2. Are actively supervised by the government regulator(s);
3. Have statutory regulatory authority;
4. Establish rules and regulations for firms and individuals that are subject to their regulatory authority;
5. Monitor members' compliance with applicable rules and regulations and, in the case of SROs that regulate trading markets, conduct surveillance of those markets;
6. Have the authority to discipline members that violate applicable rules and regulations;
7. Include industry representatives on their boards or otherwise ensure that industry members have a meaningful role in governance; and
8. Maintain structures, policies and procedures to ensure that conflicts of interest between their commercial and regulatory activities are appropriately managed.

Along with the core characteristics outlined above, many SROs carry out a variety of other activities that are consistent with their mandate to enhance market integrity, market efficiency and investor protection. These activities include the provisions of: (1) consumer redress services; (2) dispute resolution services for their members; (3) investor education for consumers and educational services for market professionals; and (4) market data for member firms and other market participants.

Summary

This study is based on the understanding that the process of self-regulation in financial markets is a continuum that includes the activities of individuals, firms, trade associations and SROs. Within that broad continuum, SROs occupy a unique position because of their regulatory authority, relationship with government regulators and their members, and the regulatory activities that they carry out. However, despite the important role played by SROs in a large number of jurisdictions, until now there has been no internationally accepted definition of SROs.

The definition presented here, which describes the core characteristics of SROs regardless of their jurisdiction, is intended to provide the basis for an informed discussion about the process of self-regulation in financial markets. It should be noted that this definition is based on survey results and is not intended as a normative statement about how SROs should conduct their activities. Going forward, just as the International Organization of Securities Commissions (IOSCO) has developed its Objectives and Principles of Securities Regulation, which serves as a common handbook for government securities regulators, it may be useful for SROs as a group to develop their own handbook outlining the objectives and principles of self-regulation in financial markets.

Participants in the ICSA Survey on Self-Regulation in Financial Markets¹⁴

- Australian Stock Exchange (ASX)
- Bond Exchange of South Africa (BESA)*
- International Capital Market Association (ICMA)*
- Investment Dealers Association of Canada (IDA)*
- Japan Securities Dealers Association (JSDA)*
- Korea Securities Dealers Association (KSDA)*
- NASD*
- National Futures Association (NFA)
- New York Stock Exchange (NYSE)
- Tokyo Stock Exchange (TSE)

¹⁴ This Survey was conducted during the second half of 2006.

* Indicates that survey participant is an ICSA member.

Appendix 1

Procedures for Managing Conflicts of Interest at Selected Exchanges

The chart on the following pages contains information about the procedures that have been developed at a variety of exchanges to manage potential conflicts of interest. The information contained in the chart is based on published sources (see Sources following the chart) and therefore is as factually accurate as those sources.

**APPENDIX 1:
Procedures for Managing Conflicts of Interest at Selected Exchanges**

Stock Market	Public Listed/ Mutual	Government Regulatory Authority	How Regulation is Handled:	Listing Power?
Australian Stock Exchange (ASX)	Public and Listed	Australian Securities and Investment Commission (ASIC)	There is no legal definition of an SRO under Australian law. However, as a market licensee under the Corporations Act, ASX has the power to establish rules and standards for listed entities and market participants, monitor compliance with those rules and standards and impose disciplinary actions. In July 2006, ASX established a separate subsidiary for its market supervisory operations called ASX Markets Supervision. The subsidiary, which will carry out all of ASX's supervisory operations, has its own board and is headed by a Chief Supervision Officer who reports to the Board of the subsidiary and to the Board of ASX. ASIC and ASX Supervisory Review provide oversight to ASX Markets Supervision. ¹	Yes
Chicago Board of Trade (CBOT)	Public and Listed	Commodity Futures Trading Commission (CFTC)	CBOT's Office of Investigations and Audits (OIA) perform the self-regulatory functions of the exchange. Among other activities, the OIA audits firms and requires them to meet minimum capital requirements, monitors actual trading activity, and oversees contracts as they move closer to expiration.	Yes
Chicago Mercantile Exchange (CME)	Public and Listed	Commodity Futures Trading Commission (CFTC)	In early 2004, the CME created the Market Regulation Oversight Committee, a separate and independent board level committee composed solely of independent directors that has direct oversight responsibility for all of the regulatory functions at the exchange, including market regulation, market surveillance, audit and financial supervision. ²	Yes

¹ In 2001, two years after it became a for-profit entity, ASX established ASX Supervisory Review (ASXSR), an independent operating subsidiary of ASX that is tasked with assessing if the ASX Group is: adequately complying with its obligations as a market operator and clearing house operator; conducting its supervisory activities ethically and responsibly; funding those activities adequately; and maintaining appropriate controls concerning employee and commercial conflicts of interest. ASXSR also has an important role where an actual or perceived commercial conflict exists concerning the ASX Group and a listed entity, trading participant or clearing participant. In such cases ASXSR can offer an independent layer of scrutiny of the actions of ASX. ASXSR has its own board that is made up of a majority of independent directors who have not had any material relationship with ASX for at least two years. ASIC (the government regulator) has the power to veto the nomination of any ASXSR board member and to force the removal of any board member prior to the expiration of their term of office.

² After a lengthy and comprehensive investigation into the operations of SROs in the US futures industry, the CFTC recently issued a set of proposed "Acceptable Practices" intended to improve corporate governance practices at the exchanges under its jurisdiction. Among other measures, the proposed "Acceptable Practices" recommend that the exchanges appoint a Chief Regulatory Officer who will be responsible for the supervision of day-to-day regulatory operations at the exchanges and will report directly to an independent, board-level Regulatory Oversight Committee (ROCs). The ROC, in turn, is to be composed solely of public directors and will have oversight responsibilities for all facets of the exchange's regulatory activities. This includes broad authority to oversee: (a) trade practice surveillance; (b) market surveillance; (c) audits, examinations, and other regulatory responsibilities with member firms; (d) the conduct of investigations; (e) the size and allocation of regulatory budgets and resources; (f) the number of regulatory offices and staff; (g) the compensation of regulatory officers and staff; (h) the hiring and termination of regulatory officers and staff; and (i) the oversight of disciplinary committees and panels. See CFTC, "Conflicts of Interest in Self-Regulation and Self-Regulatory Organizations: Proposed Rule," 17 CFR Part 38, Federal Register, Vol. 71, No. 130 (July 7, 2006). The structure of the ROC proposed by the CFTC is similar to the one that was established at the CME in 2004.

Stock Market	Public Listed/ Mutual	Government Regulatory Authority	How Regulation is Handled:	Listing Power?
Euronext Paris	Owned by Euronext NV, which is publicly listed	Autorité des Marchés Financiers (AMF) and Commission Bancaire (for prudential issues)	The AMF defines the rules that Euronext uses for public offerings, disclosure and reporting obligations of issuers, and market manipulation for dealing with investment services providers. ³ Although Euronext Paris defines some membership rules, trading rules and some rules of conduct, most of those rules either strengthen or provide additional detail to the AMF provisions, save for the conditions for admission to trading of securities where Euronext Paris retains the primary competence. Euronext's limited regulatory functions are located in the exchange's Legal Regulatory Compliance Department, which reports directly to the board. The head of that department and the persons responsible for trading surveillance and member regulation are required to hold a professional license, which is issued by the AMF on application by the exchange. Among other responsibilities, they must all complete an annual regulatory report for the AMF. Direct enforcement actions by Euronext Paris are limited and conducted on contractual basis.	No
Frankfurt Stock Exchange (FSE)	Operated by Deutsche Börse AG, which is publicly listed	German Federal Financial Supervisory Authority (BaFin) and the Exchange Supervisory Authority (ESA) of Hesse, which is part of the Hessian Ministry for Economics, Transport and Regional Development	Regulation of securities trading is shared in Germany between BaFin, the provincial exchange supervisory authorities and the exchange itself. The German model is unique in requiring separate legal and governance structures for the exchange and for the entity that operates the exchange. While exchanges are public entities under administrative law, the operators of exchanges are private entities. Each exchange must establish five sovereign bodies – the Exchange Council, a Board of Management, a Listing Office, a Trading Surveillance Office and a Disciplinary Board – all of which are required by law to act solely in the public interest. The Exchange Council is composed of members, issuers and investors and governs the exchange by setting rules and regulations, deciding on all-important strategic issues and appointing the Board of Management. The Board of Management manages the daily business of the exchange while the Listing Office is responsible for the admission of securities. The Trading Surveillance Office monitors trading activities and the settlement of trades and has full investigative powers. Any violations of regulations found by the Trading Surveillance Office are reported to the ESA and to the exchange's Board of Management, which may issue appropriate orders to ensure the orderly conduct of exchange trading and the settlement of exchange transactions. If the violations are confirmed, the ESA and/or the Trading Surveillance Office will notify the exchange's Disciplinary Board, which has the authority to sanction members and issue suspensions. The Trading Supervisory Office is also required to inform BaFin of any information which BaFin needs in order to fulfill its duties. The operator of the exchange is completely separate from these five sovereign bodies and may be a private corporate entity. The operator of the Frankfurt Stock Exchange, the largest exchange in Germany, is Deutsche Börse. The operating institution of the exchange is obliged to provide the exchange with the financial resources, the staff and the facilities required for the conduct and adequate development of the exchange.	Yes

³ Euronext was formed as a result of the consolidation of local stock exchanges in Paris, Amsterdam, Brussels and Lisbon, which joined forces under the Netherlands holding company Euronext NV, a public company whose shares are listed on the primary market of Euronext Paris. For regulatory oversight, Euronext NV's exchange subsidiaries are licensed locally in each participating country.

Stock Market	Public Listed/ Mutual	Government Regulatory Authority	How Regulation is Handled:	Listing Power?
Stock Exchange of Hong Kong (SEHK)	Public and Listed	Securities and Futures Commission (SFC)	Hong Kong Exchange and Clearing (HKEx) is the holding company that owns and operates the stock and futures exchanges in Hong Kong and their related clearing houses. Since SEHK demutualized in 2000, the SFC has assumed many of the regulatory responsibilities for the stock exchange. Specifically, the SFC is the front-line regulator for listed companies and in that capacity carries out market surveillance, investigates and punishes all breaches of law and is the statutory regulator for listed company disclosure. The SFC is also responsible for member regulation and carries out routine inspections, monitors compliance with business conduct and financial resources rules and investigates and punishes all breaches of applicable rules and regulations. The exchange remains responsible for front-line monitoring of compliance with its trading and clearing rules and the maintenance of market transparency on a contractual basis.	Yes
London Stock Exchange (LSE)	Public and Listed	Financial Services Authority (FSA)	The LSE's listing activities were transferred to FSA in 2001, in part because the government was concerned that competition between exchanges would continue to increase and that it would not be appropriate for the LSE, which had been designated as the UK Listing Authority, to act as the gatekeeper for all other exchanges. As a result of this and subsequent changes, the FSA now regulates all securities trading in the UK and is also the listing authority for the UK. The LSE continues to maintain a rulebook for trading firms and, as the frontline monitor of market behavior, conducts surveillance of trading activities. ⁴	No
NASDAQ	Public and Listed	Securities and Exchange Commission (SEC)	NASDAQ is responsible for regulating its market but has contracted for the day-to-day administration of market regulation, including the investigation and prosecution of disciplinary actions, to NASD.	Yes
New York Stock Exchange (NYSE)	Public and Listed	Securities and Exchange Commission (SEC)	After its demutualization in March 2006, NYSE's business and assets were separated into three entities affiliated with NYSE Group – NYSE LLC, NYSE Market and NYSE Regulation. NYSE LLC is a wholly owned subsidiary of NYSE Group and has assumed NYSE's registration as a national securities exchange. NYSE LLC has delegated the performance of its market and self-regulatory functions to two wholly owned subsidiaries, NYSE Market and NYSE Regulation. NYSE Market operates the exchange-trading market and issues trading licenses to market participants. NYSE Regulation, a not-for-profit corporation, performs the regulatory functions of NYSE LLC. The NYSE Regulation CEO reports directly to the NYSE Regulation board, a majority of which are independent directors who are not NYSE Group directors. The remaining members of the NYSE Regulation board are also NYSE Group independent directors.	Yes

⁴ In addition, in certain circumstances the LSE can suspend trading and delete companies from exchange-regulated markets.

Stock Market	Public Listed/ Mutual	Government Regulatory Authority	How Regulation is Handled:	Listing Power?
Stockholm Stock Exchange (SSE)	Owned by OMX AB, which is publicly listed	Finansinspektionen (FE)	OMX AB, a Swedish financial services company formed in 2003, owns and operates six stock exchanges in the Nordic and Baltic countries, the largest of which is the Stockholm Stock Exchange. The Swedish regulator, FE, sets listing standards for the Stockholm Exchange and establishes rules regarding trading practices, compliance with insider trading rules and information disclosure requirements. In addition, since the SSE is an authorized exchange under the Swedish Exchange Act, it is also required to establish extensive rules and regulations for both members and listed companies and monitor the market to ensure compliance with its trading rules. In addition, the exchange has a disciplinary committee comprised of Supreme Court judges as well as senior people with securities market experience that handles any breach of its contractual regulation.	No
Tokyo Stock Exchange (TSE)	A joint stock company; not listed	Financial Services Agency (FSA)	The Tokyo Stock Exchange has statutory authority as an SRO and, in that capacity, is responsible for maintaining a transparent, equitable and reliable market. To fulfill that objective, TSE establishes rules and regulations for member firms and listed companies, continuously monitors member firms and listed companies in order to ensure that they comply with the TSE's rules and regulations, and carries out enforcement actions when violations are found to have occurred. TSE also establishes rules for the listing of securities and conducts surveillance of trading activities.	Yes
Toronto Stock Exchange (TSX)	Public and Listed	Ontario Securities Commission (OSC)	The Toronto Stock Exchange is responsible for regulating its market but has contracted with Market Regulation Services (RS), a national third-party provider of regulatory services, to carry out most of that regulation, including surveillance and investigations. RS carries out the following activities: (1) develops and administers trading rules applicable to all marketplaces in Canada, referred to as the Universal Market Integrity Rules (UMIR); (2) monitors each and every trade every day made in Canada in real time to ensure strict compliance with the UMIR; (3) conducts investigations into trading activities in response to complaints or any market activity identified during its market surveillance that could be construed as violating securities trading rules, policies and statutes; and (4) enforces the proper and fair conduct of regulated individuals and firms, and can impose fines of up to \$1 million per violation depending on the severity of the violation and can suspend or ban individuals from access to the market. RS also regulates trading on the TSX Venture Exchange (TSX V), Canadian Trading and Quotation System (CNQ), Bloomberg Tradebook Canada Company (Bloomberg), Liquidnet Canada and Markets Securities Inc. ⁵	Yes

⁵ Regulation Services, Inc. is jointly owned by the Toronto Stock Exchange and the Investment Dealers Association of Canada (IDA), the main member- and market-regulation SRO for Canada's securities market. IDA and RS recently announced that they were discussing a merger that would result in the formation of a single national member and market SRO in Canada. That merger is still subject to regulatory approval.

