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COMMENT LETTER ON THE G-30 GLOBAL CLEARING AND SETTLEMENT REPORT

SIA's Operations Committee, STP Committee, and Cross-Border Subcommittee

STATEMENT FOR THE RECORD BY MARC E. LACKRITZ, PRESIDENT SECURITIES INDUSTRY ASSOCIATION

before the
Subcommittee on Domestic And International
Monetary Policy, Trade and Technology
House Financial Services Committee
United States House of Representatives:
"Opening Trade in Financial Services –
The Chile Singapore Example"
April 1, 2003

REVIVING THE MONTERREY CONSENSUS

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COMMENT LETTER ON THE G-30 GLOBAL CLEARING AND SETTLEMENT REPORT

by SIA's

Operations Committee

STP Committee

Cross-Border Subcommittee

We believe that the G-30 Report correctly focuses attention on important issues that will help facilitate more efficient cross-border trading, and that the Report will be a useful tool to help coordinate existing initiatives. SIA has been engaged in a long-term project to facilitate straight through processing in the clearance and settlement of U.S. securities. As such, we strongly advocate and are in broad agreement with the end goals identified in the Report for a strengthened interoperable global network, risk mitigation and improved corporate governance in global clearing and settlement. We believe in particular that the harmonization of messaging standards, communication protocols, and reference data standards constitutes the linchpin of effective cross-border communication.

April 24, 2003

Mr. John G. Walsh
Executive Director, G-30
1990 M Street NW, Suite 450
Washington, DC 20036

Re: The Group of Thirty Report on Global Clearing and Settlement

Dear Mr. Walsh:

The Operations Committee, the Straight Through Processing ("STP") Committee, and the Cross-Border Subcommittee[1] of the Securities Industry Association ("SIA")[2] are pleased to have the opportunity to provide the Group of Thirty ("G-30") with comments on *Global Clearing and Settlement: A Plan of Action* ("the Report").[3]

We commend the G-30 for their efforts in formulating a comprehensive global framework for concerned parties in the private and public sectors to consider. We believe that the G-30 Report correctly focuses attention on important issues that will help facilitate more efficient cross-border trading, and that the Report will be a useful tool to help coordinate existing initiatives. We also believe that the G-30 is well positioned to help marshal and encourage public sector support in specific areas of the Report where such support may be warranted.

SIA has been engaged in a long-term project to facilitate straight through processing in the clearance and settlement of U.S. securities.[4] As such, we strongly advocate and are in broad agreement with the end goals identified in the Report for a strengthened interoperable global network, risk mitigation and improved corporate governance in global clearing and settlement. SIA offers our ongoing support and assistance to the G-30 in achieving these goals.

We believe in particular that the harmonization of messaging standards, communication protocols, and reference data standards (G-30 recommendations 2 and 3) constitutes the linchpin of effective cross-border communication, and, as such, the implementation of those recommendations should be prioritized.

We would like to take this opportunity now to highlight our efforts as they pertain to some of the recommendations in the Report, and to identify those recommendations that we feel may benefit from public sector support.

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1 The Cross-Border Subcommittee is comprised of a subsection of representatives from SIA's Operations Committee.

2 The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs more than 700,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2002, the industry generated $214 billion in U.S. revenue and $285 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

3 See http://www.group30.org/imagez/GCSExecSum.pdf.

4 SIA defines STP as the seamless integration of systems and processes to automate the trade process from end-to-end – trade execution, confirmation and settlement – without the need for manual intervention or the re-keying of data. For more information and materials related to the SIA STP project, please see www.sia.com/stp.

Section I: Building a Strengthened, Interoperable Global Network

Before addressing specific recommendations, we would like to thank the G-30 for including in your Report so many of the issues that our members raised in a meeting with you on August 30, 2001. These issues revolve around the fact that regulatory, market, and systems practices are not standardized, resulting in unnecessarily high costs of cross-border transactions. The August 2001 meeting was one in which you requested input from these member-firms about salient cross-border issues that affected them.

Recommendation 1: Eliminate Paper and Automate Communication, Data Capture and Enrichment

The dematerialization of physical certificates is one of the cornerstones of the SIA STP initiative. Dematerialization can be achieved while retaining all the functionality of physical certificates, including: independence of ownership, safety and security, collateralization, and shareholder communication and voting rights. Moreover, the SIA Physical Securities STP Subcommittee has identified significant cost savings to be realized through dematerialization that are related to the processing and safekeeping of physical securities. Our members have reported that in down markets, for example, occurrences of fraudulent paper in the form of counterfeit certificates increase, and that these certificates sometimes makes their way partially through the clearing and settlement system before they are discovered, resulting in downstream costs. These fraudulent papers also create expenses related to increased labor for investigations.

SIA is currently working with the New York Stock Exchange on the concept of an issuer converting, as of a certain date, to book-entry only registration of new purchases. Throughout 2003, SIA plans to continue to talk to issuers, targeting securities firms first, followed by key technology firms, with the goal of effectively communicating the merits of dematerialization.

Our goal is for the securities industry to lead in this effort by example, and we believe that this G-30 recommendation helps to provide further support for this effort. We also strongly support the point made in the Report that it is possible through education to overcome negative perceptions of dematerialization held by some retail investors. Our SIA STP Communications Subcommittee has established a new working group to draft industry and marketing materials on the benefits of dematerialization.

Although dematerialization is a matter of individual firm practice and will likely vary market by market, we believe that general recognition and acceptance of the merits of book-entry registration by public sector officials would be very useful, and we believe that the G-30 can provide significant help in this regard.

As for specific recommendations on how to proceed, we believe that it may be helpful to attempt to curtail the use of paper wherever possible without violating any existing regulations. Regulatory relief that allows for reports or other required communication in electronic format as opposed to paper may also aid dematerialization. One approach, if such regulatory relief is granted, could be to focus on the development of XML documents in a standard format that can be used and manipulated in an automated manner. We also believe that increased electronic communications among firms could involve some sort of electronic matching or “hub” solution.

Recommendation 2: Harmonize Messaging Standards and Communication Protocols

Recommendation 3: Develop and Implement Reference Data Standards

We wholeheartedly support the G-30 recommendations related to the adoption of common standards and protocols, specifically ISO 15022, XML, and the adaptation of XML to relate to specific types of business communications like market data. The three main issues surrounding global processing are indeed common reference data standards, messaging standards, and business practice standards. The SIA STP Institutional Oversight/Code of Practice Subcommittee has developed a draft code of practice relating to these three issues.

We would like to call attention to and commend the enormous progress made in this area due to the efforts of different organizations and working groups such as the International Securities Services Association (ISSA), The Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA), the Financial Information Forum (FIF), and the International Securities Association for Institutional Trade Communication-International Operations Association (ISITC-IOA), among others.

In fact, many of the principles and the direction that the report endorses have been at the heart of the mission and goals of ISITC since its inception in 1991. ISITC also wholly endorses and supports the objective identified in recommendation 2 and is committed to assisting the G-30, other industry organizations and their member-firms to this end.

Through the work of various STP committees, SIA has long seen messaging interoperability as crucial to achieving higher levels of Straight Through Processing. Open and consistent standards and IP-based protocols between entities in the securities industry can achieve full realization of this goal.

Like the G-30, SIA is therefore supportive of securities industry messaging standards. The specific initiatives most relevant to our members' clearing, settlement, and asset servicing businesses, include:

- ANSI's Accredited Standards Committee ASC X9, the U.S. securities industry standards body and U.S.-based ISO member/representative. X9 is involved in ISO's worldwide messaging and reference data standards initiatives in the securities business, including, but not limited to settlement and clearance.

- ISO 15022, as now implemented by Swift network participants and soon to be fully implemented by many SIA members, DTCC and Omgeo.

- ISO/TC68/SC4/WG10, the working group in charge of defining the new XML edition of ISO 15022. This includes the efforts to converge XML standards with groups like ISO 15022 and the U.S. National Numbering Agency.

- ISITC and the Securities Market Practice Group (SMPG), which are developing Codes of Practice based upon ISO 15022 in the areas of Trade Initiation & Confirmation, Settlements, Reconciliation and Corporate Actions.

An additional goal of SIA is to utilize our education and training tools, seminars, conferences and sub-committees to communicate and promote the importance of open, standardized messages and IP-based protocols to our member-firms.

There was an additional area of concern discussed in the April 2001 meeting with you that relates to standards, which is the issue of multi-listed securities. Our members reported that with regard to multiple listings, there are currently no standards that address where trades should clear and settle (e.g., in the country of domicile, trading or where the settlement liquidity is). The lack of standards and unique securities identifiers for multi-listed securities and the lack of synchronization between the global clearing and settlement systems results in increased risk, lack of straight through processing, costly inventory management and increased fail rates.

There is confusion about how to satisfy customer segregation requirements in terms of investor protection. Costs are very high with respect to multiple listings across markets because processes related to these listings are, in some cases, manual. Specifically, these costs are a function of what our members refer to as a "multiple box issue," where trading arbitrage gains can be more than offset by difficulties in the settlement and asset servicing cycle. To monitor these growing problems and comply with regulatory requirements, members have had to resort to special coding, non-standard processing streams and exception reporting, all at high cost.

Synchronization and links between Central Securities Depositories (CSDs) have improved this process and the industry should strive to develop links between all global CSDs. All instruments that are traded should have an accurate and unique identifier that is well maintained, precise, available, and satisfy the full lifecycle of a trade, from decision making to execution, through settlement, reporting, valuation and position keeping. International industry organizations should focus on harmonizing the use of ISIN and using other standardized fields such as Market or MIC code, settlement or "PSET" code, for transactions involving multi-listed securities. A joint effort to examine these issues has recently begun between the Cross-Border Subcommittee and ISITC-IOA. Given the cross-border nature of these multiple box issues, the G-30's interest would be welcome.

We believe that the process of acceptance and adoption of common standards and protocols is underway. We would also note that, however, when recommending specific time frames for implementation, we believe that it is extremely important to take into consideration the fact that many firms are in the position of having to undertake the large, complex, and costly project of reengineering legacy systems in order to take full advantage of the benefits of common standards and protocols.

Recommendation 4: Synchronize Timing Between Different Clearing and Settlement Systems and Associated Payment and Foreign-Exchange Systems

We agree with the G-30's assessment that payment and currency-exchange settlement is not always synchronized with securities settlement, and that such payment and settlement systems should be more closely linked. We would like to note, however, that the ability to link these systems is potentially complicated by the fact that approximately two-thirds of currency trades are not related to securities transactions.[1] Therefore, if this recommendation is to be implemented, clearing organizations must begin to explore the costs and benefits of offering multi-currency functionality alongside securities settlement.

[1] For more information, please see http://www.sia.com/stp/pdf/Foreign_Exchange_White_Paper_v6.0.pdf.

Recommendation 5: Automate and Standardize Institutional Trade Matching

We strongly agree with the G-30 estimation that automated and standardized institutional trade matching is fundamentally important to cross-border trading. Moreover, we believe that successful implementation of G-30 recommendation #2 may, to some extent, be a prerequisite to the successful implementation of matching.

Throughout the rest of 2003, there will be a significant push in the U.S. domestic matching effort. The SIA STP Business Practice and Matching Implementation Subcommittee is working with Omgeo LLC to compile a user specification document for domestic matching, to be released in May 2003. Moreover, the SEC has approved Omgeo's Central Trade Match (CTM) system, which is already currently available for cross-border business. We would also draw attention to the fact that DTCC has implemented a Real Time Trade Matching (RTTM) system for fixed income products.

One additional area of concern that was brought up by our members in the April 2001 meeting with you is the issue of international mutual funds. Our members noted that there is a lack of an international centralized and standardized transaction processing system for them, despite the fact that interest in these funds has been growing steadily over the past five years.

We believe that matching is one area in which public sector acceptance and support spearheaded by the G-30 would be most useful, primarily because some buy-side market participants have been reluctant to work actively toward that goal.

Recommendation 6: Expand the Use of Central Counterparties

SIA agrees with the G-30 that competition between multiple clearing organizations along with the lack of a central counterparty results in inefficiencies. We feel strongly that centralizing a CCP facility at least within each region would improve the efficiency and lower costs of cross-border clearance and settlement. Our members report that in some markets there exist high costs of trade-for-trade settlement through agent banks, (where net settlement through a CCP would be more efficient), a great lack of uniformity of market practices, and in some cases, multiple central counterparties with different capital requirements. Therefore, we believe that consolidation or seamless interfacing among CCPs should be prioritized and encouraged.

Recommendation 7: Permit Securities Lending and Borrowing to Expedite Settlement

We support public sector action in those countries that do not currently permit securities lending to rectify that situation, as such lending performs an important role in the global marketplace, and we believe that the joint CPSS/IOSCO committee of central bank and securities regulators could be a useful resource in this regard.

We have found that one element of U.S. stock lending in particular has largely been conducted manually between firms: stock loan recalls. One important part of the STP project is the automation of that process, in which DTCC will play a key role by operating a stock loan recall "hub" that will support communications between users of different vendor systems. The delivery of the Automated Recalls Management System ("ARMS") is slated for the second quarter of 2003.

Recommendation 8: Automate and Standardize Asset Servicing Processes

SIA agrees with the G-30 that the standardization of asset servicing processes is crucial to efficient cross-border clearing and settlement. We further believe that any solution that automates or standardizes these processes should facilitate interoperability, or the ability of members using different vendors to communicate seamlessly with one another. An electronic hub, as discussed above, is one example of such a solution. Our members report that both corporate actions and tax reclaim processes and documentation need to be standardized and harmonized, as they both represent significant operational issues for firms.

The Corporate Actions process continues to be one of the most challenging and least standardized processes in the securities industry worldwide. It is one of the most risk intensive of all Operations areas, and can affect anywhere from hundreds to hundreds of thousands of clients simultaneously. For this reason, the SIA STP Corporate Actions Subcommittee is designing a hub similar in structure to the stock loan recall hub, called the Corporate Actions Announcements and Liability Notifications Hub, to automate and streamline corporate actions procedures. This hub is scheduled for delivery in the first quarter of 2004.