Sources

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Euronext Paris: International Monetary Fund (IMF), "France: Financial System Stability Assessment" (September 2004).

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London Stock Exchange: www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg. See also Howard Davies, "Hong Kong: What's Left for Self-Regulation," London School of Economics, mimeo (February 2004).

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New York Stock Exchange: SEC, "Approval of SRO Rule Changes Necessary to Effectuate Merger of NYSE and Archipelago Holdings," Release No. 34-53382 (February 17, 2006).

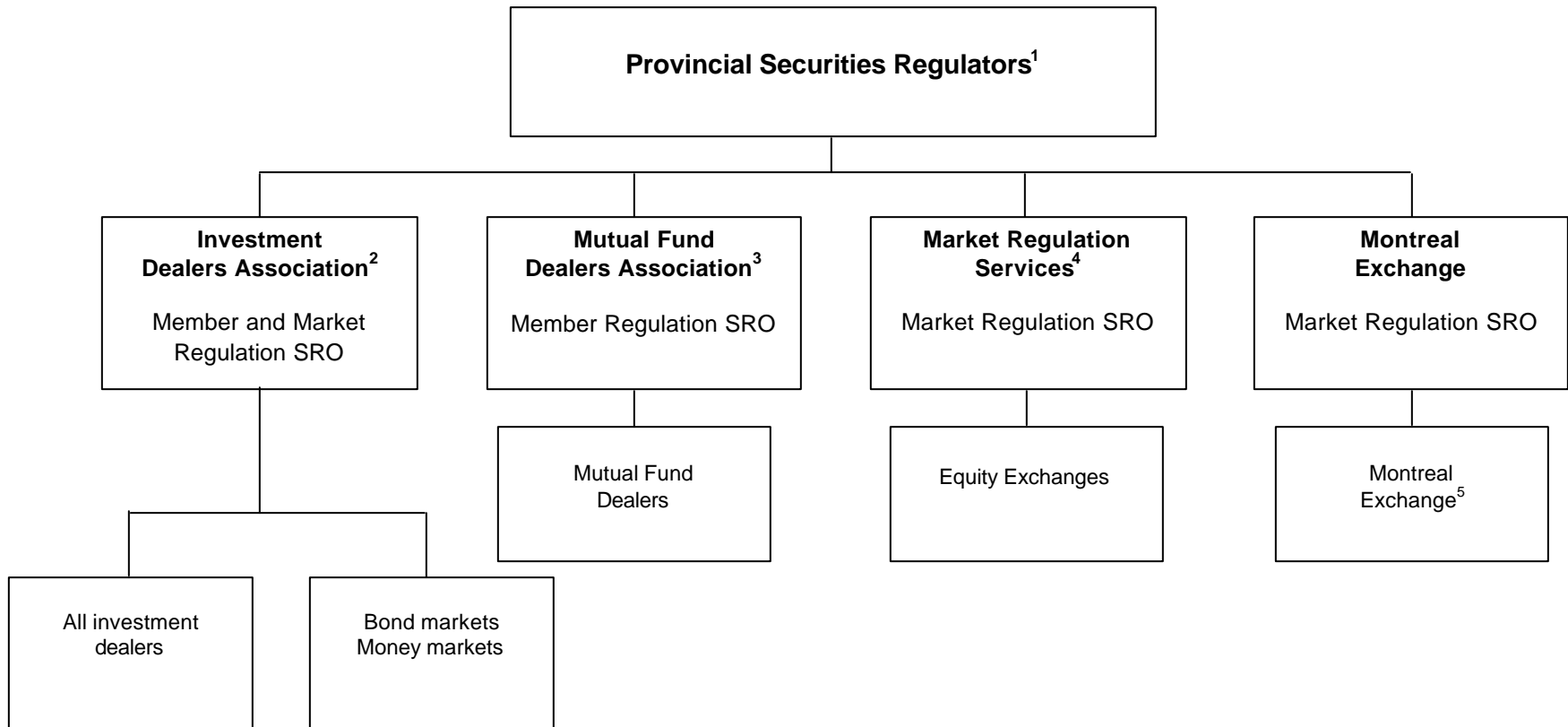
Stockholm Stock Exchange: Jonathan Macey and Maureen O'Hara, "From Markets to Venues: Securities Regulation in an Evolving World," mimeo (November 2004).

Toronto Stock Exchange: www.rs.ca/en/home/

Tokyo Stock Exchange: Maureen O'Hara, "Searching for a New Center: U.S. Securities Markets in Transition," paper prepared for the Financial Markets Conference, Federal Reserve Bank of Atlanta (Sea Island, Georgia, 2004). See also John Carson, op. cit.

APPENDIX 2: CHART 1

Regulatory Structure for the Securities Markets in Canada

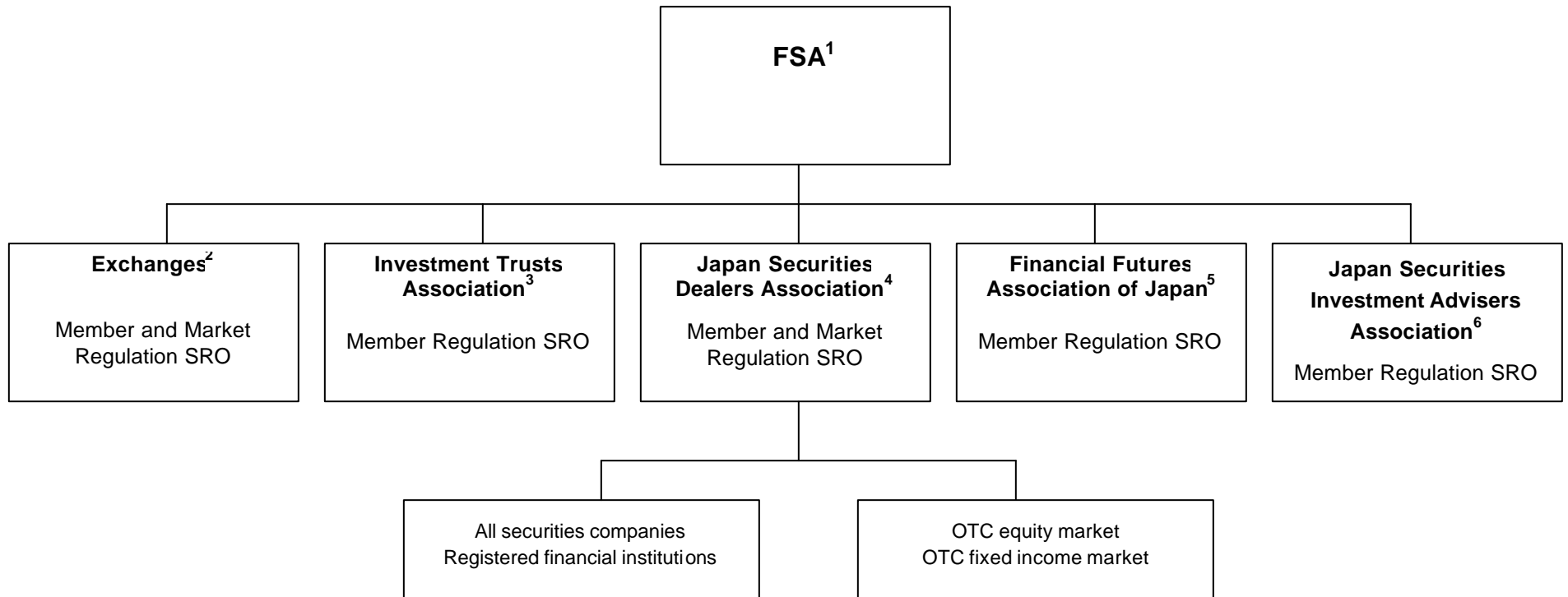


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1. Canada does not have a national regulator for the securities market. Instead, securities regulators from each province and territory in Canada regulate the securities markets in their jurisdictions. Through their participation in the Canadian Securities Administrators (CSA), these regulators are working to develop a harmonized approach to securities regulation across Canada.
2. The Investment Dealers Association of Canada (IDA) is the main self-regulatory organization for Canada's securities markets. In that capacity, IDA regulates all investment dealers and monitors trading activity in the bond and money markets.
3. The Mutual Fund Dealers Association is the self-regulatory organization responsible for regulating mutual fund dealers.
4. Market Regulation Services (RS) is the independent regulation services provider for Canada's equity markets. RS is responsible for developing and implementing the Universal Market Integrity Rules (UMIR), a common set of rules for equities trading across Canada, and monitors and enforces compliance with the UMIR.
5. The Montreal Exchange specializes in financial derivatives.

APPENDIX 2: CHART 2

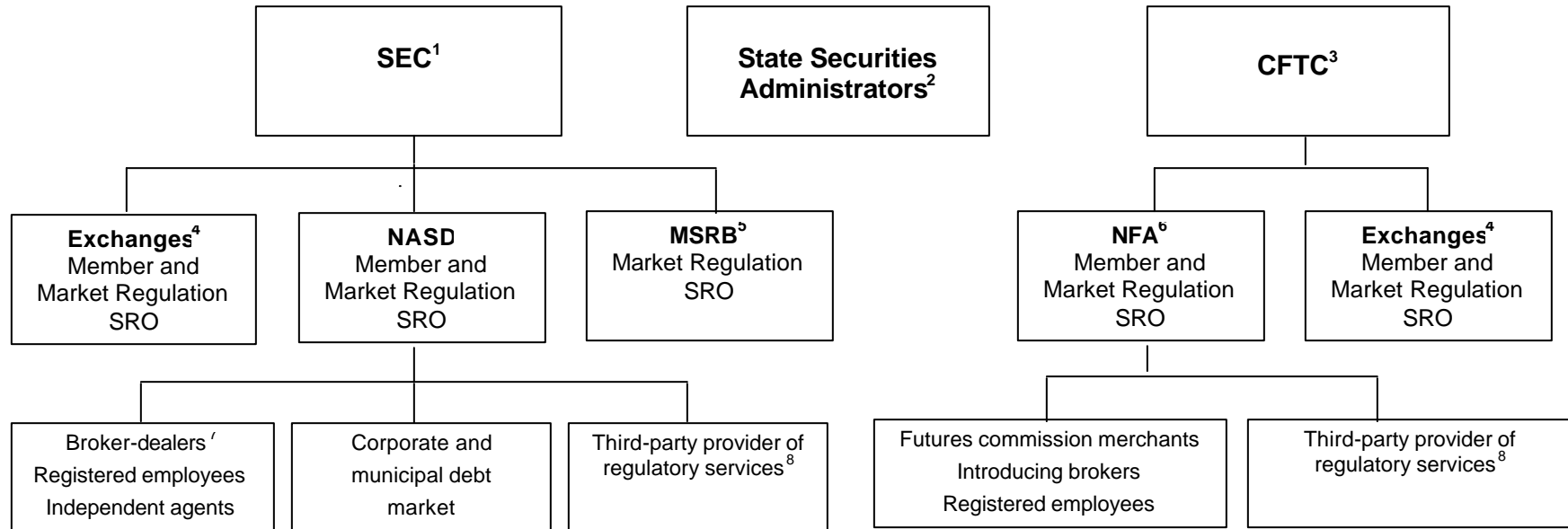
Regulatory Structure for the Securities and Futures Markets in Japan



1. The Financial Services Agency (FSA) is responsible for regulating all financial market participants in Japan. In the securities market, the FSA regulates the SROs and other market participants such as broker-dealers, investment banks and investment trust companies. The FSA also oversees the disclosure of financial information by listed companies.
2. Exchanges have the authority to regulate their own markets, as well as companies listed on those markets and broker-dealers active on those markets.
3. Investment Trusts Association regulates investment trust companies and broker-dealers in the investment trust industry.
4. Japan Securities Dealers Association (JSDA) regulates all securities companies operating in Japan as well as registered financial institutions, which are banks and other financial companies authorized by the government to engage in certain securities transactions. JSDA also regulates the over-the-counter equity and fixed-income markets.
5. Financial Futures Association of Japan (FFAJ) regulates broker-dealers in the financial futures industry.
6. Japan Securities Investment Advisers Association (JSIAA) regulates investment advisers.