Section II: Mitigating Risk

Recommendation 9: Ensure the Financial Integrity of Providers of Clearing and Settlement Services

SIA agrees that the financial integrity of providers of clearing and settlement services, including those that self-clear, should be assured. Strong internal governance is always crucial, but even more so in these times of unprecedented volatility. We note that user or member-governance is one model that has been used very successfully.[2]

We also encourage transparency in accounting, but agree with the G-30 that public entities should coordinate with one another to ensure that their required disclosures do not overlap with one another and create an undue regulatory burden on the firms.

Recommendation 10: Reinforce the Risk Management Practices of Users of Clearing and Settlement Service Providers

SIA supports the continuing efforts of all market participants involved in every aspect of the trade cycle to hone their risk management procedures. Moreover, in the last decade there has been innovation and improvement in risk management techniques and systems. We see risk management as a key priority for clearing and settlement service providers but would expect that their Boards and regulators, in line with the G-30's governance recommendations, would have the greatest responsibility to protect the interests of users. We would also caution that public sector officials looking to bolster risk management procedures for different financial organizations with regulation should keep in mind that best practices for effective risk management will vary widely depending on the specific nature of the organization and its operations.

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[2] See for example www.optionsclearing.com/default.jsp, or www.dtcc.com.

Documents such as "Sound Practices for the Management and Supervision of Operational Risk," however, released in February 2003 by the Bank of International Settlements as it relates to the Basel II Capital Accord can be useful to management and Boards in particular as a general benchmark in operational risk management processes.

Recommendation 11: Ensure Final, Simultaneous Transfer and Availability of Assets

We strongly endorse the recommendation that settlement systems provide effective DvP with full transparency regarding finality of transfer. We also agree that the optimum arrangement will depend on the factors noted in the Report, "including available technology and communication infrastructure, the number and value of transactions, the systemic importance of the market to the world financial system, and the business and operational models of other market participants and related payments systems."

However, the Report also states that real-time settlement systems "can offer the greatest certainty by providing simultaneous and immediate transfer for securities and cash." The Report goes on to state that systems that "offer real time transfers of securities followed by net cash payments at the end of each working day (or intraday) offer a lower level of certainty…" We feel that these statements come close to stating that there is a single "best" method of effecting settlement, irrespective of individual market circumstance. As you know, there have been enormous strides that national and global markets have made to provide certainty, finality and transparency in securities settlements that are also adapted to individual market circumstances. Certainty in securities settlement is a product of secure operations, market stability and enforceable legal arrangements. Without these basic features, a simultaneous exchange of securities and cash may provide conceptual finality, but not necessarily certainty of result.

Because it may be impractical for a single approach to be the most efficient for all markets and types of transactions, including cross-border settlements as one example, market participants should be able to interpret this recommendation as liberally as risk-managed tools will allow. We believe that the recommendation must be seen as encompassing a wide range of intermediate financing, risk-management and liquidity-enhancing tools as interim equivalents to real-time settlement, among them multilateral netting; securities lending, triparty, and repurchase agreements; foreign exchange transactions; and credit and collateralization. Many of these tools are already referenced in the G-30's other recommendations.

Recommendation 12: Ensure Effective Business Continuity Planning and Disaster Recovery Planning

We agree with the G-30 that widespread coordination is key to any business continuity planning (BCP) and disaster recovery efforts. Regarding efforts within a national market, the U.S. securities industry has made great progress in the areas of business continuity planning and disaster recovery following the events of September 11th. In 2002, there was an enormous amount of information-sharing related to business continuity planning among financial services organizations. The SIA BCP Committee, for example, is comprised of more than sixty member-firm, exchange, and utility representatives. Moreover, on March 4th of 2003, 23 financial services trade associations, financial institution utilities and exchanges announced the legal formation of a council created to help protect America's financial infrastructure, called the Financial Services Coordinating Council, LLC.

Coordination between public and private sectors is especially crucial for effective protection of the financial markets. A white paper, *Sound Practices to Strengthen the Resilience of the U.S. Financial System*, was jointly issued in draft August 2002 and finalized in April 2003 by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Securities and Exchange Commission, and the New York State Banking Department with their preliminary conclusions on factors affecting the resilience of the financial markets in the event of another large-scale disruption in financial markets' operations. The Bond Market Association (BMA) and SIA responded to the white paper with a joint comment letter.[3] The associations recommended that the specifics of risk-management decisions should be left to individual firms, due to the fact that BCP and disaster recovery is by its nature not compatible with a "one-size-fits-all" approach.

In September 2002, the SIA BCP Committee also released a set of Best Practices Guidelines for firms' use in their own planning efforts.[4] These guidelines address three main categories of activities: **1)** Business Continuity Program, **2)** Recovery Strategies, and **3)** Recovery Resources. In May 2002, the Committee released a "Lessons Learned" document, a collection of individual observations of people responsible for ensuring business continuity at their firms.[5] This document records fourteen categories of observations, including transportation, technology, testing, strategy, people, scenario, plan, life/safety, interdependencies, insurance, communications, awareness, and assembly/command center.

The SIA BCP Committee also oversees industry testing, which is used to ensure that all financial services industry participants will be able to simultaneously activate work area recovery and data center recovery plans from alternate or backup sites. Testing also serves to maximize the confidence within the industry, within regulatory agencies, and on the part of the public in the fact that the industry can quickly recover from a widespread outage with minimal disruption to the financial markets. This type of testing is, however, neither used to test individual firms' recovery times, nor is it a replacement for firms conducting internal tests of their own business continuity plans and strategies.

With regard to cross-border efforts, we note that the International Securities Services Association (ISSA) conducted a BCP working session at their 2002 Symposium. Participants concluded that each national market should create a "market stability group" that will come up with its own business continuity framework. They note that a similar process could be implemented at the international level, and where relevant (e.g. Europe) at the regional level.[6] ISSA also recommends, among other things, focusing on the resiliency of crucial technology vendors in the financial system and on the maintenance of one's BCP plans so that they stay current.

Recommendation 13: Address the Possibility of Failure of a Systematically Important Institution

We agree with the G-30 that the possibility of failure of a "systematically important" institution should be addressed. We believe that one of the first steps is for each nation to

3 To view the white paper and the comment letter, please see www.sec.gov/rules/concept/34-46432.htm and http://www.sia.com/2002_comment_letters/pdf/WhitePaperFinal.pdf respectively.

4 To view these SIA Best Practices in full, please see www.sia.com/business_continuity/pdf/bestpractices.pdf.

5 This document is also available on SIA's website, www.sia.com, under "Key Issues - Business Continuity."

6 See www.issanet.org for ISSA Symposium Reports that address BCP issues.

identify its own key organizations. In the white paper released by U.S. federal authorities, for example, there is a distinction made between "core" industry participants and "significant" industry participants.

The U.S. federal authorities define systemic risk as the risk that the failure of one participant in a transfer system or financial market to meet its required obligations will cause other participants to be unable to meet their obligations when due, causing significant liquidity or credit problems and threatening the stability of financial markets. The organizations that could present such systemic risk should they be unable to recover and resume critical activities include core clearing and settlement organizations.

The agencies define core clearing and settlement organizations as market utilities that provide critical clearing and settlement services for financial markets and large value payment system operators. Core clearing and settlement organizations also consist of firms that provide similar critical clearing and settlement services for critical financial markets in sufficient volume or value to present systemic risk in their sudden absence, and for whom there are no viable immediate substitutes. Firms that play significant roles in critical financial markets are defined as those that participate in sufficient volume or value such that their failure to perform critical activities by the end of the business day could present systemic risk.

The agencies define critical markets as those markets that provide the means for banks, securities firms, and other financial institutions to adjust their key cash and securities positions and those of their customers in order to manage significant liquidity, market, and other risks to their organizations. Critical markets also provide support for the provision of a wide range of financial services to businesses and consumers.

Recommendation 14: Strengthen Assessment of Enforceability of Contract

Recommendation 15: Advance Legal Certainty Over Rights to Securities, Cash or Collateral

Recommendation 16: Recognize and Support Improved Valuation Methodologies and Closeout Netting Arrangements

We agree with the G-30 focus on legal certainty and contracts as fundamental to the safety and soundness of global clearing and settlement. While these are clearly issues that depend on the effectiveness of the public sector and judiciary in question and will manifest themselves differently in different markets, we believe that the Hague Convention has made progress toward multilateral solutions and may be utilized as a resource.

Along with the G-30, the SIA is pleased that the text of the Hague Convention has now been finalized. It is designed, in the case of pledges of securities held through indirect holding systems such as depositories, to allow one to determine with far greater certainty than is currently possible, which country's law must be complied with when one seeks to perfect a pledge. The focus in the Convention is on the law of the "primary relevant intermediary." As signed by the delegates on December 13, 2002, the Hague Convention reflects the three significant points that the SIA Operations Committee raised in a comment letter.[7] We sent that letter to encourage the Hague Conference to determine a "solution" that would lead to as little cost and as little risk for the industry as possible.

[7] See http://www.sia.com/2002_comment_letters/ under "Hague Conference."

For the Hague Convention, the next step is for it to be adopted by all countries (including the U.S.). In the U.S., for example, we will seek to have our Senate recommend to President Bush that he sign the Convention, and then will seek to have him or his delegate sign the Convention as soon as possible. All nations, whether or not they are members of the Hague Conference, will be allowed to sign the treaty. We think it will be beneficial to all industry members for their nations to join in signing it.

Yet some issues relating to insolvency protection in bankruptcy remain uncertain and beyond the rulemaking capabilities of clearing entities -- for cross-border settlements and collateral. While central counterparties and settlement entities' arrangements with their domestic participants are usually very secure, there could be significant permutations of country-by-country issues concerning net settlement and collateral, especially when a foreign parent entity's branch or subsidiary participates in another country's domestic system. Protection from foreign bankruptcy cannot be assumed among other countries, including the U.S. We would encourage the G-30 to pursue this issue as a continuing part of its Legal Certainty agenda.

Section III: Improving Governance

Recommendation 17: Ensure Appointment of Appropriately Experienced and Senior Board Members

Recommendation 18: Promote Fair Access to Securities Clearing and Settlement Networks and Services

Recommendation 19: Ensure Equitable and Effective Attention to Stakeholder Interests

Recommendation 20: Encourage Consistent Regulation and Oversight of Securities Clearing and Settlement Service Providers

SIA wholeheartedly supports the G-30 recommendations in this section. We would like to highlight in particular recommendation 18, fair access to securities clearing and settlement networks and services. Our members report that there exist numerous obstacles that prevent remote and/or direct access to CSDs in other markets. Moreover, they report that in some markets there appears to be a lack of agreement around what CSD functions should be provided by a utility and what services are value-added. We would only note in conclusion that with regard to the governance recommendations, it is often the case that there is adequate regulation in place that address governance issues, and that effort may be more usefully directed toward more effective enforcement of those regulations.

We would like to thank your distinguished members for their work on the Report and for raising the profile of the issues related to global clearing and settlement in general. We appreciate the opportunity to provide you with some of the details of our work on the various issues that you address in the Report, and we hope to engage in continuing dialogue and coordinated efforts with the G-30 and other concerned organizations.

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STATEMENT FOR THE RECORD
BY
MARC E. LACKRITZ
PRESIDENT
SECURITIES INDUSTRY ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY

HOUSE FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

"OPENING TRADE IN FINANCIAL SERVICES –
THE CHILE SINGAPORE EXAMPLE"

APRIL 1, 2003

Mr. Chairman and Members of the Subcommittee, my name is Marc Lackritz and I am president of the Securities Industry Association ("SIA").[1] SIA appreciates the opportunity to testify in strong support of the just-concluded bilateral Free Trade Agreements (FTA) with Chile and Singapore.

The FTAs are comprehensive, and represent a key building block of President Bush's drive to open foreign markets to U.S. business, consumers, and investors, resulting in new opportunities to create jobs, and bolster economic growth. Moreover, we believe the Administration's policy to simultaneously pursue the liberalization of trade in financial services on global, regional, and bilateral tracks, is a wise, indeed the best, approach.

This provides U.S. industry with multiple opportunities to make commercially meaningful progress and other nations with the opportunity to create the infrastructure for growth in many different ways.

In addressing the specific requests of the Subcommittee, my testimony will address the following key points: 1) the industry's overall goals for the negotiations; 2) the importance of financial services to the U.S. economy; and 3) the securities industry's focus on regulatory transparency.

[1] The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs more than 700,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2002, the industry generated $214 billion in U.S. revenue and $285 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

Open and Fair Markets

We believe that the U.S. bilateral agreements with Chile and Singapore represent a "win-win" for all countries involved. Although Chile and Singapore already have well developed capital markets, free trade agreements can play an important role in creating the environment for the entry of long-term capital, advancing best practices, providing cutting-edge technology, and innovative products and services.

Importantly, the increased trade in financial services that will result from these pacts will enhance and strengthen capital market efficiency and bolster financial sector stability. Increased competition stimulates innovation and provides consumers with the broadest range of products and services at the lowest cost. There are additional special benefits from financial services sector liberalization, which have a "multiplier" effect for economic growth, both in individual countries and globally. This results in enhanced opportunities abroad for all U.S. firms.

U.S. securities industry measures the success of financial services trade agreements by the following key criteria:

- Permit 100% ownership, as well as right to establish in corporate form of choice;
- Provide national treatment (i.e., treat foreign financial sector participants and investors on the same basis as domestic investors for regulatory and other purposes);
- Commit to procedural aspects of regulatory transparency (including commitments on prior comment);
- Eliminate economic needs tests; and
- Permit dissemination and processing (within country and cross-border) of financial information to provide clients with services necessary for the conduct of ordinary business.

We believe that the U.S. agreements with Chile and Singapore meet these criteria, and we therefore support them. Importantly, we believe these agreements are excellent precedents upon which to negotiate ongoing and future bilateral and regional trade discussions.

The Financial Services Sector is a Catalyst for U.S. Economic Growth

The U.S. financial services sector is a key component of the U.S. economy. Importantly, its continued strength is dependent on unfettered access to foreign markets. Whether firms are raising capital for a new business, extending credit for a corporate acquisition, managing savings for a retail customer, or supplying risk management tools to U.S. multinationals, this sector touches all aspects of the U.S. economy. In light of the financial service sector's unique role in the U.S. economy, its health is essential if the U.S. economy is to continue to show rates of economic growth and job creation it has during this decade.