APPENDIX 2: CHART 3

Regulatory Structure for the Securities and Futures Markets in the US



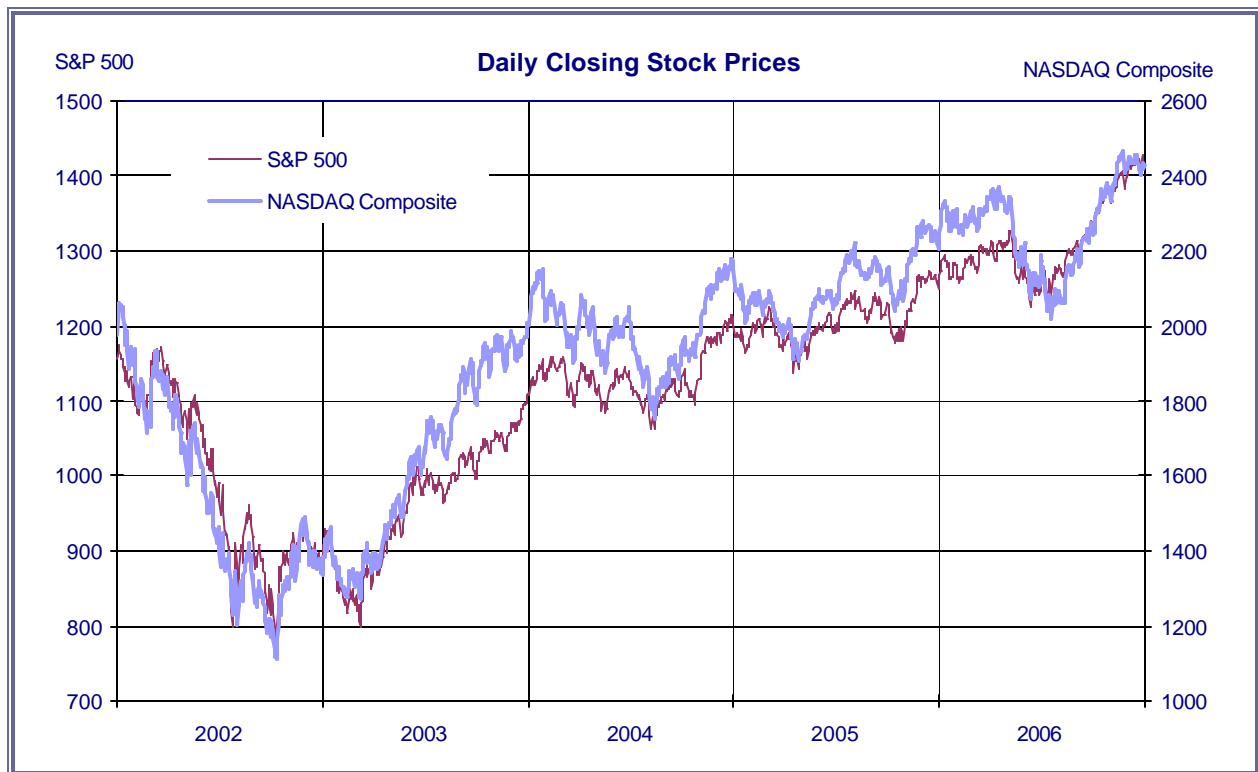
1. The Securities and Exchange Commission (SEC) regulates the securities market. This includes: (1) regulating the major securities market participants, including broker-dealers and SROs; (2) regulating the investment management industry, including investment companies and investment advisers; and (3) overseeing the disclosure of financial information by publicly held companies. In addition to the exchanges, NASD and the MSRB, registered clearing agencies and the Public Company Accounting Oversight Board are also SROs that are regulated by the SEC.
2. State securities administrators license securities firms and investment professionals active in their states, register certain securities offerings, review financial offerings of small companies, audit branch office sales practices and record-keeping, and enforce state securities laws.
3. The Commodity Futures Trading Commission (CFTC) regulates the futures and options on futures markets. This includes regulating participants on the futures market including SROs, futures commission merchants, introducing brokers, commodity pool operators and commodity trading advisors. In addition to the exchanges and National Futures Association, designated clearing organizations are also SROs that are regulated by the CFTC.
4. Exchanges regulate their own markets, either directly or through a contractual agreement with another SRO. Exchanges also regulate, either directly or through a contractual agreement with another SRO, the companies that list on their markets and broker-dealers that are active on their markets.
5. The Municipal Securities Rulemaking Board (MSRB) is the rulemaking SRO that establishes regulations for broker-dealers and banks dealing in municipal bonds, notes and other municipal securities. The SEC, NASD, Federal Reserve, Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) enforce the MSRB's rules.
6. NFA is the industry-wide SRO for the futures industry. NFA regulates all futures commission merchants, introducing brokers, commodity pool operators and commodity trading advisors along with the registered employees of all of those entities.
7. NASD is the industry-wide SRO for the securities market and regulates broker-dealers and associated persons (registered and non-registered) of broker-dealers with respect to equity and fixed-income markets, interactions with investors, corporate financing and advertising.
8. NASD and NFA provide market and member regulation services for exchanges on a contractual basis.

MONTHLY STATISTICAL REVIEW AND YEAR-END WRAP-UP

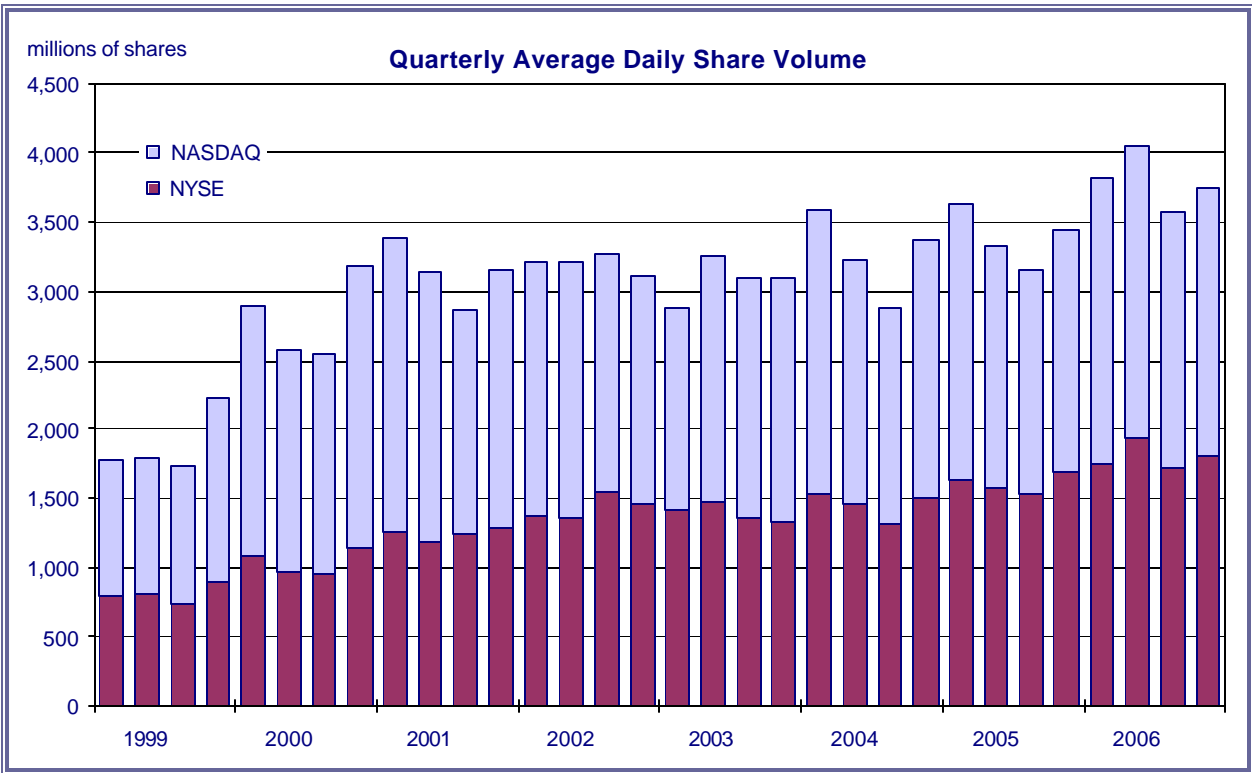
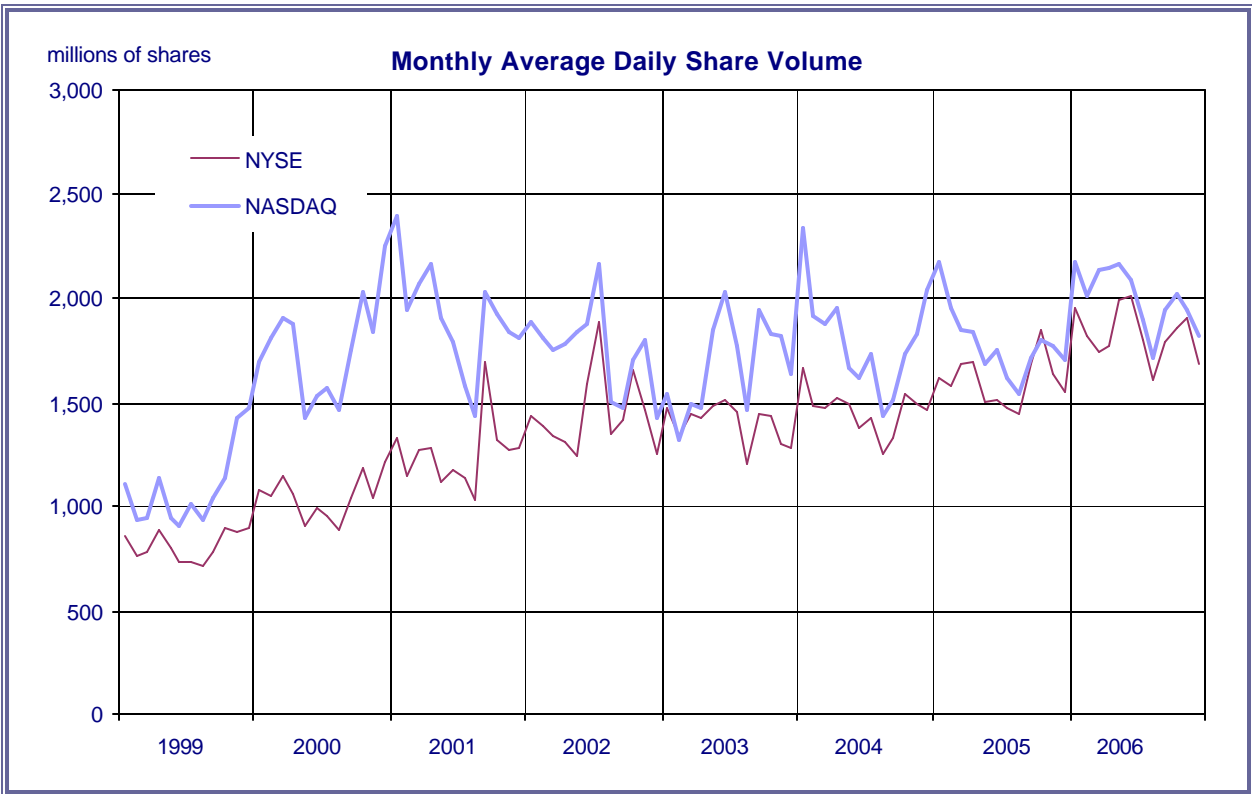
U.S. Equity Market Activity

Stock Prices – The rally that stalled in May resumed in September and produced the third best yearly point gain for the Dow Jones Industrial Average (DJIA) ever recorded, up 1,745 points across the course of 2006. Contributing to this rally were the absence of Federal Reserve rate increases in the second half of last year and the retreat in oil prices as the price of the crude oil benchmark West Texas Intermediate fell to \$61.05 per barrel at year-end from a high of \$77.03 per barrel on July 14, 2006.

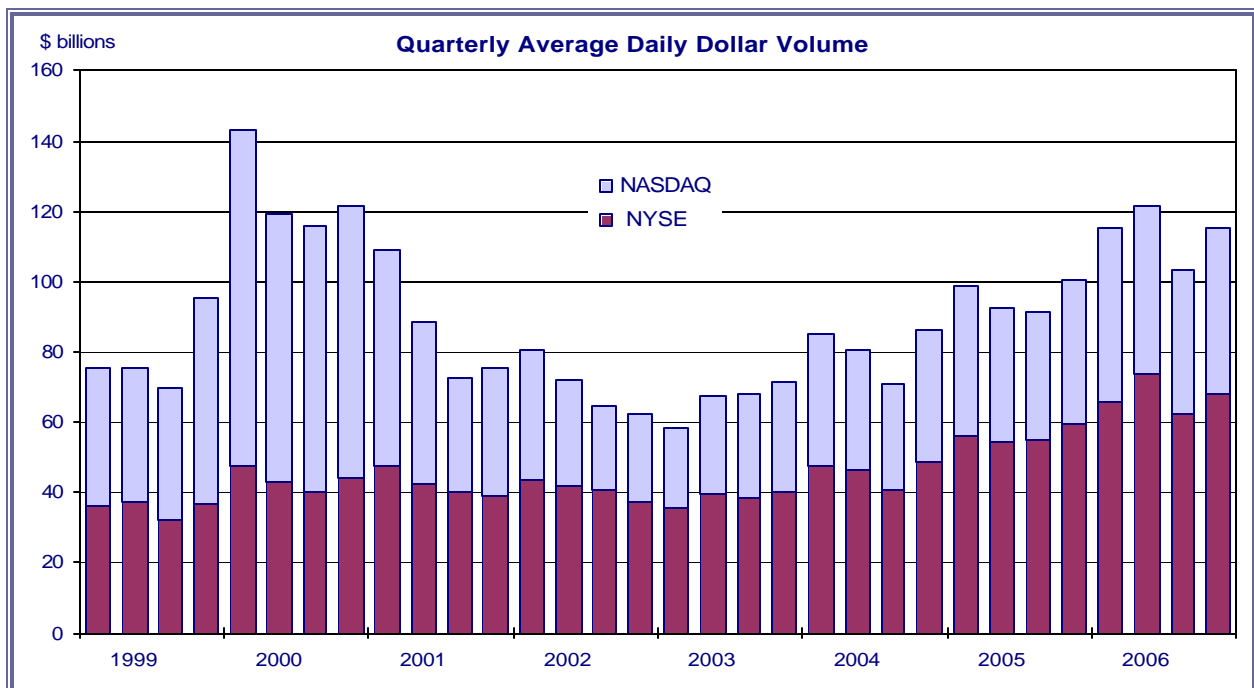
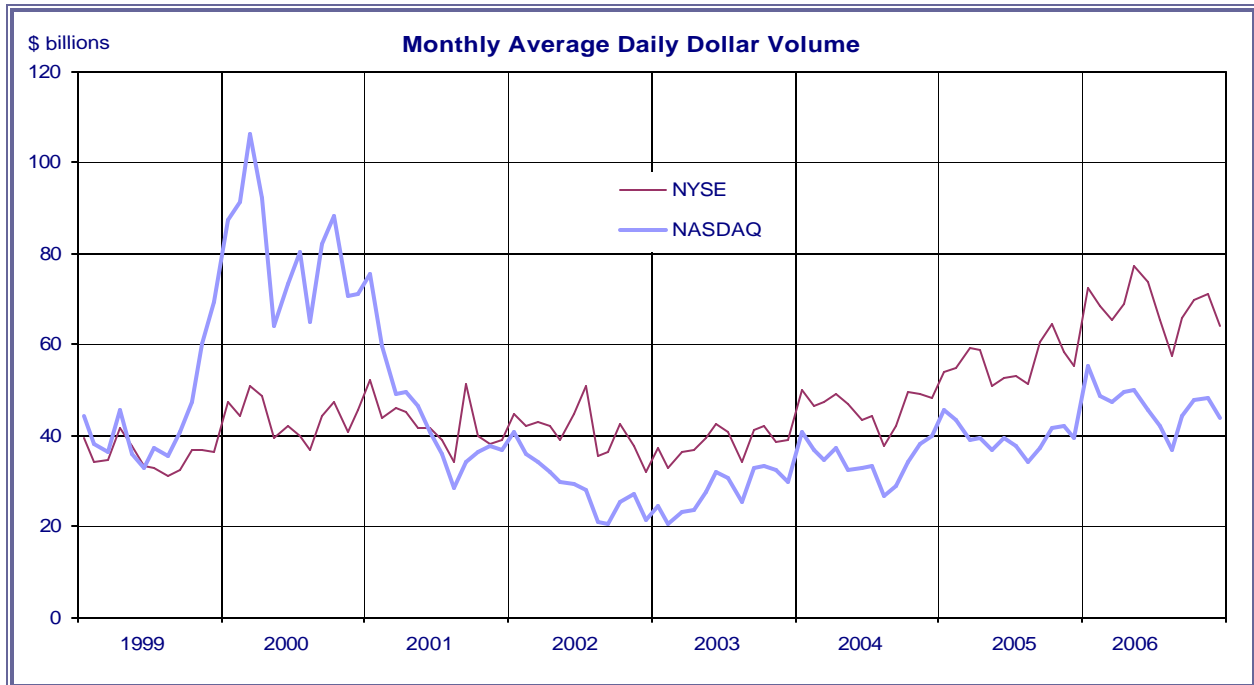
For the month of December, the DJIA was up 2.0% at 12,463.15, the S&P 500 rose 1.3% to reach 1,418.30 and the NASDAQ shed 0.7% to finish the year at 2,415.29. For the fourth quarter as a whole, the DJIA rose 6.7%, the S&P 500 6.2%, and the NASDAQ 6.9%, while for the year they were up 16.3%, 13.6% and 9.5%, respectively.