The strength of the U.S. financial services industry is impressive. Financial services firms contributed $820 billion to U.S. Gross Domestic Product (GDP) in 2000, or about 8.3 percent of total GDP. More than six-million employees support the products and services these firms offer. Perhaps most impressive is how this industry has increased its relative importance to the U.S. economy. From 1989-2000, the U.S. securities industry's contribution to total output of the U.S. economy increased by 3.2 times – nearly double the 1.8-times increase in GDP.[2] A vibrant and healthy U.S. financial services sector is key for U.S. and global economic growth and job creation.

Importantly, financial services firms are also exporters. In 2001, exports totaled $15.2 billion, with a trade surplus of $6.3 billion. Foreign individuals, institutions and governments eagerly seek cutting-edge services and products – such as portfolio management, advisory work in corporate finance activities, and global custody services – that U.S. financial firms offer.

The reason for the U.S. financial services sector's increasing commitment to foreign markets is clear. Over the last decade, the U.S. economy and securities markets – while still the largest in absolute terms – have seen their share of the global pie shrink. More than two-thirds of the world's GDP, half of the world's equity and debt markets, and 95 percent of the world's consumers are located outside the United States. Indeed, many of the best future growth opportunities lie in "non-U.S." markets. U.S. investors and corporations have already tapped these new markets, with U.S. securities firms establishing substantial foreign operations to support the growing international focus of their clients.

Expanding Business Opportunities for U.S. Financial Services Firms

The U.S.-Chile FTA will be the first comprehensive trade agreement between the United States and a South American country. The Singapore agreement marks a milestone for Asia. The free trade agreement with Singapore will advance its goal of becoming a key international financial hub, and will provide U.S. firms and their customers with significant opportunities; over half of SIA's top twenty members (ranked by capital) are members of the Investment Management Association of Singapore. Underscoring Singapore's role as an international financial center are the substantial capital flows to the U.S. In 2002, investors from Singapore acquired $9.2 billion of U.S. securities – in comparison, of EU members states, only UK investors exceeded this total ($143.3 billion). In addition, purchases and sales of U.S. securities topped $252 billion, ranking in the top dozen most active countries.

The agreements reinforce Chile and Singapore's predictability and credibility with the foreign investors – an important goal in today's competition for capital. The agreements will result in increased commerce between our respective countries. Already, U.S. companies have substantial investments in Chile, with direct investments of nearly $11.7 billion; and in Singapore, where U.S. direct investment tops $27 billion. Moreover, in Singapore, it is estimated that U.S. majority-owned affiliates account for almost 12 percent of local GDP, while employing more than 113,000 people; in Chile, the comparable number is 3.9 percent, with 55,000 employees.

In both cases, the already close economic relationships will be further strengthened, providing new opportunities for U.S. securities firms and additional jobs in the United States. We believe, for example, that the increased opportunities could result in in-

[2] U.S. Department of Commerce.

creased interest to list shares in the United States. To date, Chilean companies have 27 listed ADR issues in the United States, while companies from Singapore have 28 listed issues.

SIA's Objectives and Goals

SIA strongly supports the Chile and Singapore bilateral agreements. Both agreements successfully achieve many of the securities industry's specific objectives, and are defined by the following core principles. The major commitments follow:

Permit 100% Ownership/Market Access

Both Chile and Singapore are open markets and provide U.S. securities firms with full market access via the establishment of a subsidiary, or the acquisition of a local firm. Since the conclusion of the 1997 WTO Financial Services Agreement, both countries have undertaken extensive liberalization of their financial services markets. These agreements not only "locked-in" current levels of access, but also produced commitments by both countries to eliminate and reduce some of the remaining establishment barriers.

Specific Commitment

Chile made no commitments in asset management in the 1997 GATS Financial Services Agreement. The FTA would, for the first time, afford legal certainty to U.S. firms to establish a wholly-owned affiliate in Chile to provide asset management services on a national treatment and non-discrimination basis.

Singapore also made commitments guaranteeing U.S. membership on the Singapore Stock Exchange, as well as for the acquisition of equity interests in local securities firms.

Provide National Treatment

Increasingly, services must be delivered through a business presence in the host country. As a result, the ability to operate competitively through a wholly-owned commercial presence or other form of business ownership must be a fundamental element of any agreement. Non-residential financial services companies must be given every opportunity to establish a viable business presence outside their home country. These agreements will guarantee the ability of U.S. securities firms to enter into these markets through the establishment of a subsidiary, or the acquisition of a local firm. Once established, U.S. securities firm will receive the same (i.e., national) treatment as domestic companies.

Specific Commitment

The FTA with Chile provides national treatment to U.S. asset management firms in managing the voluntary portion of Chile's national pension system and the ability to manage the mandatory portion of the pension system without arbitrary differences between the treatment of providers. In Singapore, U.S. firms will now be able to compete for asset management mandates from the Government of Singapore Investment Corporation.

Commit To Procedural Aspects Of Regulatory Transparency

Obtaining commitments on regulatory transparency was the industry's major goal for the agreements with Chile and Singapore. We view the provisions contained in these agreements as excellent. While Chile and Singapore already provide for regulatory transparency, the industry viewed the FTAs as critical benchmarks for future efforts.

Improved regulatory transparency will help eliminate many of the nagging regulatory problems that we face in foreign markets. In both emerging and developed markets, regulatory practice in the financial services industry has developed unevenly and often at odds with the market access and national treatment commitments of WTO members. As a result, the experience of the industry in both emerging and developed markets has been one of increasing frustration with the regulatory process.

In light of that experience, SIA members believe that future trade agreements – whether bilateral, regional, or multilateral – should contain regulatory transparency commitments. In this regard, we applaud the Administration's communication to the WTO that contains proposals on regulatory transparency.

Regulatory transparency is an essential element in making regulation effective and fair – and is therefore a fundamental underpinning of deep, liquid markets. We have worked with the Administration to seek commitments in regulatory transparency in these bilateral negotiations, as well as trade forums, as part of a wider effort to achieve international regulatory transparency reform more broadly. Lack of transparency in the implementation of laws and regulations can seriously impede the ability of securities firms to compete fairly. Financial services firms, face non-tariff barriers in the form of regulatory restrictions, and lack of transparency in the implementation and application of regulations. These barriers can prevent access in much the same way as tariffs but, unlike tariffs, no quantitative mechanism exists to reduce them.

From a business standpoint, ensuring a high level of transparency is as essential to a successful financial services agreement as tariff cuts are to an agreement on trade in goods. Lack of transparency in the implementation of laws and regulations – including limited public comment periods on proposed regulations, non-transparent approval mechanisms for firms and financial products, or other practices that are not dealt with pursuant to written regulations – can seriously impede the ability of securities firms to compete fairly.

Regulatory prohibitions also limit the ability of U.S. firms to compete in foreign markets. In some cases, the sale of specific products requires regulatory approval. In other instances, the ability to establish is impaired by restrictions on new licenses. Elimination of these barriers is complicated, especially when countries claim that they are "prudential" in nature; that is, they exist to protect the safety of consumers and the soundness of the marketplace. However, we believe that many of these restrictions go beyond any legitimate prudential objective.

Specific Commitments

The specific financial service transparency commitments in the FTAs will require that rules can not be adopted without appropriate notice and opportunity to comment, that requirements and documentation for applications be clear and applicants be informed of the status of applications, and that decisions on applications be made in a specified or reasonable time. These commitments are important precedents for other trade negotiations.

Eliminate Economic Needs Tests

In some markets, national regulators of financial services or other sectors have employed so-called "economic needs tests" to screen and often discourage new foreign direct investment. Economic needs tests, which typically use, the number of existing firms, level of competition, and the size of the domestic market as criteria for granting licenses to establish a commercial presence, are subject to abuse. Such subjective determinations may ignore how a local market will benefit from the introduction of a new competitive entrant or supplier, and the resulting benefits to investors and issuers. As a result, the use of an economic needs test can significantly or even completely eviscerate commitments on market access.

Specific Commitment

In the FTA agreement with Chile, U.S. securities firms will no longer need to meet this test. In Singapore's case, economic needs tests for securities firms had not been previously applied.

Permit Dissemination And Processing Of Financial Information

The ability to freely transfer and process information is essential to the business of modern financial services firms. Indeed, many products, such as instruments built around market indices that are vital to smoothing out risk, could not function without timely data flows. Nevertheless, too few countries have committed to this key link in the financial services infrastructure. The free flow of financial information acts as an important prophylactic against the build-up of market imbalances and subsequent financial crises. Countries that allow a free flow of financial information across their borders are likely as a result to be rewarded with lower capital and borrowing costs.

Commitments to permit the flow of data without risk of interruption are critical if securities firms are to offer innovative and risk-reducing products, price risk, and respond rapidly to their customers. Apart from its use in product creation, financial information is used to respond to market demand for current prices, for foreign exchange data for currency hedging, for information for use in risk management models, for background information for corporate finance transactions and advice, and to enable the market to react appropriately to breaking news.

Specific Commitments

Financial Information commitments by Chile and Singapore mark a major step forward. Chile made no commitments in financial information in the 1997 GATS Financial Services Agreement, while Singapore made a limited commitment. The FTAs will now give U.S. firms the legal certainty to process and disseminate financial information both domestically and cross-border.

Capital Transfers

I would like to turn briefly to the so-called capital controls provisions of these agreements. Investment and trade flows are interdependent. Therefore an essential element of a free trade agreement is a regime which permits the free flow of investment capital between nations. As a general matter, our members believe that restrictions on those flows deprive both parties of the benefits of cross-border investment. This is of particular concern to financial services companies and others engaged in portfolio investment. We welcome the general commitment in both agreements to permit the free and immediate transfer of capital related to an investment. However, we regret that both agreements contain significant exceptions to this general commitment – exceptions that, in our view, are unwarranted to meet the motivating concern of addressing so-called hot money flows. While I do not propose to review treaty text with you today, I would say that our members fervently hope that these exceptions to free capital movements will not form a template for future agreements, and that U.S. negotiators will work with our industry to ensure that future provisions relating to the flow of capital and investment are as least restrictive as possible.

Let me reiterate that our members strongly support congressional approval of the agreements with Singapore and Chile. The comprehensive benefits of these agreements are clear. But that broad support should not be interpreted as an endorsement of restrictions on the flows of investment capital.

Conclusion

Mr. Chairman, we believe these agreements offer Congress another opportunity to secure open and fair access to foreign markets for U.S. firms and their clients. The start of the 21st century finds the U.S. securities industry on the leading edge of international technology, finance and innovation. If it is to remain there, however, it must be able to meet the demands of its U.S. and foreign clients.

The impact of the President's trade promotion authority can be seen immediately with the trade accords reached by the United States with Singapore and Chile. The pact will result in benefits to consumers and businesses in both countries, as well as globally. SIA looks forward to continuing to work with the administration in developing a fairer, rules-based trading system that enhances U.S. economic competitiveness.

Thank You.

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REVIVING THE MONTERREY CONSENSUS

The annual high-level meeting of the United Nations Economic and Social Council (ECOSOC) with the Bretton Woods Institutions (BWIs) and the World Trade Organization (WTO), along with representatives of private sector non-governmental organizations (NGOs) and business organizations, including SIA, was held on April 14, 2003. The focus of the meeting was "implementation of the Monterrey Consensus at all levels a year after." The Monterrey Consensus was the final outcome of the International Conference on Financing for Development (FfD) adopted by acclamation at the conclusion of the Conference held in Monterrey, Mexico, March 18-22, 2002.[1]

The Conference signaled a turning point in the approach to development cooperation by the international community. It was the first U.N.-sponsored summit-level meeting to address key financial and related issues pertaining to global development. The Conference was remarkable for the level of participation (more than 50 Heads of State and Government and over 200 ministers of foreign affairs, trade, development and finance), the participation of both the principal NGOs and, for the first time, private sector representatives and the degree of success obtained in placing FfD firmly on the global agenda. The meeting this month, one year after the Conference, held additional significance, as it was the first, fully reconstituted meeting of the various stakeholders in the process after Monterrey. For this year's meeting, ECOSOC stated it intended to "substantially strengthen"[2] the presence of private sector representatives both at hearings prior to the annual meeting and at briefings at the meeting itself. As a result, "expectations were high." Unfortunately, the expectations, at least those held by the business representatives, were not met.