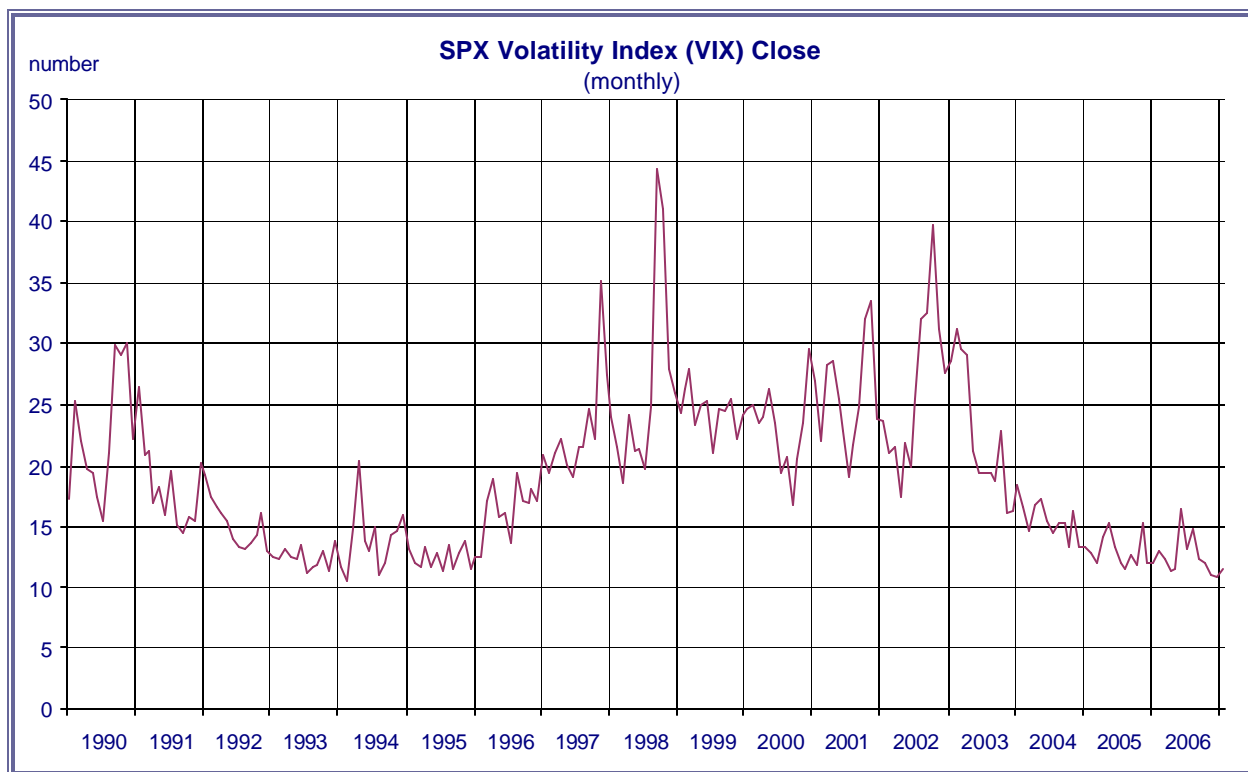
Share Volume – December marked the second slowest month for average daily share volume in 2006 on the New York Stock Exchange (NYSE) and NASDAQ. Average volume on the NYSE tailed off in December after rising for four straight months to reach an average of 1.687 billion shares per day, while NASDAQ share volume dipped 6.4% from November levels to an average of 1.816 billion shares per day. Nevertheless, share volume for 4Q'06 as a whole was up on both markets, 5.2% on the NYSE and 4.7% on the NASDAQ. For the full-year 2006, NYSE average daily volume rose 13.7% to 1.83 billion shares per day, while NASDAQ volume was up 12.1% to 2.0 billion shares per day.



Dollar Volume – The average daily value of trading on both the NYSE and NASDAQ dipped in December, declining by 9.8% and 9.5%, respectively. NYSE average daily dollar volume was well below the record of \$77.3 billion set in May, reaching only \$64.3 billion in December. The weakest month in 2006 for the NYSE was August, when average daily dollar volume was \$57.4 billion. The NASDAQ had its strongest month in January, when it reached an average daily dollar volume of \$55.0 billion and its weakest in August at \$36.9 billion. The NYSE 4Q'06 average daily dollar volume of \$68.5 billion was 9.5% above the 3Q'06 average and 15.5% above the 4Q'05 average. For the year as a whole, NYSE average daily dollar volume of \$68.3 billion was 21.7% above the 2005 average. NASDAQ 4Q'06 daily dollar volume averaged \$46.8 billion, up 14.3% from the 3Q'06 level and 14.0% above that in 4Q'05. NASDAQ daily dollar volume averaged \$46.5 billion in 2006, up 17.6% from the 2005 level, but still well below the record of \$80.9 billion pace set in 2000.



CBOE Volatility Index (VIX) – The Chicago Board of Options Exchange Volatility Index, or VIX, ended the month of December at 11.56, up 5.9% from November’s close of 10.91. The quarter ended with the VIX down 3.5% from 3Q’06’s close of 11.98, and the year-end level was down 4.2% from the 2005 close of 12.07.

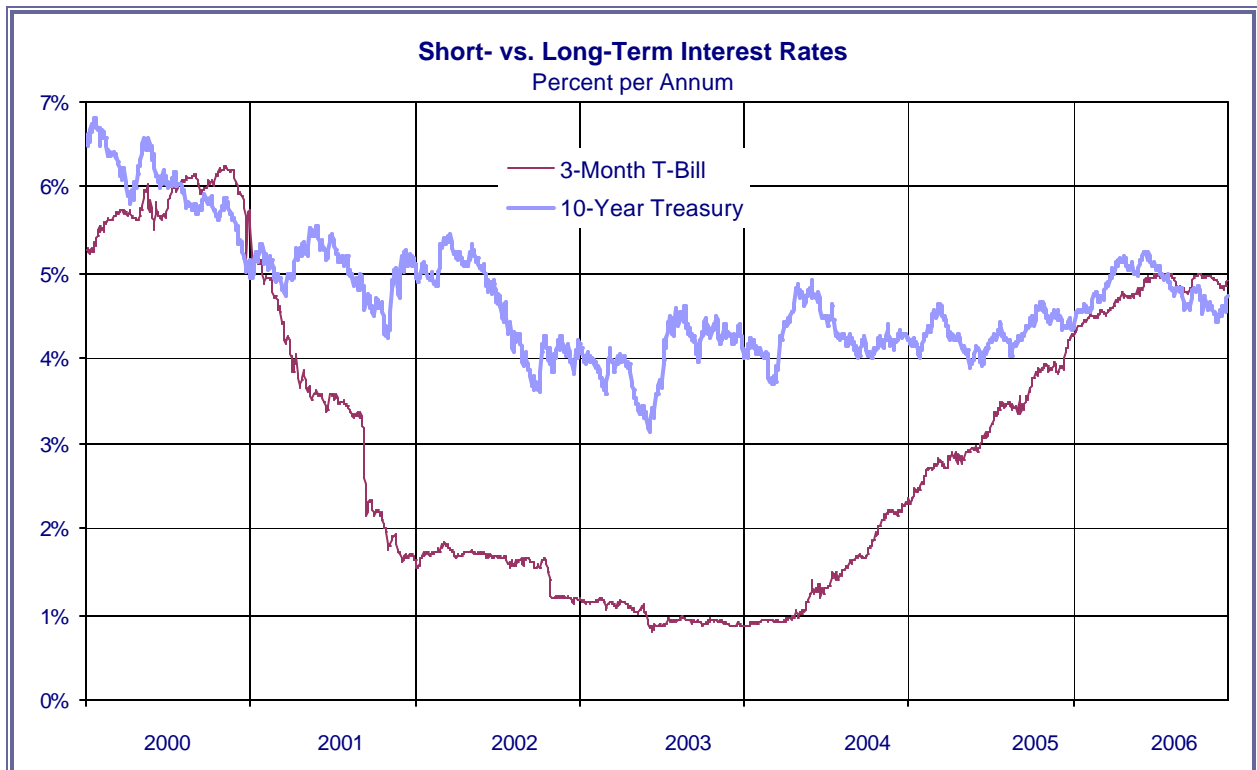


Source: Chicago Board of Options Exchange

Interest Rates – The Federal Open Market Committee (FOMC) ended its series of rate increases on June 29 after the 17th consecutive quarter-point increase lifted the Federal Funds rate to 5.25% p.a. The most recent statement from the FOMC, which followed their December 12th meeting, stated that some inflation risks remain and that the extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

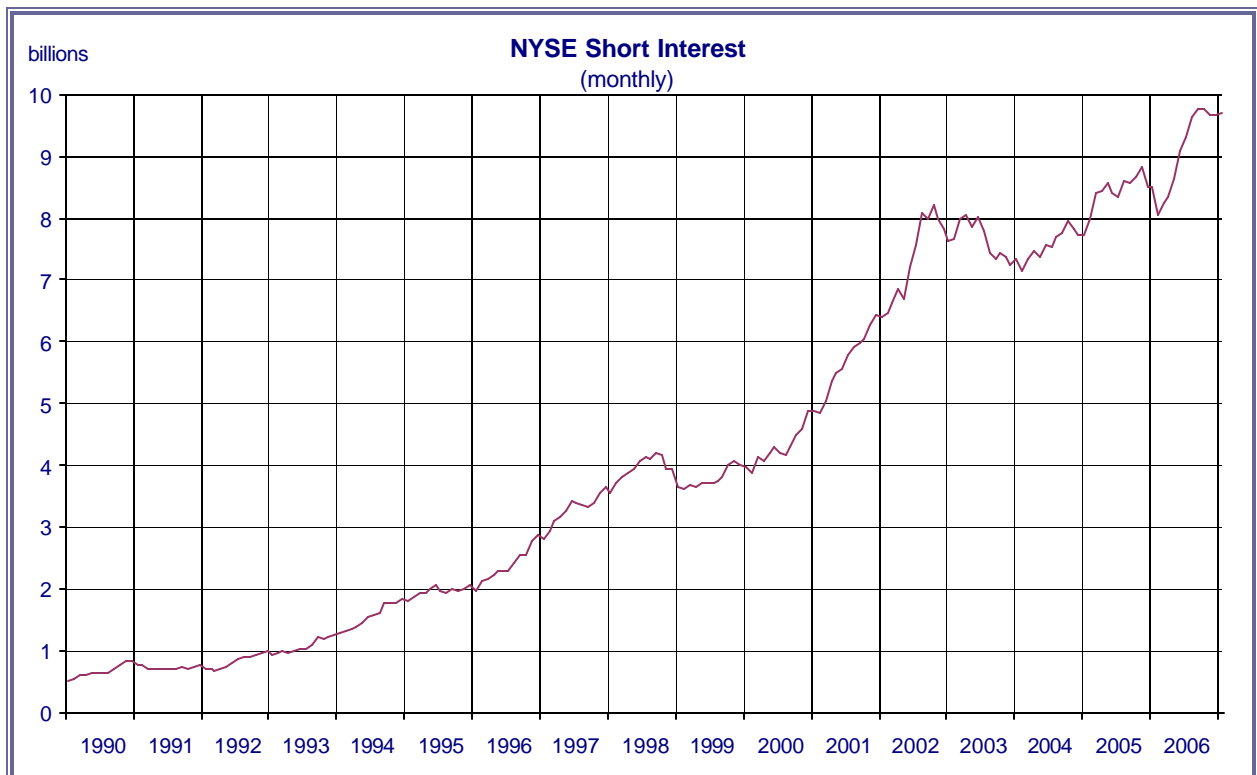
Long-term Treasury Bond yields, which moved higher in the first half of the year, reversed course in the second half and averaged 4.56% p.a. in December. The 10-year yield averaged 4.79% p.a. for the 12 months of 2006, up 50 basis points (bps), or 11.7%, from the prior year. The 3-month Treasury Bill rate averaged 4.85% p.a. in December, down from 4.94% p.a. in November. For full-year 2006, the 3-month T-Bill averaged 4.73% p.a., up 158 bps, or over 50% from the 2005 average of 3.15% p.a.

As a result, the spread between the three-month and 10-year rates remained inverted for the fifth consecutive month in December, averaging 29 bps. For 2006 as a whole, the monthly average spread averaged six bps, down 108 bps from 2005.