One of the key elements of the Monterrey Consensus is the recognition of the critical importance of mobilizing private sector investments from both within developing countries as well as internationally. The Monterrey Consensus states:

> *Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts. (Para 20) We underscore the need to sustain sufficient and stable private financial flows to developing countries and countries with economies in transition. (Para 25)*

"In fact, today and looking forward, the private sector constitutes the dominant share of cross-border investments in developing countries, accounting for over 75% of total net capital flows for all regions, and over 100% for those regions experiencing negative net official flows. Based on IMF statistics, from 1996 to 2003, the private sector will have contributed $ US 660 billion in net capital flows to developing countries, more than three times that provided by the official sector. Even in the geographical area with the lowest net flows, Africa, the private sector will have provided $ US 79 billion in net capital flows, over ten times that of the official sector."[3]

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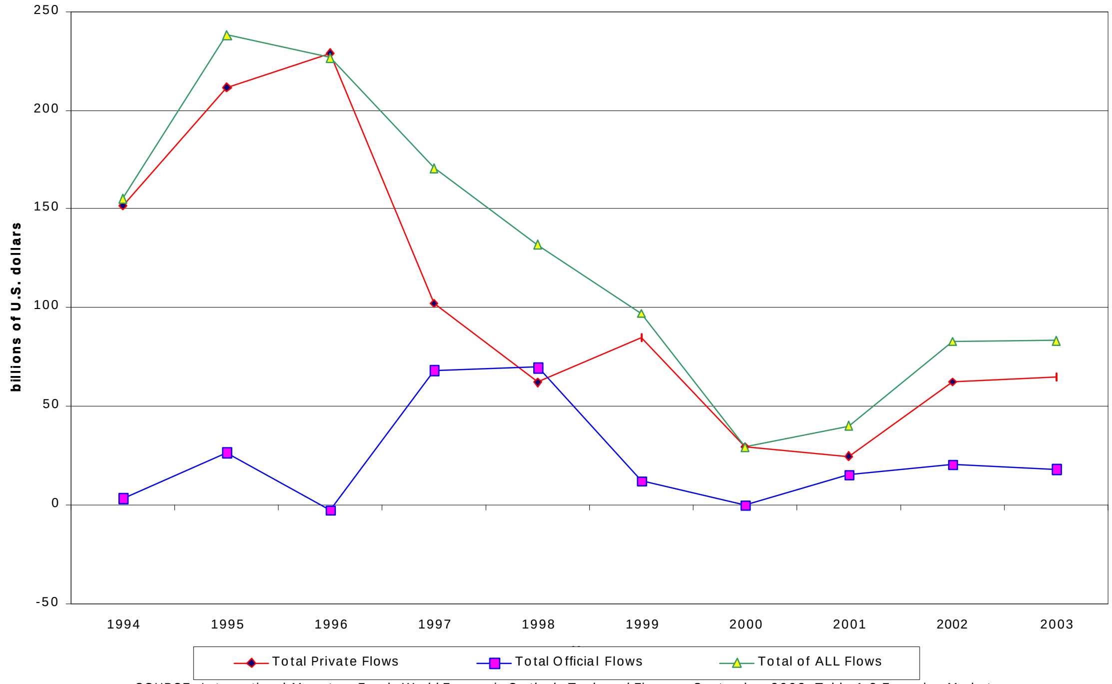
[1] For more information on the Conference and the Financing for Development Initiative, see "Moving From Words to Action," *SIA Research Reports*, Vol. III, No. 4 (April 22, 2002), 18 pp., at http://www.sia.com/reference_materials/pdf/RsrchRprtVol3-4.pdf; or "Strengthening Financing for Development: Proposals from the Private Sector," by the Business Interlocutors to the International Conference on Financing for Development (March 2002), 87 pp., at http://www.sia.com/international/pdf/MonterreyBusProposals2002.pdf.

[2] Letter from Gert Rosenthal, President of ECOSOC, March 11, 2003.

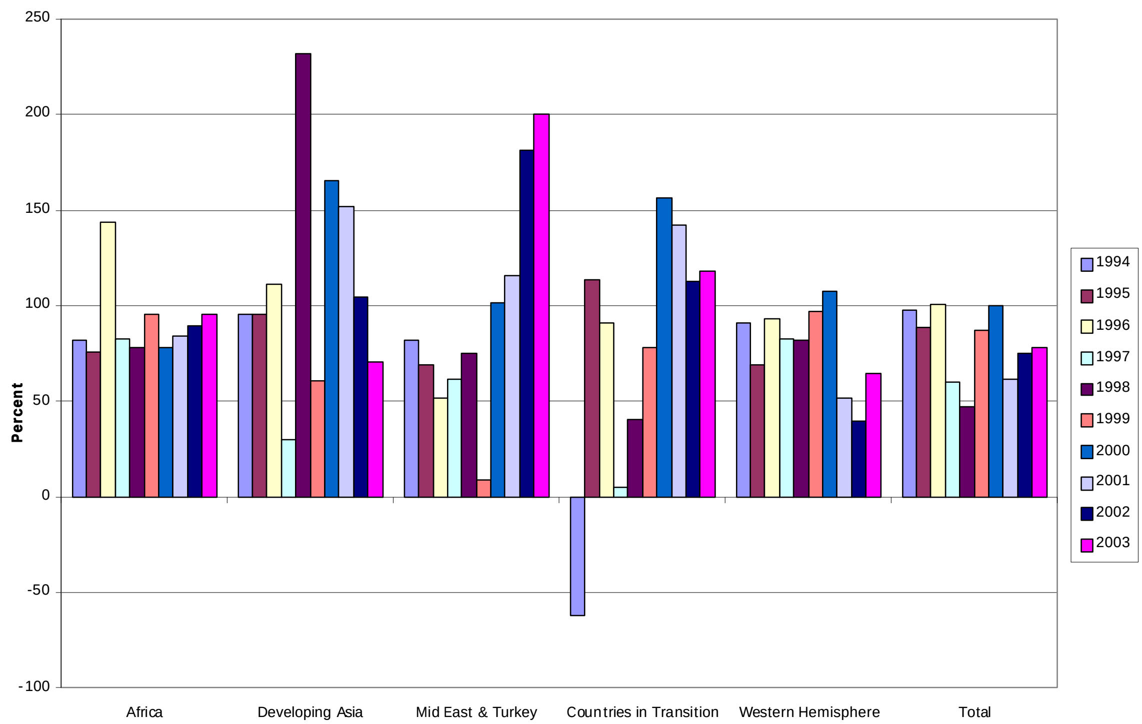
[3] "Moving From Words to Action with the Monterrey Consensus," Statement from the Business Interlocutors, ECOSOC/Bretton Woods Dialogue, The United Nations, April 14th, 2003, 21 pp., http://www.sia.com/international/pdf/UNECOSOC.pdf.

Total Net Capital Flows: Developing Countries 1994-2003



SOURCE: International Monetary Fund, *World Economic Outlook: Trade and Finance*, September 2002, Table 1.3 Emerging Market Economies: Net Capital Flows available at http://www.imf.org/external/pubs/ft/weo/2002/02/pdf/chapter1.pdf

Net Private Capital Flows as Percent of Total Capital Flows: Developing Countries 1994 - 2003



SOURCE: International Monetary Fund, *World Economic Outlook: Trade and Finance*, September 2002, Table 1.3 Emerging Market Economies: Net Capital Flows available at http://www.imf.org/external/pubs/ft/weo/2002/02/pdf/chapter1.pdf

Unfortunately, the focus of the public sector entities remains on the much smaller and substantially less vital capital flows generated by official development assistance (ODA), and business representatives did not feel that their role had been "substantially strengthened" within the process of implementation of the Monterrey Consensus. While the private sector stakeholders have (in line with the theme of the Monterrey Conference) quickly moved "from words to action," this effort has not been matched by the official sector. The private sector representatives called upon official stakeholders to honor the commitments they have made and redouble their efforts to meet the objectives we set in Monterrey. In the meantime, the members of the private sector continue working in support of the immediate goals of increasing coherence, coordination and cooperation for the implementation of the Monterrey Consensus. A link to the full text of the statements submitted by business representatives can be found in footnote 3 on page 21, while the presentation delivered by SIA follows.

Proposals For Enhancing Financial Crisis Prevention And Resolution

Interim steps are required in an urgent basis to improve overall sovereign debtor and creditor relations, as well as the sovereign debt restructuring process and ongoing country debtor-creditor communications. The Private Sector has set forth an integrated approach, encompassing proposals for enhancing creditor-debtor relations, crisis prevention, and resolution, including a recommended Code of Conduct and legal clauses, such as collective actions clauses. The recommended Code of Conduct for Emerging Markets (http://www.sia.com/international/pdf/CollectiveActionClauses.pdf) outlines the respective roles that key parties could be expected to play in emerging markets finance, particularly during times of crisis, and is accompanied by an annex on crisis prevention. The Model Collective Action Clauses (CACs), to be implemented within the context of this broader Code of Conduct, have been developed for English Law Bonds with Trustee and Fiscal Agent and New York Law Bonds with Fiscal Agent. These CACs would be supplemented by a set of performance indicators to assist investors in monitoring borrowers' creditworthiness. "Moving from Words to Action" in these areas is of critical importance to realizing the Monterrey Consensus's objectives of strengthening the global financial system, improving developing country access to private sector capital, and reducing the severity and costs associated with financial crises.

Below is a summary of proposals set forth by the seven major financial organizations representing major sovereign creditors worldwide: The Emerging Markets Traders Association (EMTA), Institute of International Finance (IIF), International Primary Market Association (IPMA), The Bond Market Association (TBMA), Securities Industry Association (SIA), International Securities Market Association (ISMA), and the Emerging Markets Creditors Association (EMCA). Process issues are also the focus of Richard Gitlin's proposal for a "Sovereign Debt Forum" (http://www.sia.com/international/pdf/SovereignDebtForumProposal.pdf). An Internet platform connecting debtor governments with their creditors, such as that being developed by The Global Clearinghouse Initiative, could also serve as a cost-effective means for implementing these proposals aimed at enhancing communication and crisis prevention.

In the recent past, debate has focused on legal approaches to managing crises in emerging markets. Specifically, alternative approaches have been advanced to facilitate the restructuring of external debt in cases where a sovereign's debt is considered unsustainable. The private sector has proposed marketable CACs as part of a market-based approach, while many in the official sector have advocated a "two track" approach, including both collective action clauses and a sovereign debt restructuring mechanism (SDRM) that would override current legal frameworks in all IMF member countries. More recently, it appears that the IMF has halted its efforts to advance the SDRM due to lack of support from member governments, both creditors and debtors alike.

While the aim of each of these approaches would be to facilitate the process of restructuring sovereign external debt only in a limited number of cases, neither would, by itself, strengthen crisis prevention, promote a renewal of capital flows or facilitate the resolution of related problems involving domestic debt, private sector debt or debt extended by bilateral and multilateral agencies.

By contrast, this Code of Conduct represents a more comprehensive approach to strengthening the framework of emerging markets finance, including – but not limited to – debt restructuring when debt levels have become unsustainable. This approach rests on the premise that all participants, whatever their roles and responsibilities, share a basic interest in promoting greater financial stability and growth in emerging markets. It reaffirms a commitment by all parties to strengthened crisis prevention, promotes debtor-creditor consultations before problems become unmanageable, and envisions the incorporation of marketable clauses in sovereign bond contracts that could help to make the restructuring process more flexible. Furthermore, this approach explicitly recognizes that market participants accept full responsibility for their investment and lending decisions in emerging markets, and that they do not expect "bailouts" from the official sector. This approach also takes into consideration the issue of aggregation of voting rights and addresses this through proven market practices on a case-by-case basis.

Unlike mechanisms that concentrate exclusively on debt restructuring and become relevant only following a financial crisis, when severe losses in output and growth have already occurred, this approach is proactive and growth-oriented. It seeks to avoid debt restructurings where still possible, facilitate them where necessary, and in all cases restore early market access.

For further information, contact Frank Fernandez at 212-618-0517 or ffernandez@sia.com.

RECORD SECURITIES INDUSTRY JOB LOSSES CONTINUE TO MOUNT

New Employment Classification System Widens New York's Securities Job Losses To 19%

National Job Losses

Securities industry employment[1] fell sharply from an all-time apex of 786,100 in April of 2001, declining by at least 80,400 or more than 10%, over the next 22 months to a recent nadir of 705,700 in February 2003 (preliminary data). These figures employ the long-standing Standard Industrial Classification (SIC)[2] codes. We expect national securities industry job losses to increase to around 112,000 through February when the new North American Industry Classification System (NAICS)[3] for nationwide securities jobs is adopted this June. The peak for securities industry employment is expected to be placed in December 2000, or four months earlier under the new system.

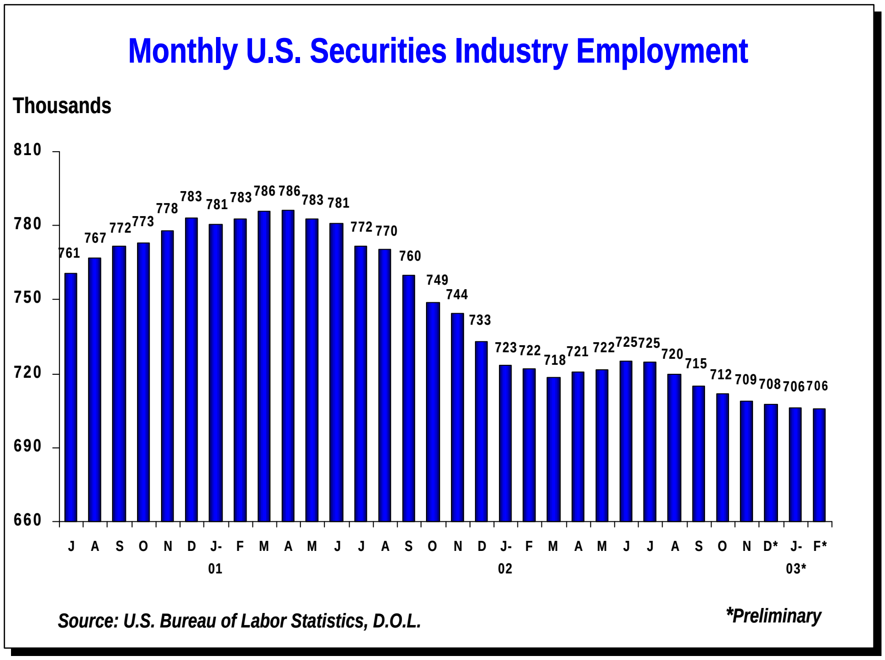
Even under the long-standing SIC system, the 80,400 net decline was a record number of losses for the industry nationally, dwarfing the 38,900 lost in the three years following the 1987 stock market crash (an 8.5% decline) or the 34,400 lost in the industry's 1973-74 recession. That recession, however, showed a much higher percentage decline, with employment dropping 17%.

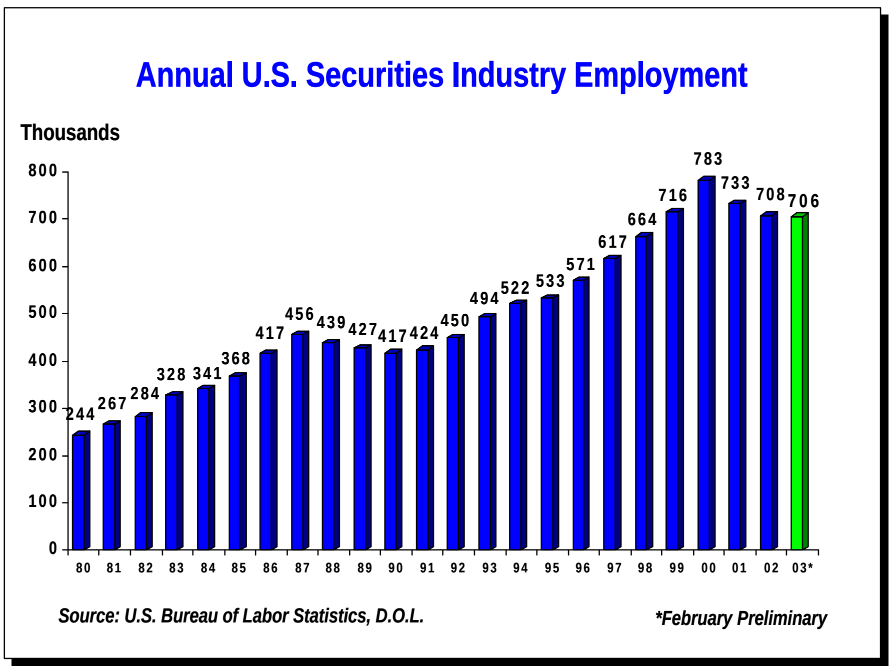
Based on recent releases and reports from (or covering) large publicly held brokerages, the expected continuing erosion in securities industry jobs into Q2 of 2003 will likely be concentrated among retail firms and retail activities at all firms domestically – the largest area of securities industry employment. Further, all indications are for additional steep cuts to extend to the foreign operations of U.S. securities firms for the remainder of 2003.

[1] The U.S. Bureau of Labor Statistics (BLS) employment figures are partially obtained from enrollment data for unemployment benefits and thus BLS figures will lag securities industry announced layoffs until completed, layoff packages expire, and unemployment benefits are applied for. Also, securities industry announced layoffs often are company intentions for global layoffs while BLS data reflect only U.S. employment. For years, this data was based on Standard Industrial Classification (SIC) codes to be switched this June to the new North American Industry Classification System (NAICS) code system, which will be re-benchmarked every year causing retroactive revisions as did the SIC system. Further, individuals laid off at one firm often join another firm for no net change in employment in those cases. Employment data can be obtained on the BLS web site at: http://data.bls.gov/labjava/outside.jsp?survey=ee.

[2] The BLS "Security and commodity industry" SIC code includes: security brokers, dealers, and investment bankers; floor traders; mutual funds; commodity brokers and dealers; commodity and security exchanges; futures exchanges, and security and commodity services such as clearinghouses, stock quotation services, stock transfer agents, etc.

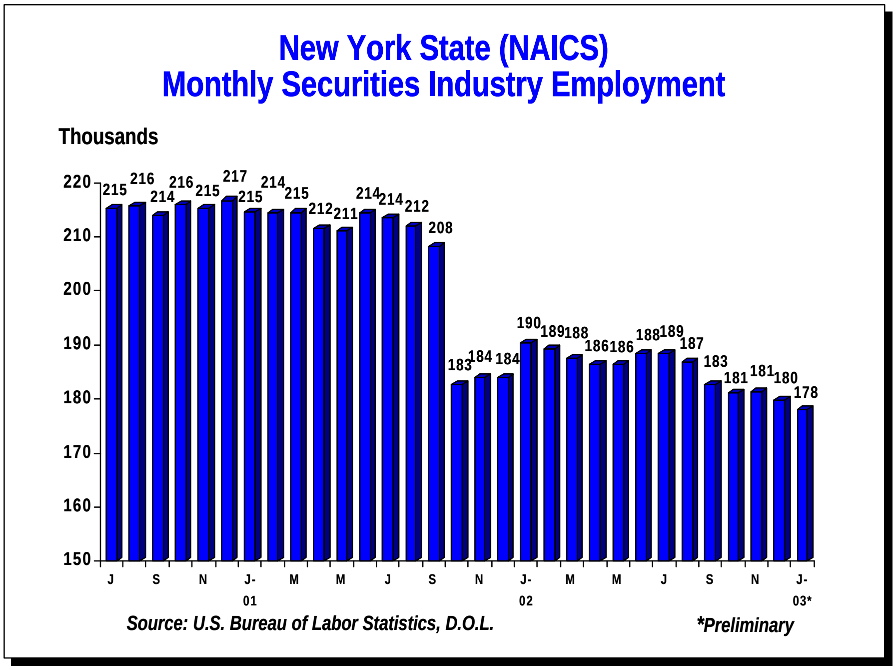
[3] The new North American Industry Classification System (NAICS) for the securities and commodities industry includes: investment banking and securities dealing; securities brokerage; miscellaneous financial investment activities; miscellaneous intermediation; commodity contracts dealing; commodity contracts brokerage; securities and commodity exchanges; portfolio management; investment advice; trust, fiduciary, and custody activities, and miscellaneous financial investment activities.



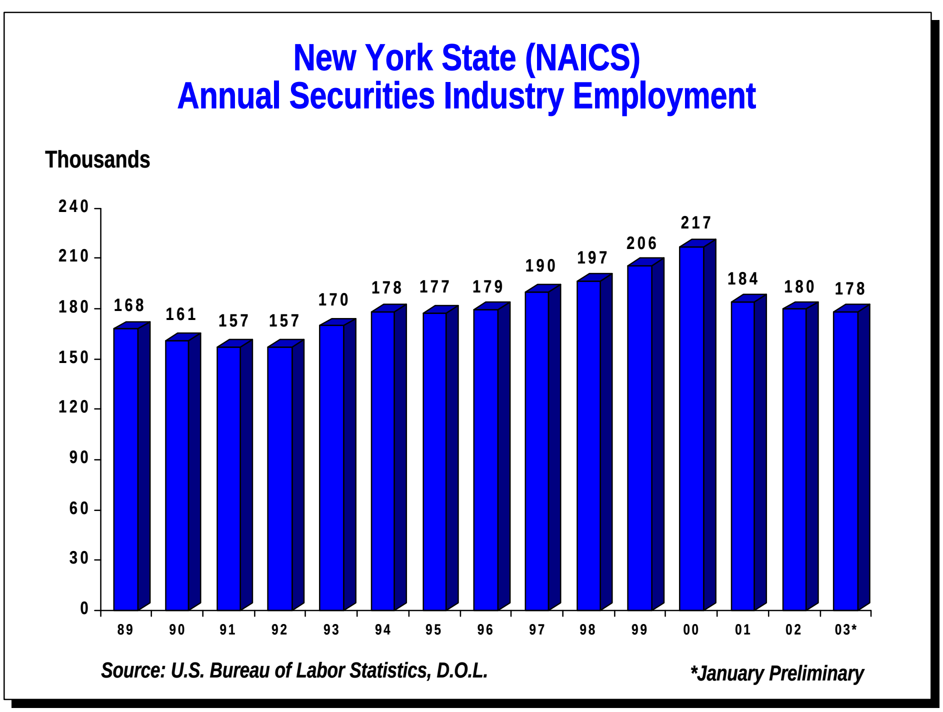


Record New York State and City Job Losses Reach 18% and 19%, Respectively

Both New York State (NYS) and New York City (NYC) have just switched to the new, more comprehensive NAICS industry classification system, which now shows an 18% decline in statewide securities jobs over the past two years. Under either system, the State had record number of job losses for the securities industry over the past two years, which are expected to continue into the immediate future, once again concentrated among retail firms and retail activities for all New York firms.



Under the new NAICS series, employment for the securities and commodities industry in NYS reached an all-time peak of 216,700 in December 2000 (as posed to 206,100 in June 2001 under the old SIC codes). Over the next 25 months, the State lost a record 38,700 securities industry jobs, or 18%, to the current, near-term low of 178,000 by the end of this January (preliminary data). Under both systems, the sharpest job losses in the state and city followed the terrorist attacks on the World Trade Center although industry conditions were already deteriorating before this tragedy. These job losses exceeded the 33,200 securities job losses in the four-year recession for NYS following the 1987 crash, and the 22,200 lost during 1973-74. However, the percentage declines for those two periods were higher, 19.2% and 22.3%, respectively.



The new series also shows that employment for the securities industry in NYC also reached an all-time peak of 200,300 in December 2000 (as opposed to 190,600 in August 2001 under the old SIC codes). Over the next 25 months, the City's securities industry lost a record 37,100 jobs, or 19%, to a recent low of 163,200 by the end of this January (preliminary data), and accounted for 96% of the statewide job losses.

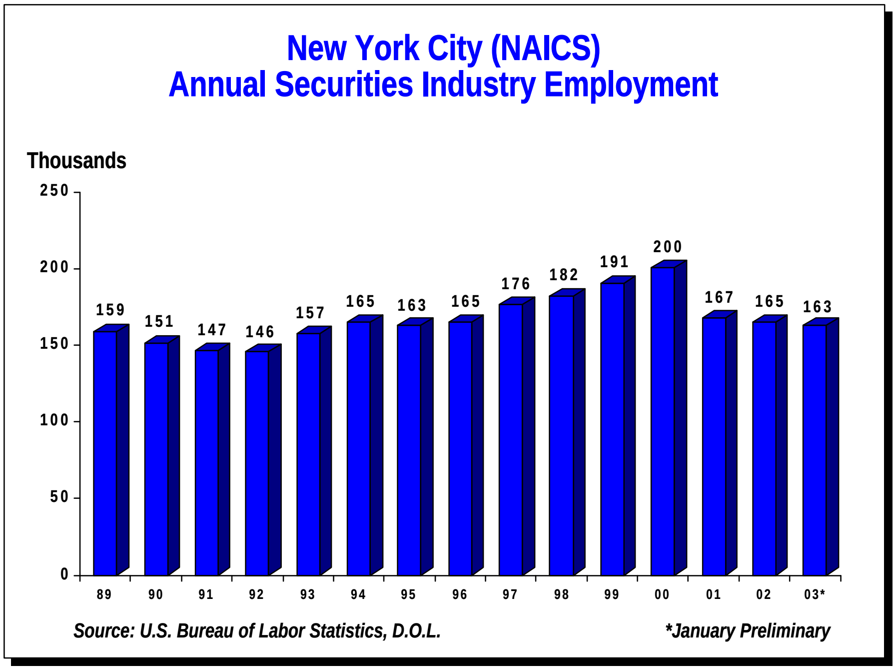
As with the State, NYC's 37,100 job losses exceeded the 1988-91 and 1972-73 job losses of 33,400 and 21,500, respectively. And yet again, the current 19% loss was below the two earlier period percentage losses of 20.5% and 24.5%, respectively.

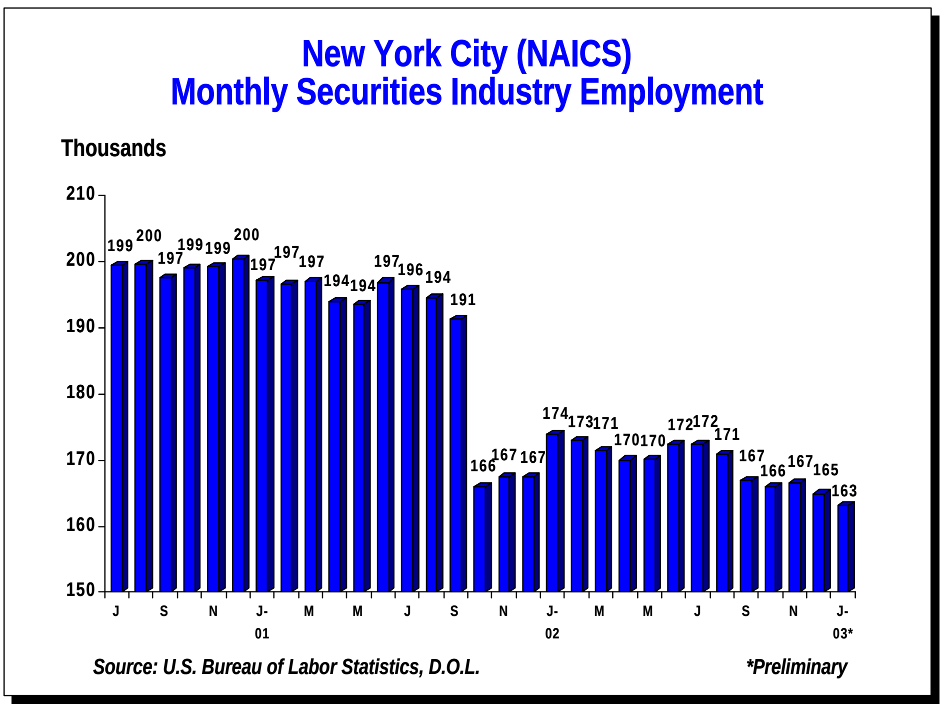
Effects of New NAICS on New York State and New York City Securities Job Figures

Under the new system, the data series now begins in January 1990, compared with data extending back to 1973 under the SIC classification. Further, NAICS data for both NYS and NYC now reflects lower securities industry job figures in 2001 and 2002 and progressively higher job figures as time recedes, from 2000 to 1990, than does the old SIC system. It should be noted that the charts showing the slides shown for NYS and NYC annual jobs substitute January 1990 figures for year-end 1989 (in order to give a one-year longer time-horizon).

For instance, under NAICS vs. SIC, New York State year-end employment figures were 0.5% lower in 2002, 5% lower in 2001, 6% higher in 2000, 7%-to-9% higher in the late 1990s and 10%-to-13% higher in the early 1990s.