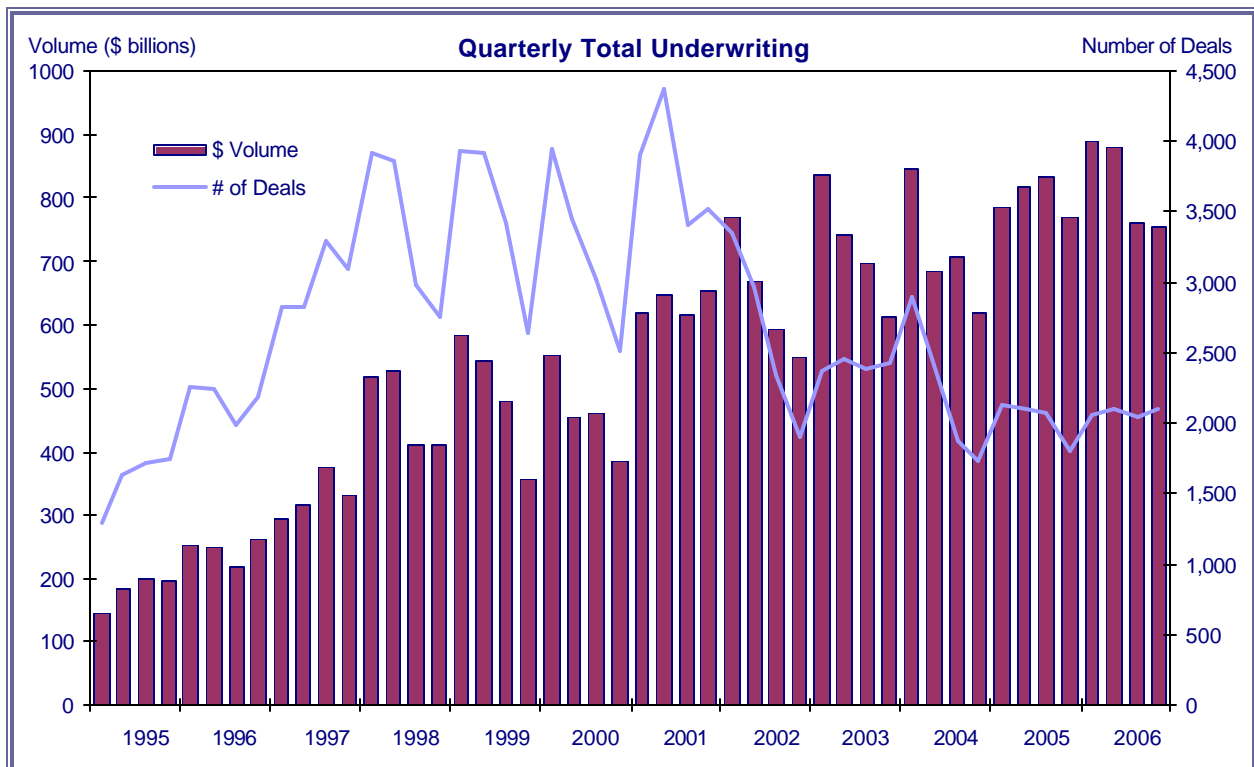
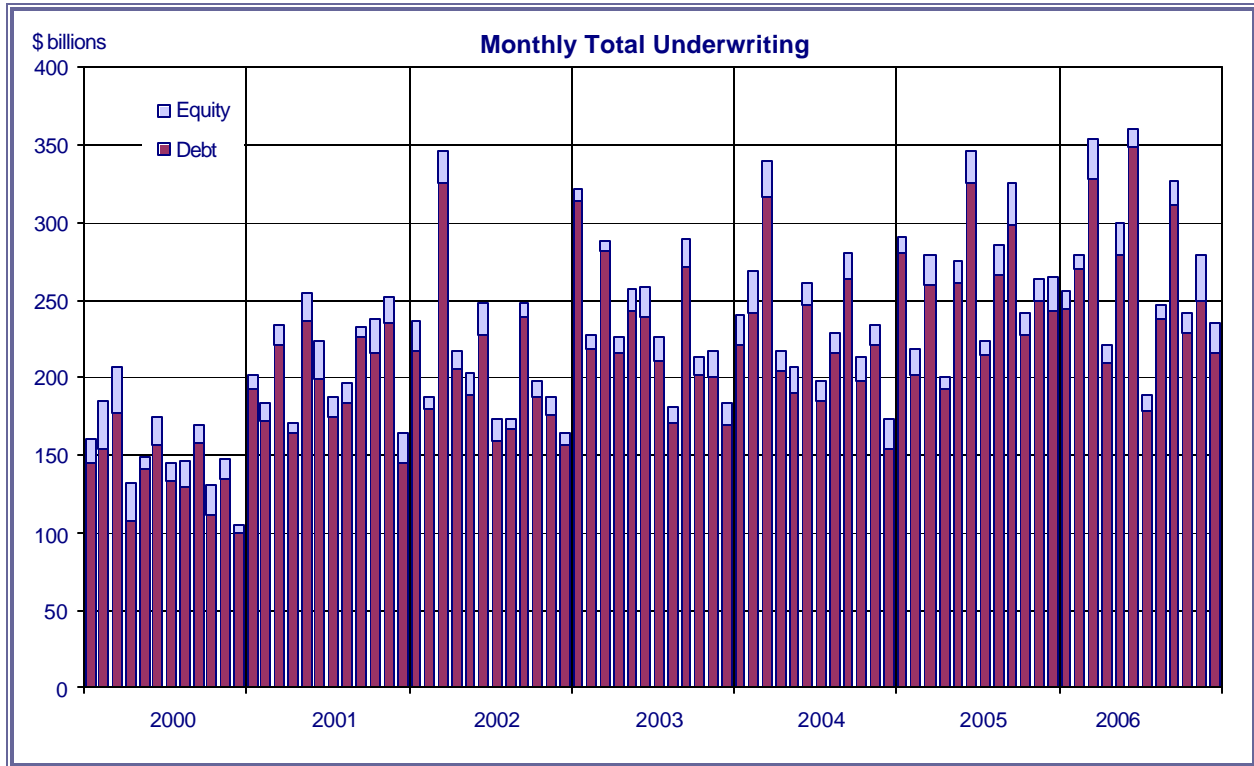
Source: Federal Reserve Bank of St. Louis

Short Interest – NYSE short interest rose 0.29% in January after a slight increase (0.05%) in December. Short-selling activity remained above the nine trillion-share level for the eighth consecutive month, with January 15 short interest rising to over 9.68 trillion shares and representing 2.6% of the total shares outstanding on the NYSE. The short ratio, the number of day’s average volume represented by outstanding short positions at the exchange, rose to 6.8 in January, from 6.3 in December.



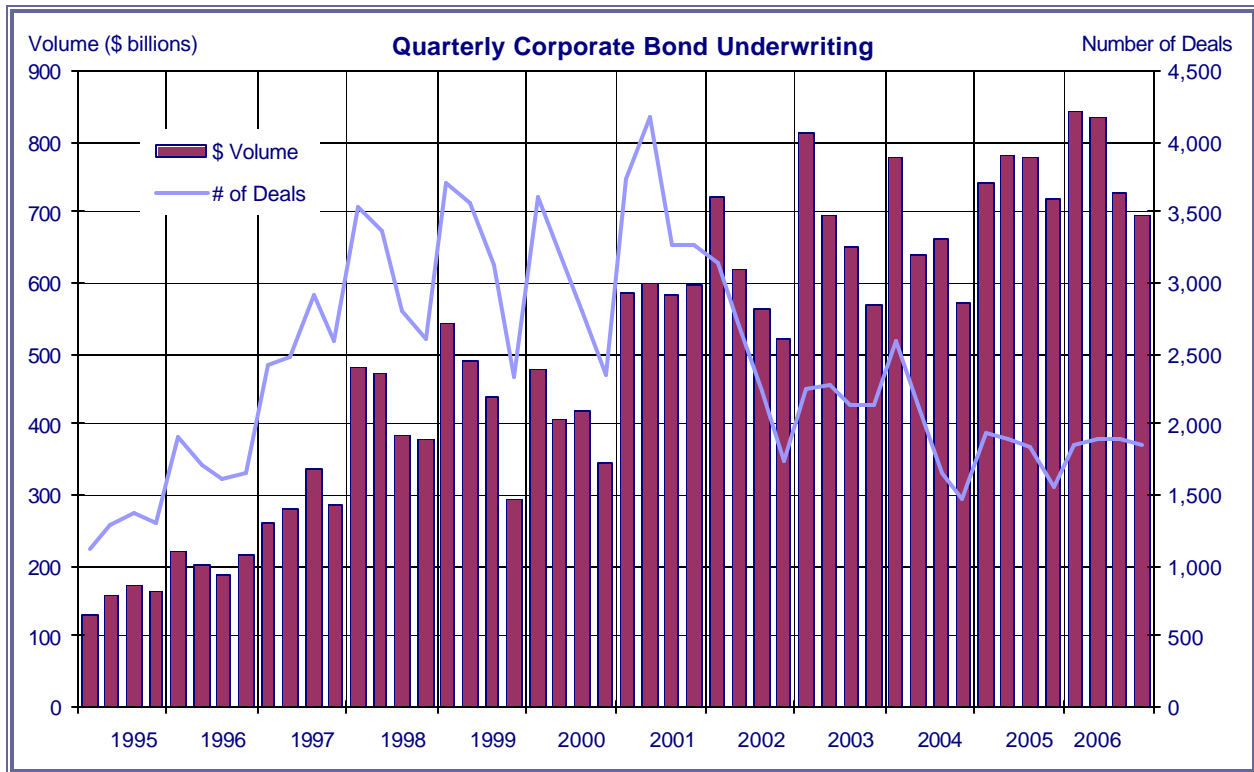
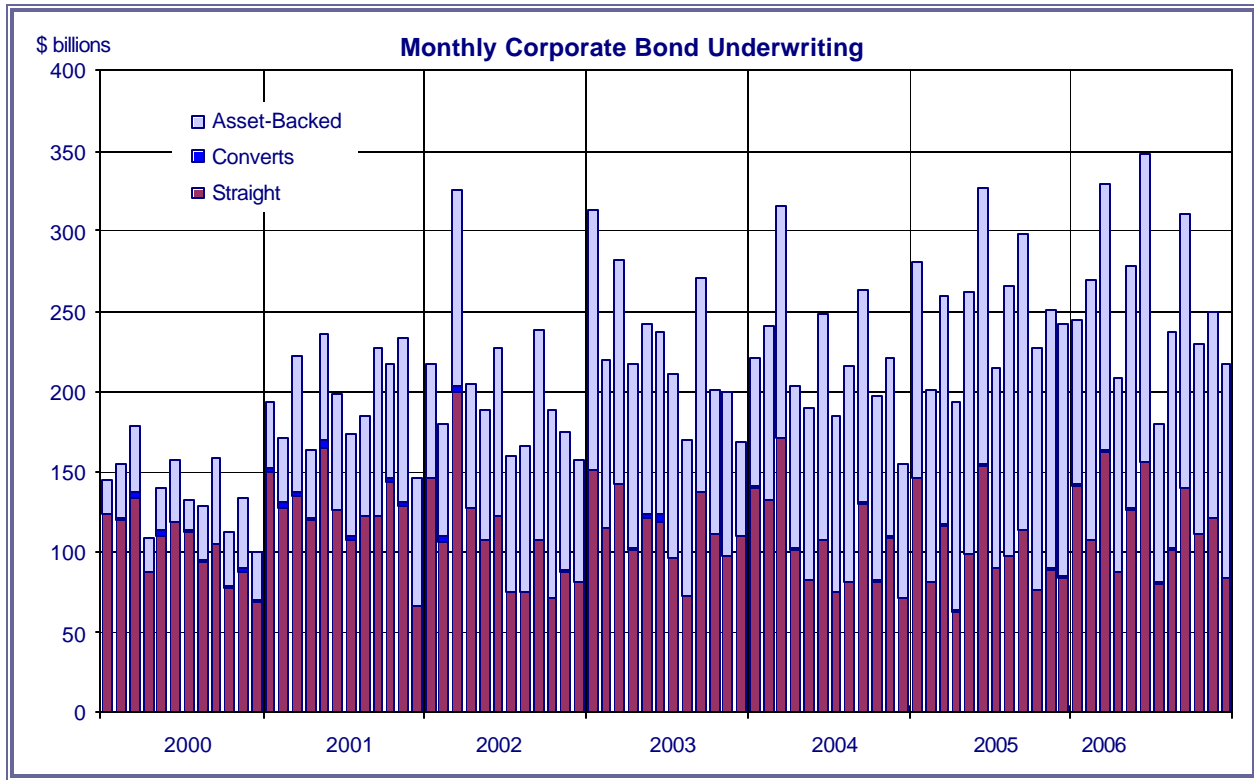
U.S. Underwriting Activity

Corporate Underwriting Activity – The securities industry raised \$3.287 trillion of capital in 2006 through corporate underwriting activity in the US markets, exceeding the \$3.21 trillion raised in 2005 by 2.4%. Total underwriting activity in the US declined by 15.6% in the month of December from the prior month's level to settle at \$234.9 billion. For the fourth quarter, underwriting totaled \$754.9 billion, down 0.9% from the third quarter and off 15.1% from the all-time record set in first quarter of this year, when it reached \$888.6 billion.



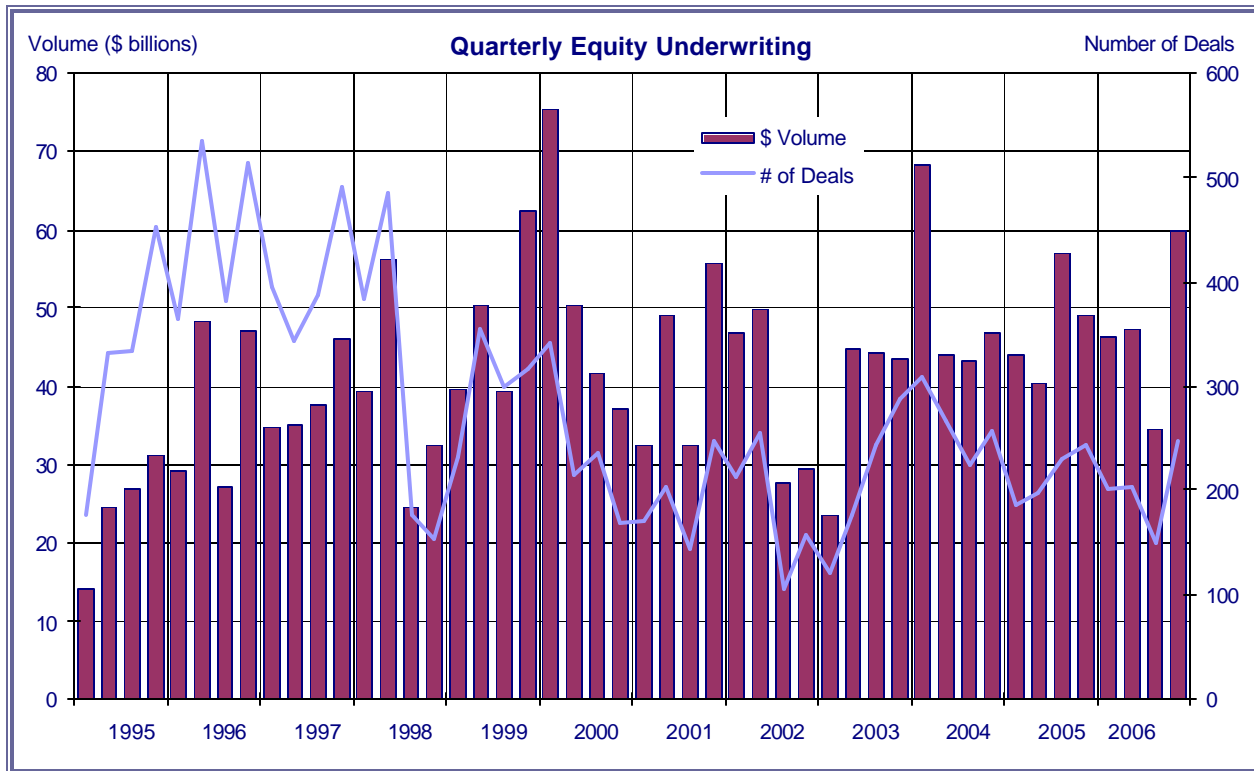
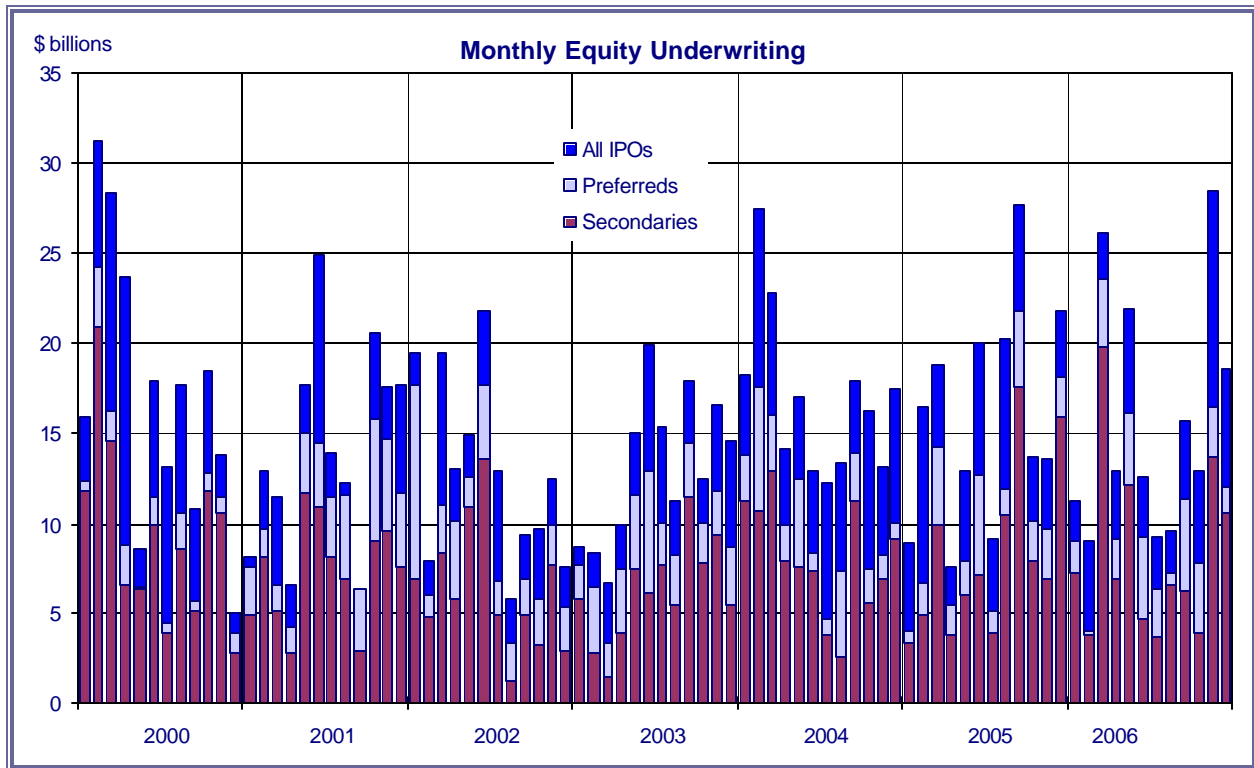
Source: Thomson Financial

Corporate Bond Underwriting – Total corporate bond issuance declined 13.4% during the month of December. For 4Q'06, straight debt issuance declined by 2.1%, while asset-backed offerings declined 6.1% from 3Q'06 levels. For the year as a whole, corporate bond issuance was 2.6% greater than it was in 2005.



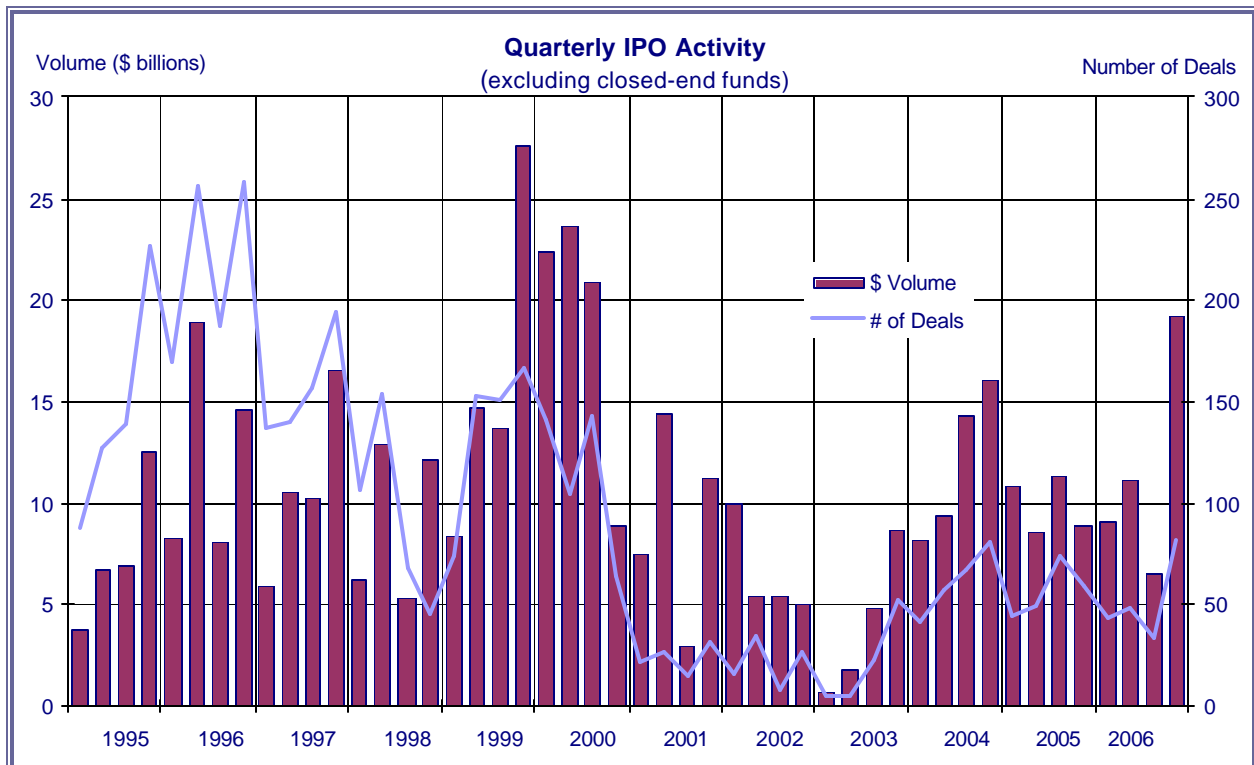
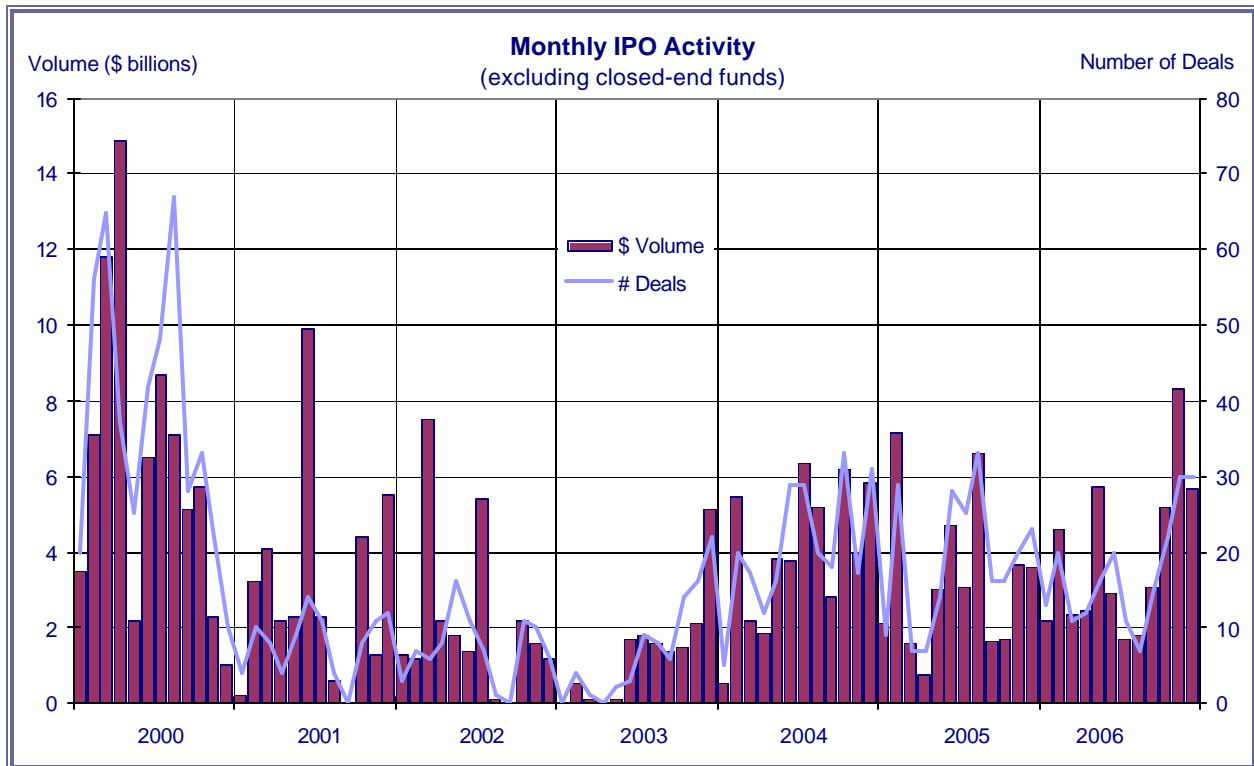
Source: Thomson Financial

Equity Underwriting – Overall issuance volume of common and preferred stock declined by 34.9% to \$18.5 billion following record monthly volume of \$28.5 billion in November 2006. For the quarter as a whole, total equity issuance rose 74.5% from 3Q'06 and 22.4% over 4Q'05. Full-year 2006 equity issuance totaled \$188.0 billion, down 1.2% compared to 2005.



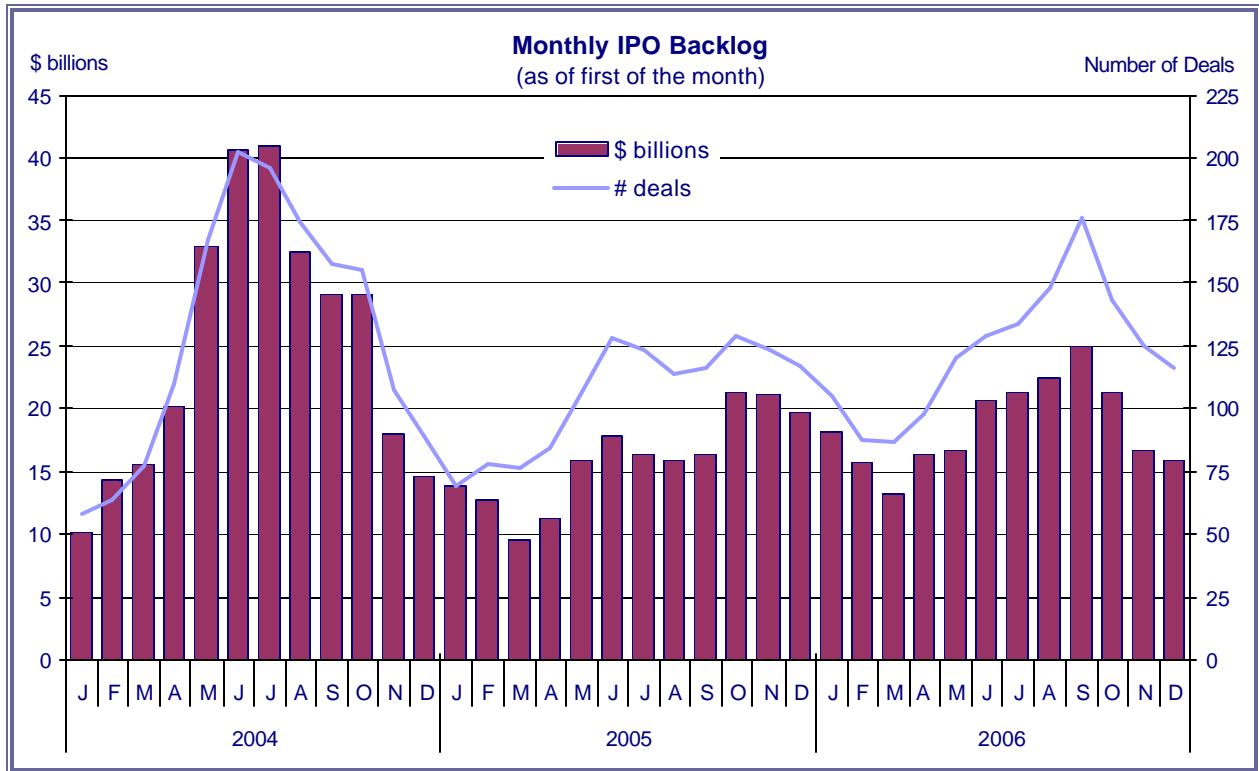
Source: Thomson Financial

Initial Public Offerings (IPOs) – US IPO activity dropped by almost a third in December, falling 32.2% on the month to \$5.7 billion, after rising in October and November to reach \$5.1 billion and \$8.4 billion, respectively. For 4Q'06, IPO volume totaled \$19.2 billion, surging 193.7% above 3Q'06 and 115.8% over 4Q'05. For full-year 2006, US IPO volume reached \$45.9 billion, 16.0% higher than 2005, but still well below the record-setting IPO year of 2000, when \$75.8 billion in new offerings were placed.