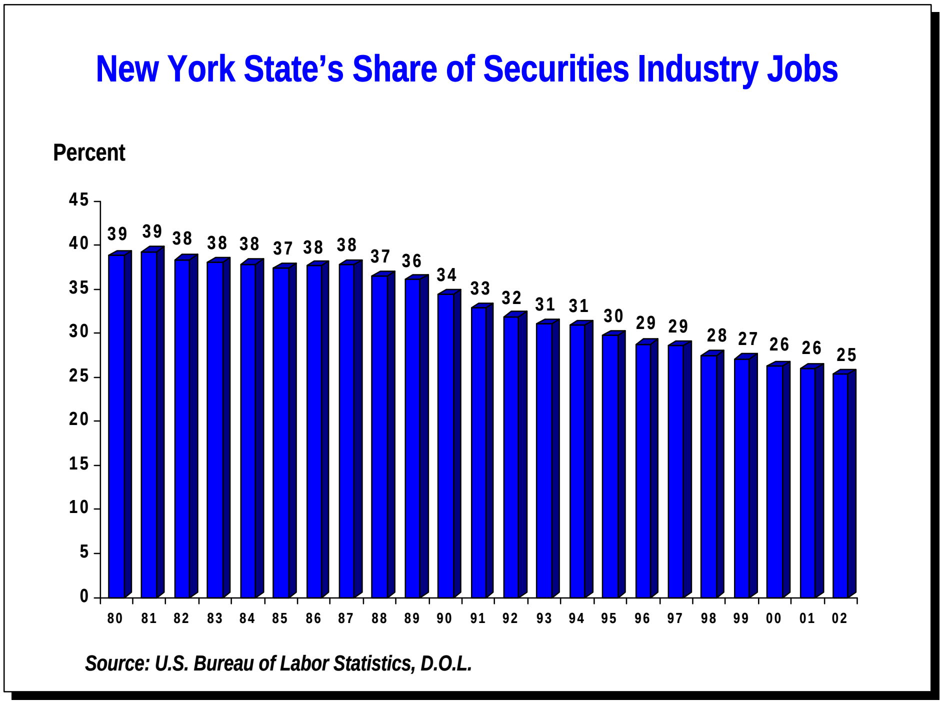
As mentioned, both the City and State's securities employment were similarly revised which is not surprising given that under both systems New York City accounted for about 92% of statewide securities employment. Under the new NAICS system vs. SIC, New York City year-end employment figures were 0.2% lower in 2002, 3% lower in 2001, 5% higher in 2000, 6%-to-9% higher in the late 1990s and also 10%-to-13% higher in the early 1990s.



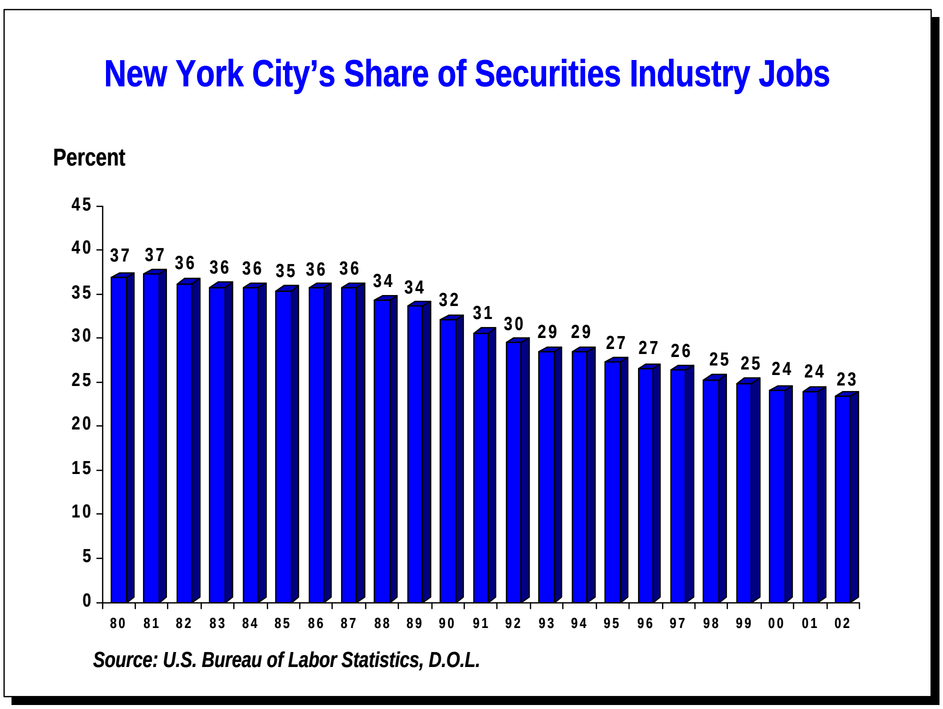


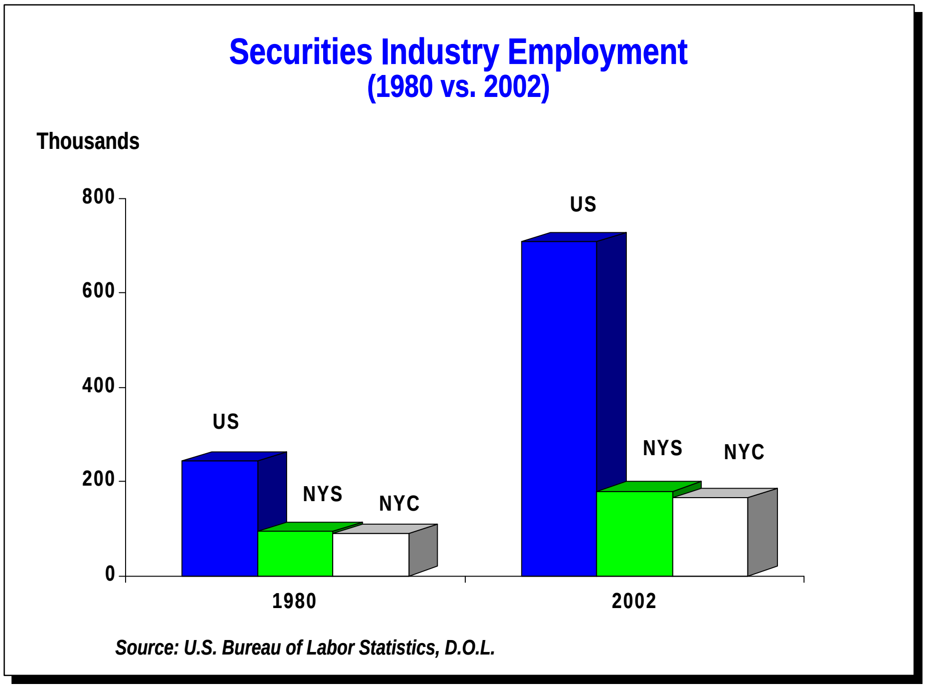
New York's Shrinking Share of U.S. Securities Industry Jobs

The following discussion is based solely on the old SIC code system, by necessity, since U.S. nationwide figures will not reflect NAICS until this coming June. Nevertheless, we expect New York's declining percentage shares and trend lines to be very similar if not identical under the new system.

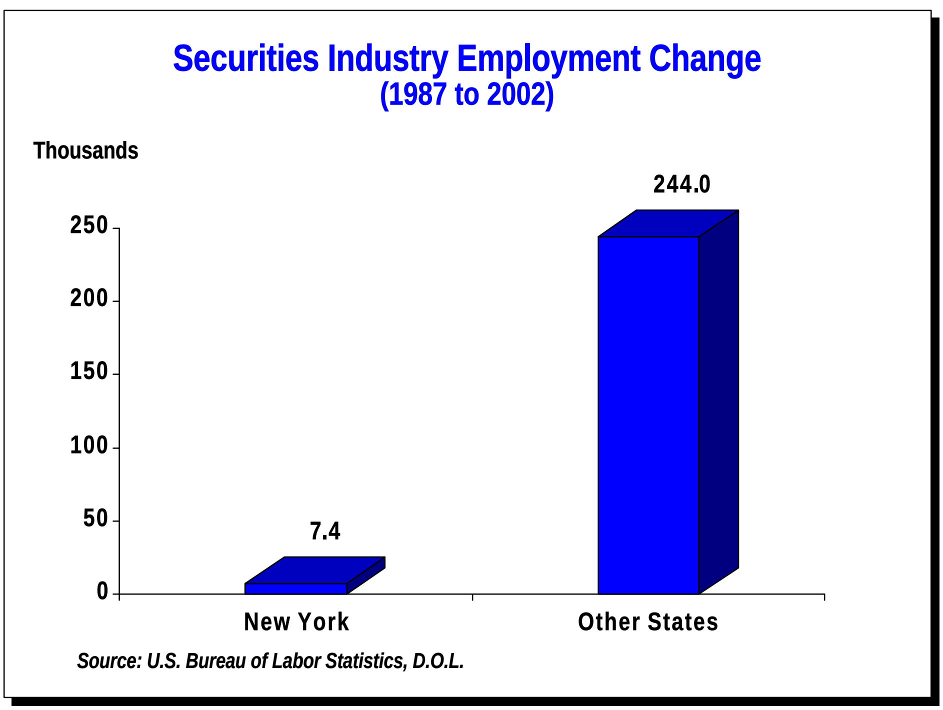


New York's security and commodity industry employment growth since 1980 has woefully fallen short of the overall U.S. growth rate for securities jobs as other states continuously recruit this lucrative industry. New York State and City's share of U.S. securities jobs has fallen from over two-fifths in the 1970s to just 25.5% and 23.4%, respectively, today.



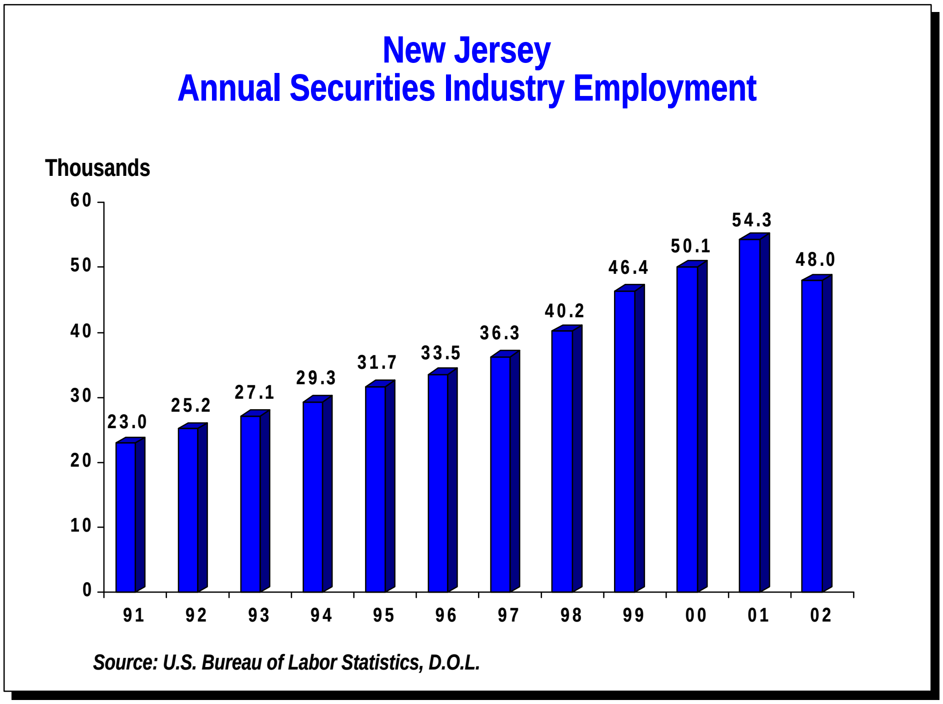


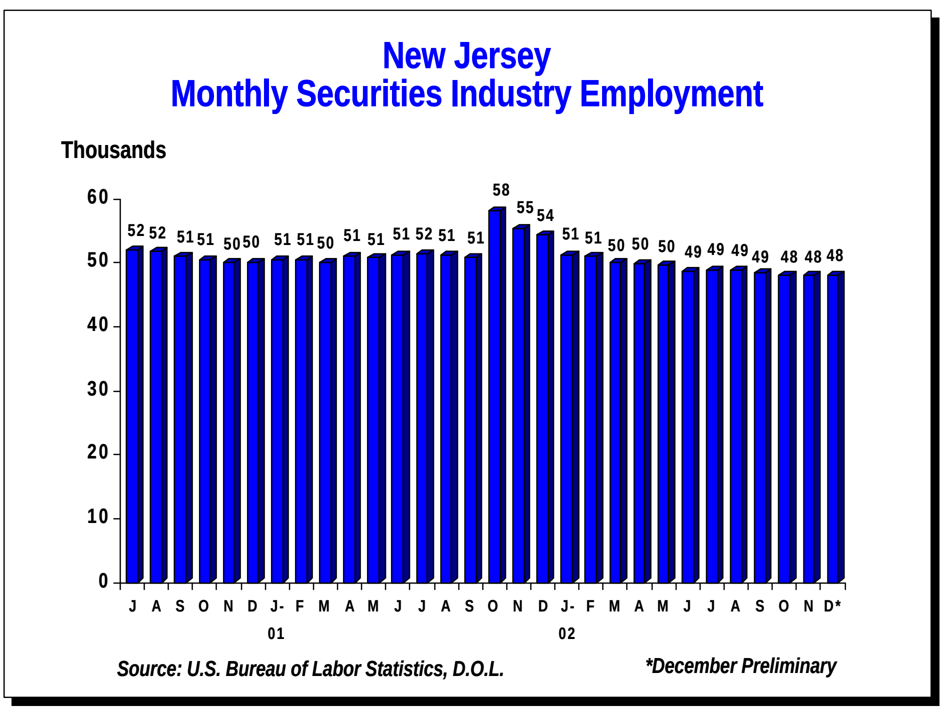
Although New York still commands about one quarter of the security and commodity industry's workforce, the number of net new securities industry jobs created in New York since the 1987 stock market crash is only 3% of the number created in the other 49 states.



New Jersey 's Securities Industry Benefiting at New York's Expense

New Jersey's security and commodity industry employment grew annually through 2001, up 136% from 1991 to 2001 (December to December), yet fell by 6,300 jobs last year, a decrease of 11.6%. However, this was mainly due to a year-end spike in 2001 following the WTC tragedy.





New Jersey's monthly security and commodity employment numbers picked up sharply in October 2001 by 7,300 jobs while New York City's and State's securities employment numbers went sharply down following the September 11th attack and WTC relocations. Many, if not most, of these jobs migrated back to New York in the following months. However, New Jersey's employment base of securities industry jobs has stabilized at just below 50,000 while New York's numbers continue to plummet. This is partly due to New Jersey incentives to attract lucrative paying securities industry positions from New York and partly due to business continuity plans that call for geographical diversity and redundancy following the WTC tragedy and a continuing terrorist threat.