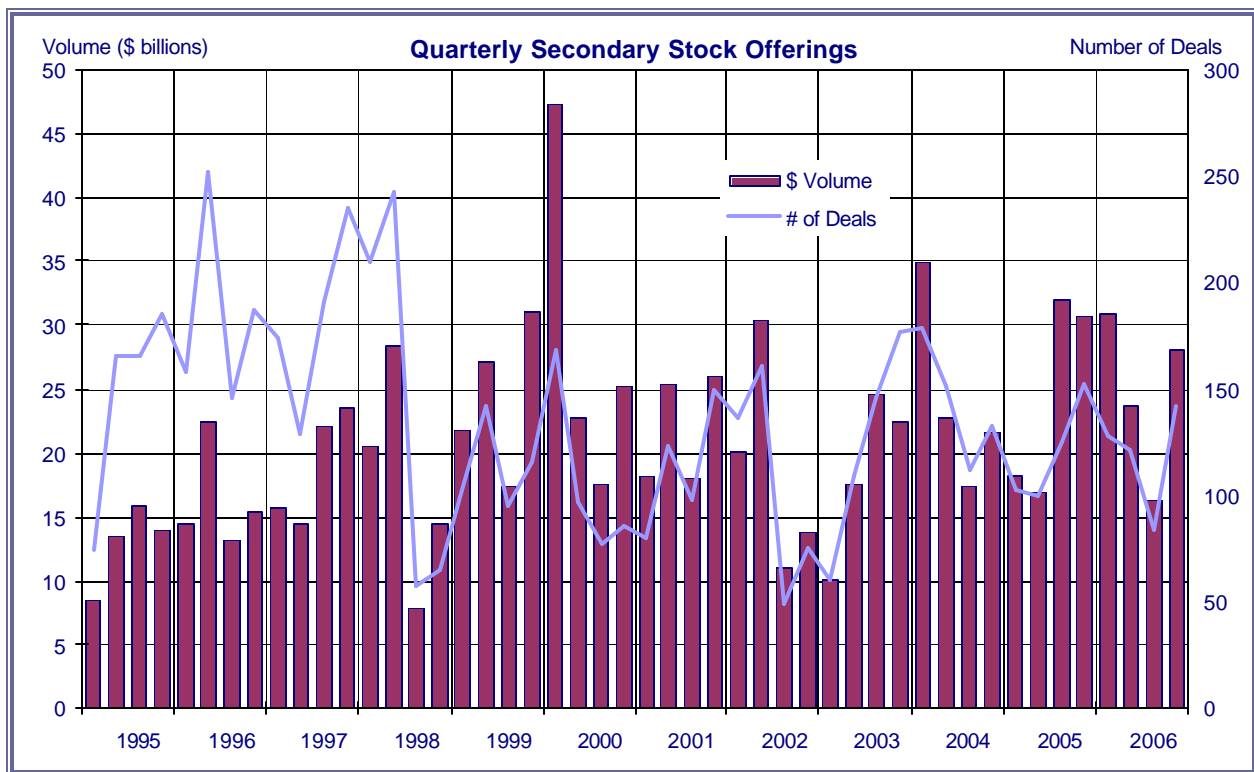
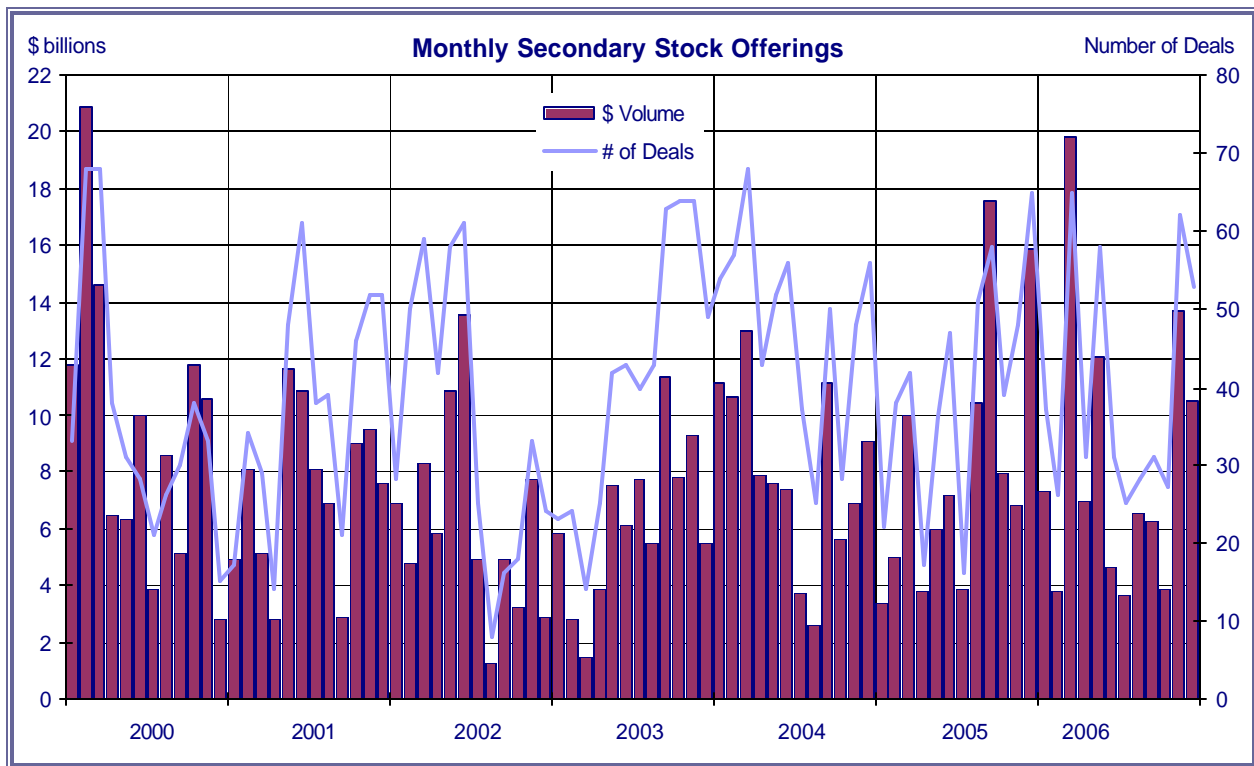
Source: Thomson Financial

IPO Backlog – The backlog of filed US IPOs declined in December to \$15.9 billion, down 4.8% from November, on 116 deals.



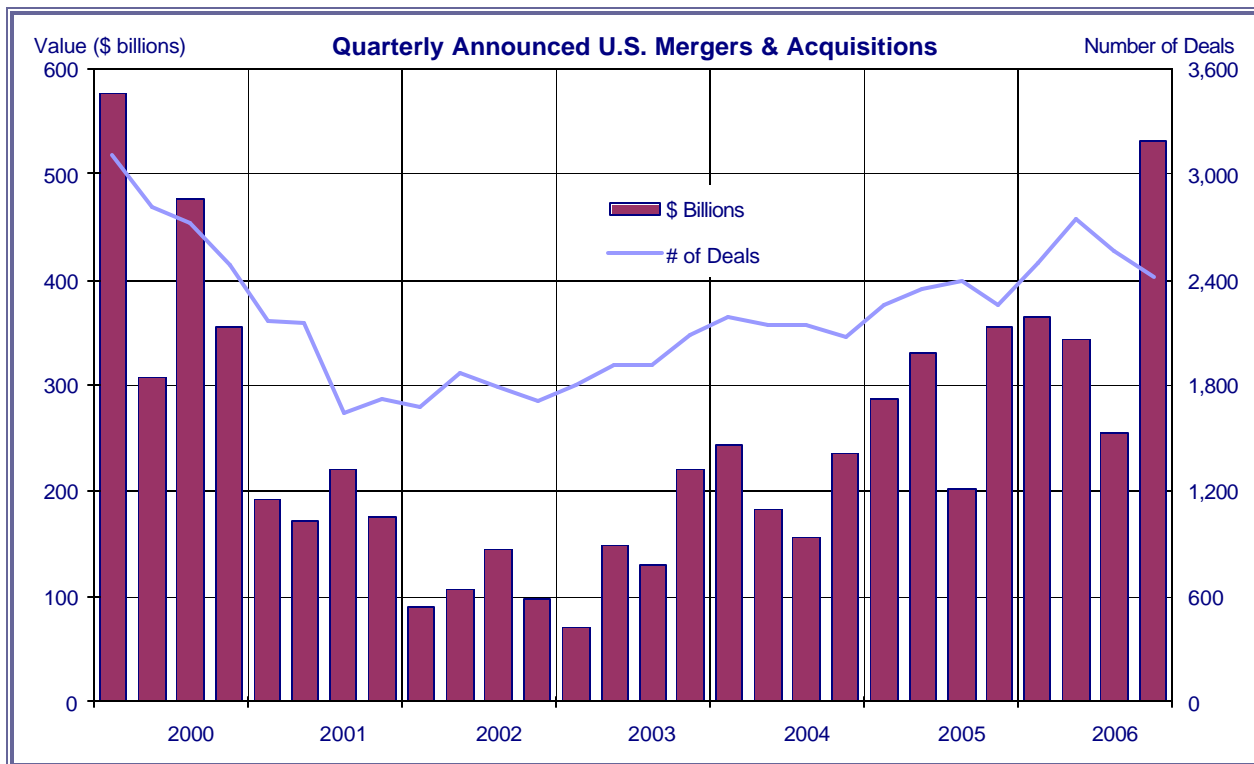
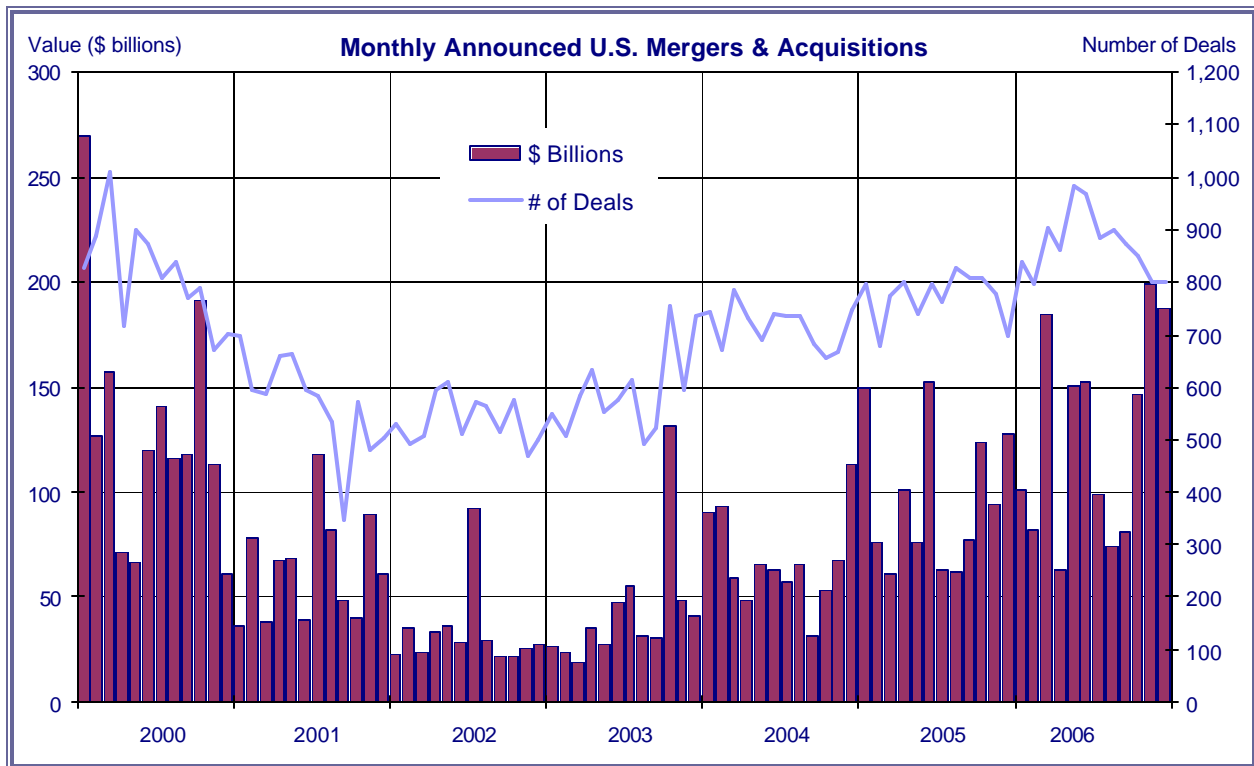
Source: Dealogic

Secondary Common Stock Offerings – In December, US secondary offerings totaled \$10.6 billion, down 23.1% from November's level. The total value of fourth-quarter secondary offerings was \$28.1 billion, 71.7% above 3Q'06, but down 8.2% from 4Q'05. For the year as a whole, secondary offerings were up slightly (1.3%) from 2005's performance, reaching \$99.1 billion.



Source: Thomson Financial

Mergers & Acquisition (M&As) – US M&A activity surged in 2006. For the month of December, fourth quarter and year of 2006, announced deals totaled \$187.5 billion, \$533.6 billion and \$1.52 trillion, respectively. December's monthly performance was the third best this decade, adding to the fourth-best quarterly and full-year dollar total for announced deals.



Source: Thomson Financial

Charles M. Bartlett, Jr.
Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In \$ Billions)

	Straight Corporate Debt	Con- vertible Debt	Asset- Backed Debt	TOTAL DEBT	Common Stock	Preferred Stock	TOTAL EQUITY	All IPOs	"True" IPOs	Secondaries	TOTAL UNDER- WRITINGS
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
2003	1,370.7	10.6	1,352.3	2,733.6	118.5	37.8	156.3	43.7	15.9	74.8	2,889.9
2004	1,278.4	5.5	1,372.3	2,656.2	169.6	33.2	202.7	72.8	47.9	96.7	2,859.0
2005	1,205.4	6.3	1,808.6	3,020.3	160.5	29.9	190.4	62.6	39.6	97.8	3,210.7
2005											
Jan	145.6	0.2	135.5	281.3	8.2	0.7	8.9	4.9	2.1	3.3	290.2
Feb	80.5	0.0	121.2	201.7	14.8	1.7	16.4	9.8	7.1	5.0	218.2
Mar	116.0	0.5	142.8	259.3	14.4	4.3	18.7	4.4	1.6	10.0	278.0
Apr	62.5	0.8	129.3	192.5	6.0	1.6	7.6	2.2	0.8	3.8	200.2
May	98.9	0.0	162.5	261.4	10.8	2.0	12.8	4.9	3.0	6.0	274.2
June	152.5	2.0	171.4	325.9	14.5	5.5	20.0	7.3	4.7	7.1	345.9
July	90.9	0.0	123.8	214.7	7.8	1.3	9.1	3.9	3.1	3.9	223.8
Aug	97.3	0.0	168.3	265.6	18.8	1.4	20.2	8.3	6.6	10.5	285.8
Sept	112.8	0.0	185.2	298.0	23.4	4.2	27.6	5.8	1.6	17.6	325.7
Oct	75.9	0.0	150.8	226.7	11.4	2.2	13.7	3.5	1.7	7.9	240.4
Nov	88.9	1.6	159.7	250.3	10.8	2.8	13.6	4.0	3.7	6.8	263.9
Dec	83.5	1.2	158.0	242.8	19.5	2.2	21.7	3.6	3.6	15.9	264.5
2006											
Jan	140.9	1.6	101.8	244.4	9.6	1.6	11.2	2.3	2.2	7.3	255.6
Feb	107.7	0.0	161.8	269.5	8.8	0.2	9.0	5.0	4.6	3.8	278.5
Mar	162.4	1.0	165.1	328.5	22.4	3.7	26.1	2.5	2.3	19.8	354.5
Apr	86.5	0.4	121.7	208.6	10.8	2.1	12.9	3.8	2.4	7.0	221.5
May	126.6	1.7	149.6	277.9	17.8	4.1	21.9	5.7	5.7	12.1	299.8
June	154.8	1.1	192.0	348.0	7.9	4.6	12.5	3.3	2.9	4.7	360.5
July	79.4	0.9	98.8	179.1	6.4	2.7	9.2	2.8	1.7	3.6	188.3
Aug	101.2	0.9	135.0	237.2	8.8	0.8	9.6	2.3	1.8	6.5	246.7
Sept	139.4	0.1	171.6	311.1	10.6	5.1	15.7	4.4	3.0	6.3	326.8
Oct	110.5	0.0	118.0	228.5	9.0	4.0	13.0	5.2	5.1	3.8	241.5
Nov	120.1	0.6	129.3	250.0	25.7	2.7	28.5	12.0	8.4	13.7	278.5
Dec	82.8	0.1	133.4	216.4	17.1	1.5	18.5	6.5	5.7	10.6	234.9
YTD '05	1,205.4	6.3	1,808.6	3,020.3	160.5	29.9	190.4	62.6	39.6	97.8	3,210.7
YTD '06	1,412.4	8.4	1,678.3	3,099.1	154.9	33.1	188.0	55.7	45.9	99.1	3,287.1
% Change	17.2%	33.0%	-7.2%	2.6%	-3.5%	10.9%	-1.2%	-11.0%	16.0%	1.3%	2.4%

Notes: Corporate bond underwriting includes corporate and Federal agency short- and long-term securities.
IPOs and secondaries are subsets of common stock. "True" IPOs exclude closed-end funds.

Source: Thomson Financial

MUNICIPAL BOND UNDERWRITINGS

(In \$ Billions)

INTEREST RATES

(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	TOTAL REVENUE BONDS	Compet. G.O.s	Nego. G.O.s	TOTAL G.O.s	TOTAL MUNICIPAL BONDS	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
2003	21.1	215.8	236.9	54.7	87.7	142.4	379.3	1.01	4.02	3.00
2004	17.2	209.8	227.1	51.5	77.7	129.2	356.3	1.37	4.27	2.90
2005	20.5	240.9	261.4	55.9	89.1	145.0	406.4	3.15	4.29	1.15
<u>2005</u>										
Jan	1.0	11.7	12.7	3.6	6.6	10.2	22.8	2.33	4.22	1.89
Feb	1.5	15.6	17.1	4.5	9.2	13.6	30.7	2.54	4.17	1.63
Mar	1.2	24.1	25.3	7.2	12.5	19.7	45.0	2.74	4.50	1.76
Apr	1.9	16.4	18.2	5.1	7.9	13.0	31.3	2.76	4.34	1.58
May	1.3	20.8	22.1	4.1	9.5	13.6	35.7	2.84	4.14	1.30
June	2.4	25.2	27.6	7.1	9.4	16.5	44.1	2.97	4.00	1.03
July	1.5	21.8	23.3	3.8	6.8	10.5	33.8	3.22	4.18	0.96
Aug	1.3	21.7	23.0	4.3	6.8	11.1	34.1	3.44	4.26	0.82
Sept	2.5	17.2	19.7	4.9	6.7	11.7	31.4	3.42	4.20	0.78
Oct	2.9	18.8	21.7	2.4	3.4	5.8	27.4	3.71	4.46	0.75
Nov	2.3	26.1	28.4	5.1	5.1	10.3	38.7	3.88	4.54	0.66
Dec	0.8	21.5	22.3	3.8	5.2	9.0	31.3	3.89	4.47	0.58
<u>2006</u>										
Jan	0.7	10.5	11.2	3.4	3.9	7.4	18.6	4.24	4.42	0.18
Feb	1.6	12.2	13.8	3.2	5.9	9.1	22.9	4.43	4.57	0.14
Mar	1.1	16.2	17.3	4.2	5.4	9.6	26.9	4.51	4.72	0.21
Apr	2.2	19.7	21.9	2.8	4.1	6.9	28.8	4.60	4.99	0.39
May	2.6	22.3	24.9	3.9	5.6	9.5	34.5	4.72	5.11	0.39
June	2.8	30.0	32.8	4.7	7.4	12.1	44.9	4.79	5.11	0.32
July	1.1	19.7	20.8	4.0	2.9	6.8	27.6	4.95	5.09	0.14
Aug	1.2	19.5	20.7	3.2	7.7	10.9	31.6	4.96	4.88	-0.08
Sept	1.9	15.7	17.7	5.2	4.1	9.3	27.0	4.81	4.72	-0.09
Oct	2.0	18.2	20.2	4.9	6.0	10.9	31.1	4.92	4.73	-0.19
Nov	2.6	28.4	30.9	5.1	5.7	10.7	41.7	4.94	4.60	-0.34
Dec	1.1	33.6	34.7	4.0	7.2	11.3	45.9	4.85	4.56	-0.29
YTD '05	20.5	240.9	261.4	55.9	89.1	145.0	406.4	3.15	4.29	1.15
YTD '06	20.9	246.1	266.9	48.6	66.0	114.6	381.5	4.73	4.79	0.06
% Change	1.9%	2.2%	2.1%	-13.0%	-26.0%	-21.0%	-6.1%	50.3%	11.7%	-94.3%

Note: Municipal bond underwriting includes all tax -exempt municipal securities but excludes taxable municipal securities.

Sources: Thomson Financial; Federal Reserve

STOCK MARKET PERFORMANCE INDICES

(End of Period)

STOCK MARKET VOLUME

(Daily Avg., Mils. of Shs.)

VALUE TRADED

(Daily Avg., \$ Bils.)

	Dow Jones Industrial Average	S&P 500	NYSE Composite	NASDAQ Composite	NYSE	AMEX	NASDAQ	NYSE	NASDAQ
1985	1,546.67	211.28	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
2003	10,453.92	1,111.92	6,440.30	2,003.37	1,398.4	67.1	1,685.5	38.5	28.0
2004	10,783.01	1,211.92	7,250.06	2,175.44	1,456.7	66.0	1,801.3	46.1	34.6
2005	10,717.50	1,248.29	7,753.95	2,205.32	1,602.2	63.5	1,778.5	56.1	39.5
<u>2005</u>									
Jan	10,489.94	1,181.27	7,089.83	2,062.41	1,618.4	62.5	2,172.3	54.1	45.5
Feb	10,766.23	1,203.60	7,321.23	2,051.72	1,578.2	62.7	1,950.2	54.5	43.2
Mar	10,503.76	1,180.59	7,167.53	1,999.23	1,682.6	66.7	1,849.0	59.1	38.8
Apr	10,192.51	1,156.85	7,008.32	1,921.65	1,692.8	61.7	1,839.2	58.8	39.6
May	10,467.48	1,191.50	7,134.33	2,068.22	1,502.1	52.9	1,685.6	50.8	36.6
June	10,274.97	1,191.33	7,217.78	2,056.96	1,515.8	58.0	1,747.9	52.5	39.4
July	10,640.91	1,234.18	7,476.66	2,184.83	1,478.9	58.8	1,621.8	53.1	37.8
Aug	10,481.60	1,220.33	7,496.09	2,152.09	1,441.4	61.9	1,538.9	51.3	34.1
Sept	10,568.70	1,228.81	7,632.98	2,151.69	1,683.0	70.5	1,716.5	60.6	37.5
Oct	10,440.07	1,207.01	7,433.12	2,120.30	1,846.7	72.7	1,796.3	64.6	41.7
Nov	10,805.87	1,249.48	7,645.28	2,232.82	1,641.7	64.6	1,768.3	58.3	41.9
Dec	10,717.50	1,248.29	7,753.95	2,205.32	1,553.5	69.6	1,704.4	55.2	39.6
<u>2006</u>									
Jan	10,864.86	1,280.08	8,106.55	2,305.82	1,956.9	81.4	2,170.7	72.4	55.0
Feb	10,993.41	1,280.66	8,060.61	2,281.39	1,815.2	77.4	2,014.0	68.8	48.8
Mar	11,109.32	1,294.83	8,233.20	2,339.79	1,740.3	75.0	2,135.2	65.2	47.6
Apr	11,367.14	1,310.61	8,471.43	2,322.57	1,775.5	92.0	2,138.7	69.0	49.3
May	11,168.31	1,270.09	8,189.11	2,178.88	1,986.9	92.5	2,163.6	77.3	49.6
June	11,150.22	1,270.20	8,169.07	2,172.09	2,006.2	82.3	2,087.4	73.5	45.6
July	11,185.68	1,276.66	8,242.12	2,091.47	1,797.6	60.1	1,894.6	65.3	42.2
Aug	11,381.15	1,303.82	8,388.56	2,183.75	1,614.2	50.9	1,710.3	57.4	36.9
Sept	11,679.07	1,335.85	8,469.65	2,258.43	1,787.3	55.2	1,942.0	65.8	44.3
Oct	12,080.73	1,377.94	8,774.98	2,366.71	1,852.5	54.0	2,018.8	69.8	48.0
Nov	12,221.93	1,400.63	8,969.00	2,431.77	1,901.2	57.6	1,940.0	71.3	48.3
Dec	12,463.15	1,418.30	9,139.02	2,415.29	1,687.7	54.5	1,816.2	64.3	43.7
YTD '05	10,717.50	1,248.29	7,753.95	2,205.32	1,606.7	63.0	1,785.2	56.1	39.5
YTD '06	12,463.15	1,418.30	9,139.02	2,415.29	1,826.7	69.3	2,001.9	68.3	46.5
% Change	16.3%	13.6%	17.9%	9.5%	13.7%	10.0%	12.1%	21.7%	17.6%

MUTUAL FUND ASSETS
(\$ Billions)

MUTUAL FUND NET NEW CASH FLOW*
(\$ Billions)

	Equity	Hybrid	Bond	Money Market	TOTAL ASSETS	Equity	Hybrid	Bond	Money Market	TOTAL	Total Long- Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	3,418.2	346.3	925.1	2,285.3	6,975.0	31.9	9.5	87.7	375.6	504.8	129.2
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-27.7	8.6	140.3	-46.7	74.5	121.2
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1	152.3	32.6	31.0	-258.5	-42.6	215.8
2004	4,384.0	519.3	1,290.4	1,913.2	8,106.9	177.9	42.7	-10.8	-156.6	53.2	209.8
2005	4,940.0	567.3	1,357.4	2,040.5	8,905.2	135.5	25.2	31.3	63.1	255.2	192.0
2005											
Jan	4,288.7	515.7	1,302.6	1,892.5	7,999.5	10.1	5.0	4.7	-27.5	-7.8	19.7
Feb	4,416.3	528.9	1,305.3	1,875.4	8,125.8	22.1	4.4	2.6	-19.3	9.8	29.1
Mar	4,349.6	525.4	1,295.7	1,875.7	8,046.4	15.3	3.9	-1.3	-2.2	15.7	17.9
Apr	4,246.8	522.6	1,306.8	1,841.3	7,917.6	8.5	2.6	1.2	-36.7	-24.4	12.3
May	4,407.3	534.7	1,323.4	1,858.4	8,123.7	11.8	2.2	4.0	14.5	32.5	18.0
June	4,472.1	543.9	1,336.4	1,865.4	8,217.7	6.3	2.0	4.1	3.0	15.4	12.4
July	4,670.3	554.6	1,339.4	1,883.9	8,448.3	9.9	1.4	7.4	13.9	32.5	18.6
Aug	4,678.6	557.5	1,360.6	1,922.9	8,519.7	6.4	1.8	7.4	32.5	48.0	15.5
Sept	4,759.5	560.8	1,356.3	1,912.6	8,589.2	7.8	1.3	3.8	-13.4	-0.4	13.0
Oct	4,664.3	552.0	1,344.7	1,936.5	8,497.5	6.5	0.9	0.6	21.2	29.2	8.0
Nov	4,863.6	562.7	1,349.2	1,991.1	8,766.6	21.0	0.5	-0.3	30.3	51.5	21.2
Dec	4,940.0	567.3	1,357.4	2,040.5	8,905.2	9.8	-0.8	-2.8	47.0	53.2	6.2
2006											
Jan	5,196.4	581.1	1,375.4	2,040.4	9,193.3	31.6	-0.1	8.3	-4.4	35.3	39.7
Feb	5,198.1	582.5	1,389.3	2,051.0	9,220.9	27.3	0.8	8.7	5.5	42.3	36.8
Mar	5,340.5	588.1	1,384.6	2,048.5	9,361.7	34.4	0.6	5.3	-8.3	32.0	40.2
Apr	5,473.9	596.5	1,389.6	2,027.2	9,487.2	26.3	0.3	0.9	-27.1	0.5	27.6
May	5,262.3	586.1	1,386.3	2,081.9	9,316.6	3.2	-0.2	-2.6	50.8	51.3	0.5
June	5,255.4	585.5	1,387.1	2,108.4	9,336.4	-8.6	-0.5	-0.4	19.8	10.3	-9.5
July	5,237.1	591.5	1,406.5	2,141.8	9,376.9	0.7	-0.1	3.2	25.8	29.7	3.9
Aug	5,361.5	602.8	1,430.9	2,189.5	9,584.7	5.1	0.2	6.6	42.9	54.8	11.9
Sept	5,460.9	613.0	1,444.0	2,209.0	9,726.9	6.6	0.6	4.6	15.4	27.2	11.8
Oct	5,670.3	633.2	1,465.4	2,246.8	10,015.7	12.7	1.6	10.4	30.8	55.6	24.7
Nov	5,836.0	647.2	1,487.9	2,310.0	10,281.1	11.3	2.2	7.3	55.0	75.8	20.8
Dec											
YTD '05	4,863.6	562.7	1,349.2	1,991.1	8,766.6	125.7	26.0	34.1	16.2	202.0	185.8
YTD '06	5,836.0	647.2	1,487.9	2,310.0	10,281.1	150.6	5.5	52.5	206.2	414.8	208.6
% Change	20.0%	15.0%	10.3%	16.0%	17.3%	19.8%	-78.8%	53.7%	1174.8%	105.4%	12.3%

* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges

Source: Investment Company Institute



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