New York must always remain mindful, even in times of state and city budget crises, of the sensitivity of the securities industry to cost reduction, particularly during this protracted bear market. The securities industry, even during a bear market, remains one of New York's most important economic drivers, and this job-base is vulnerable to incentives being offered by competing states vs. New York's own disincentive of being a very high cost state in which to conduct business.

This is particularly true for many of the industry's business lines that can be conducted electronically anywhere, even in cyberspace. Firms already are easily shifting trading away from New York exchanges to ECNs and ATS marketplaces headquartered outside New York and those operations that support such trading. With that shift comes job relocations to neighboring states, Chicago, London or anywhere they can get cheaper best execution for their customers and lower costs for their firms and employees.

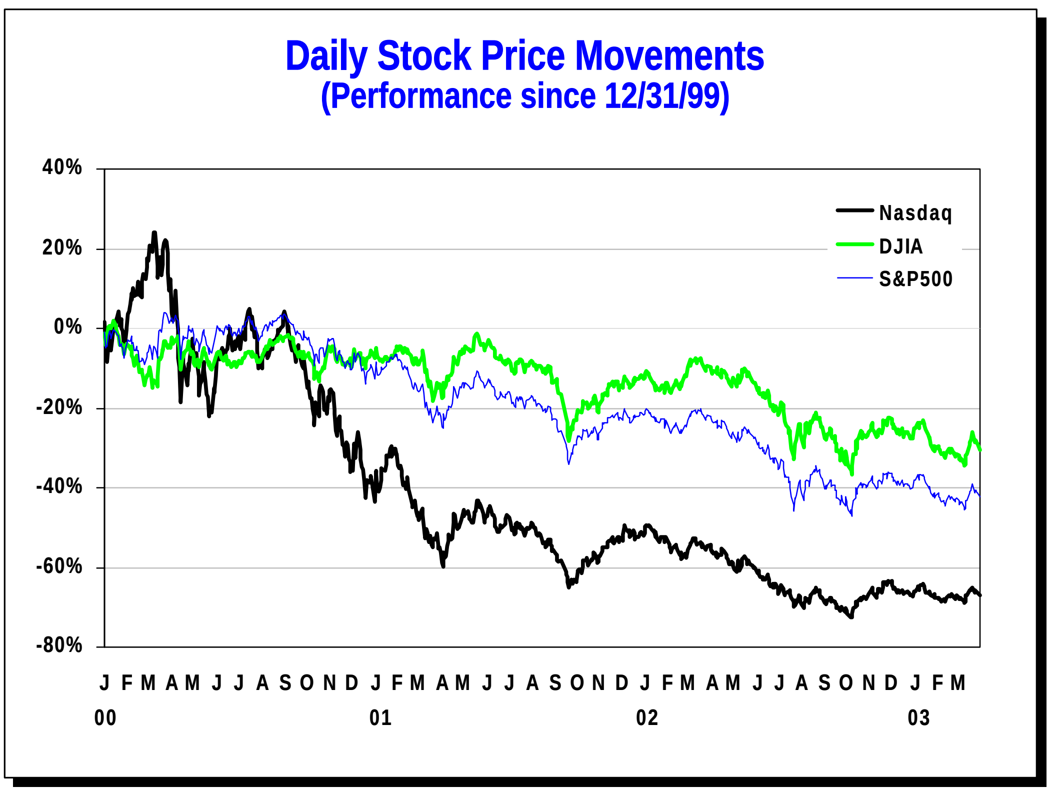
George R. Monahan
Vice President and Director, Industry Studies
Securities Industry Association

U.S. Equity Market Activity

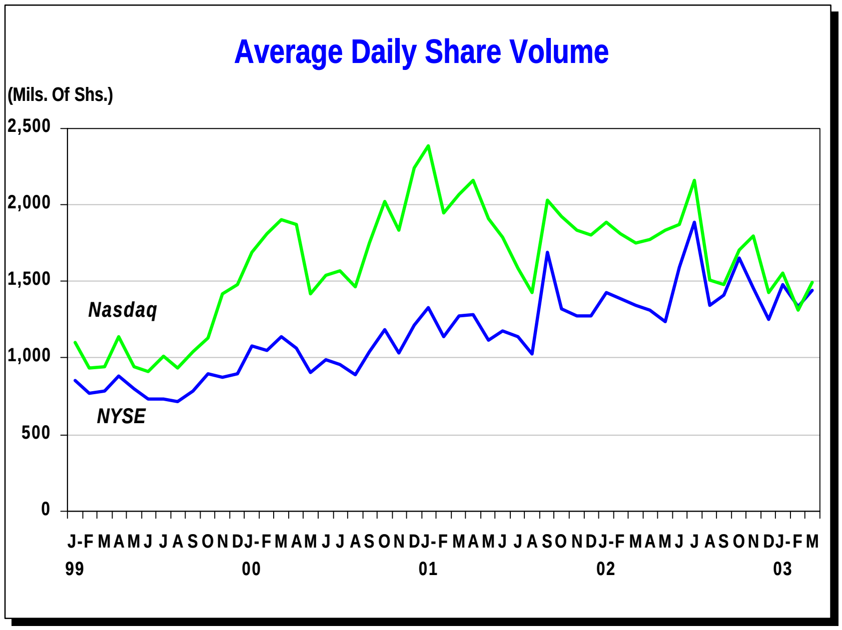
Stock Prices – The winds of war steered the U.S. stock market's course throughout the first quarter. After soaring in early January following a three-year bear market, the DJIA and S&P 500 spiraled downward through March 11th to within sight of last October's five-year lows amid uncertainties over the timing and duration of a war with Iraq.

Once war was imminent, hopes for a quick, painless victory ignited a powerful eight-day rally through March 21 that propelled the major market indices up 12%. But the grim reality of war, and fears that it could be longer than expected with many casualties, sent stock prices tumbling once again. By the end of March, the market gave back half of its "war rally." Still, the DJIA and S&P 500 managed to post slim gains of 1.3% and 0.8%, respectively, for the month overall, their first monthly increases since November.

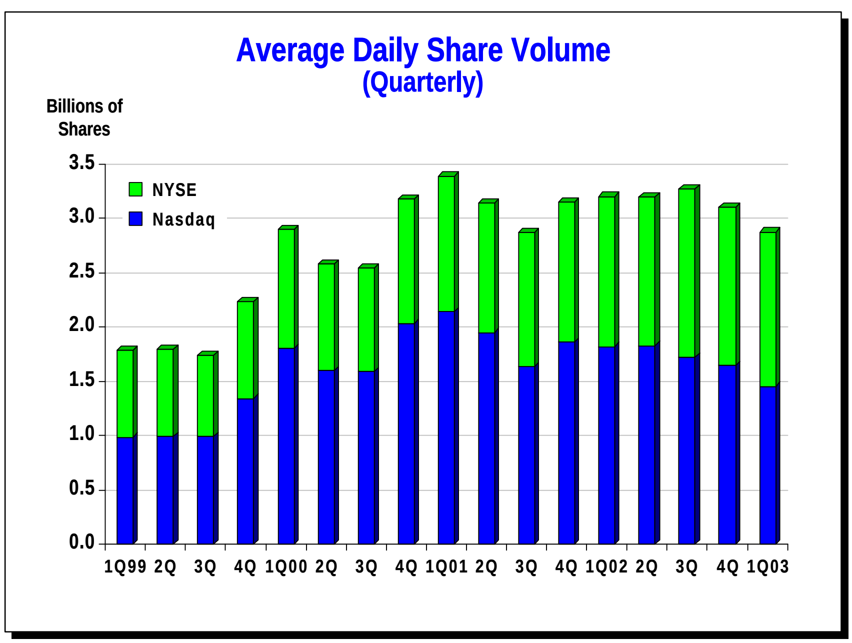
The Dow ended the quarter at 7992.13, down 4.2% since the start of the year, and the broader-based S&P 500 index lost 3.6%. Meanwhile, the Nasdaq Composite eked out a 0.4% gain. Each of the three key market gauges were still about 14% below their 2003 highs set on January 14. Even with the fall of Baghdad in just three weeks, market action is expected to remain choppy as investors refocus their attention on the flagging U.S. economy and still weak corporate earnings.



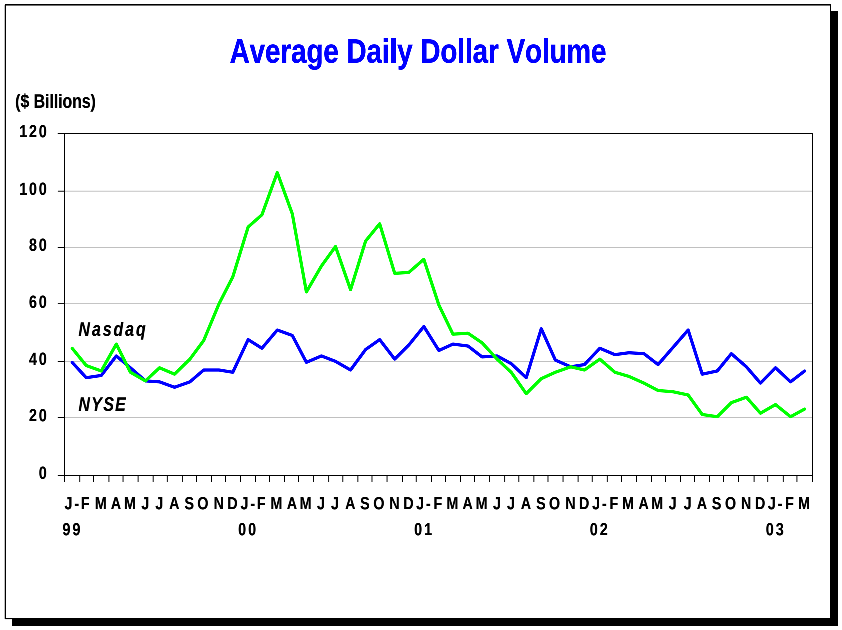
Share Volume – Trading activity on both major exchanges rebounded in March as investors came off the sidelines to participate in the sharp, albeit brief, stock market rally. Average daily share volume on the NYSE increased 7.7% from February to 1.44 billion shares daily in March. Despite the monthly increase, however, this year's first quarter NYSE volume of 1.42 billion shares daily was 2.7% short of 4Q 2002 levels and 1.5% shy of 2002's 1.44 billion daily average.



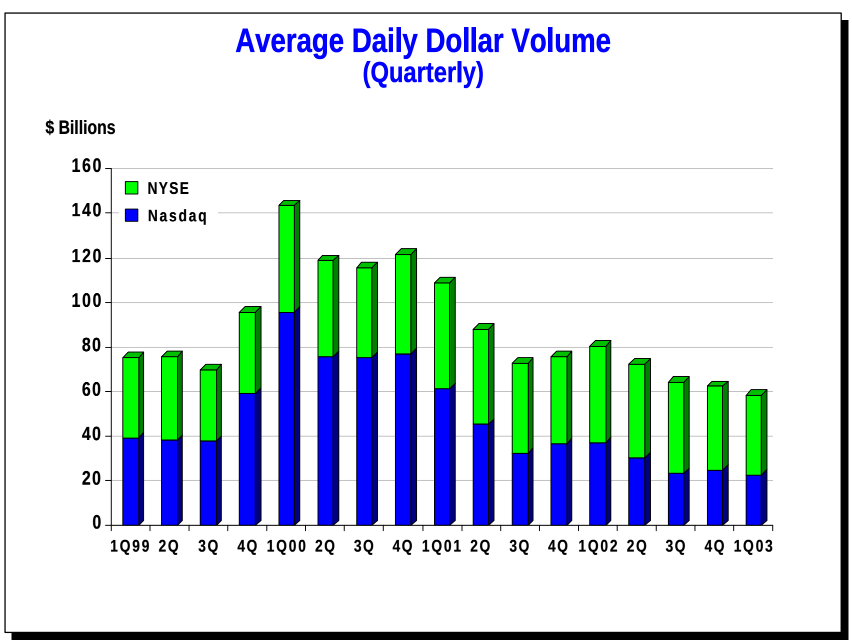
Share volume in Nasdaq stocks jumped 13.9% in March to 1.49 billion shares daily from 1.31 billion per day in February. However, like the NYSE, Nasdaq share volume registered its second straight quarterly decline in Q1 2003. At 1.46 billion shares daily in Q1 2003, Nasdaq share volume stood 11.5% below Q4 2002 levels, 17.0% lower than the 1.75 billion daily pace in 2002, and fell back to Q4 1999 levels.



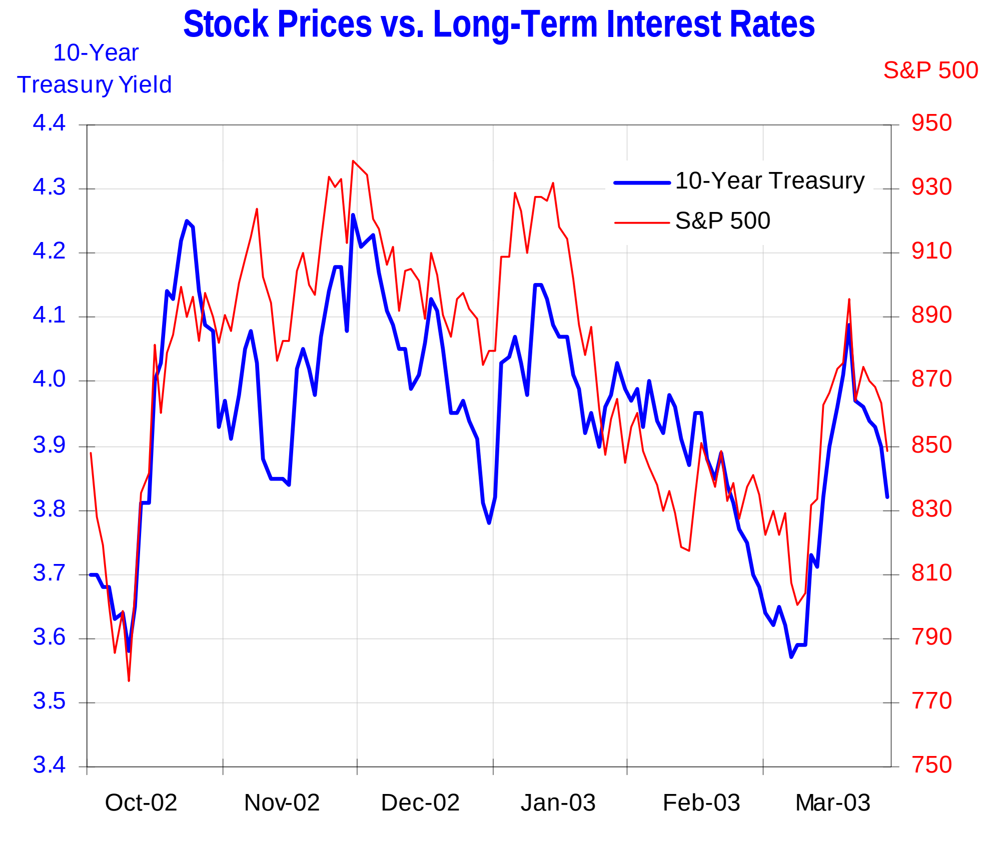
Dollar Volume – Increased trading activity, combined with rising share prices, led to higher dollar volumes on both the NYSE and Nasdaq in March. The value of trading in NYSE stocks increased 10.7% last month to $36.3 billion daily from $32.8 billion daily in February. Nevertheless, year-to-date dollar volume, at $35.6 billion daily, trails 2002's average daily pace by 13.0%. This also marked the fourth sequential quarterly decline in NYSE dollar volume and a return to Q3 1999 levels.



March witnessed a 13.7% increase in Nasdaq dollar volume to $23.2 billion daily from a paltry $20.4 billion daily in February. Through the first three months of 2003, dollar volume on Nasdaq averaged $22.8 billion daily, the lowest quarterly showing since Q2 1998 and less than one-fourth the $95.6 billion daily record set in Q1 2000.



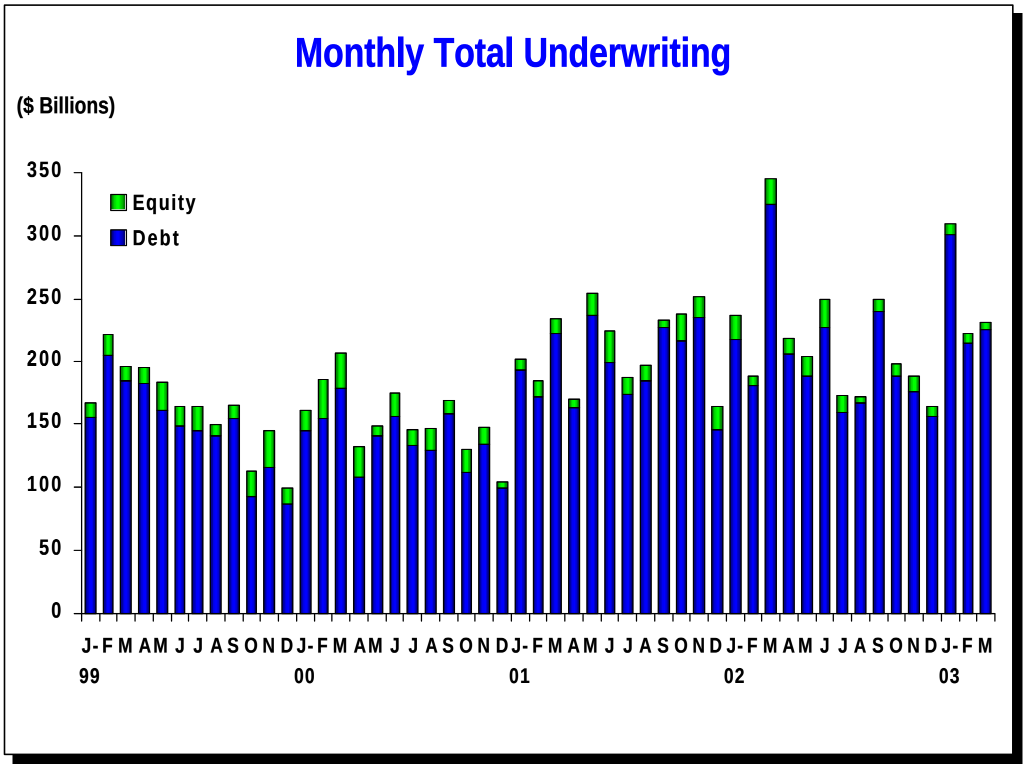
Interest Rates – Treasury prices sank as stock prices surged during the war rally that lured investors away from the safe haven of government fixed-income securities. After falling to a 44-year low of 3.57% on March 10, the yield on 10-year Treasury bonds (which moves in the opposition direction of its price) rose more than one-half percentage point to 4.09% in just nine trading sessions. When the stock market quickly reversed course, investors sought shelter in the Treasury market once again, driving yields down to 3.82% by the end of March, back to the level at which it started the year.

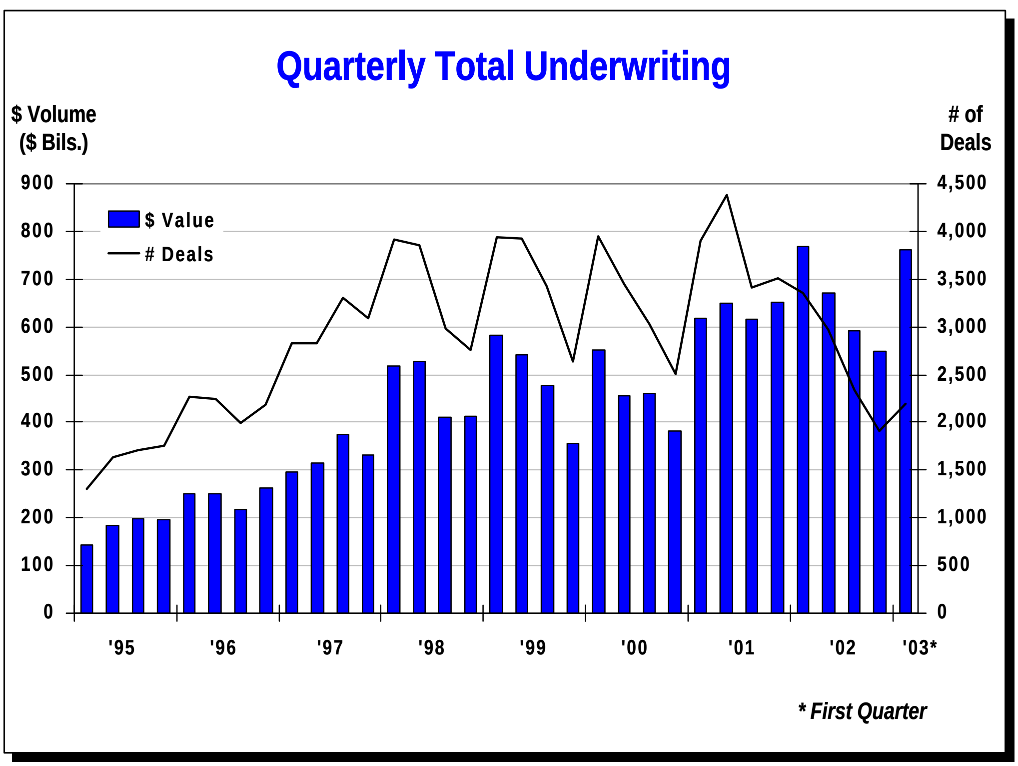


U.S. Underwriting Activity

After suffering three sequential quarterly declines last year, total underwriting activity surged 39% in Q1 2003 from Q4 2002 levels to $761.0 billion, nearly matching the quarterly high of $769.4 billion reached in last year's first quarter.

The overall total was driven by record corporate bond issuance in the first quarter, as issuers took advantage of lower interest rates to refinance debt and a turbulent stock market drove investors to the relative safety and stability of fixed-income investments.

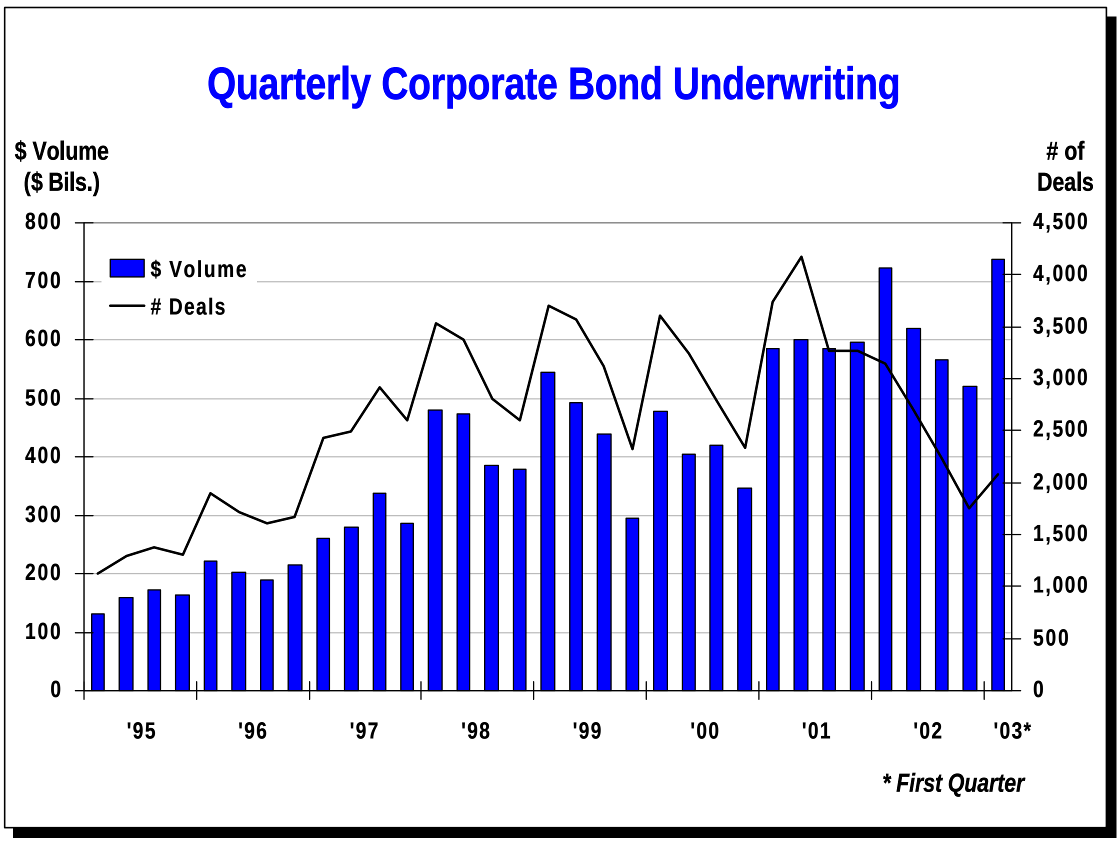

Monthly Total Underwriting
($ Billions)
350
300
250
200
150
100
50
0
Equity
Debt
J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M
99
00
01
02
03


Quarterly Total Underwriting
$ Volume
($ Bils.)
of
Deals
900
800
700
600
500
400
300
200
100
0
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
$ Value
# Deals
'95
'96
'97
'98
'99
'00
'01
'02
'03*
* First Quarter

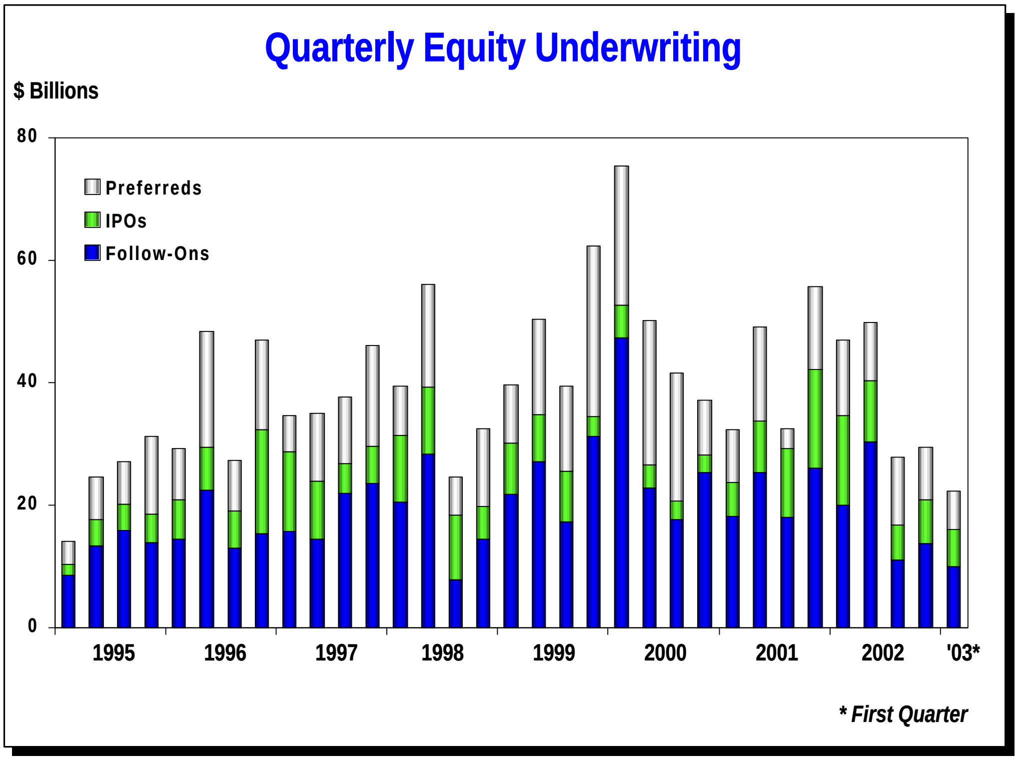
Corporate Bond Underwriting – The corporate bond market got off to a strong start in 2003. After sinking to a 12-month low of $156.4 billion last December, domestic corporate debt underwriting skyrocketed 92% to $300.5 billion in January before easing somewhat in February and March. For the entire first quarter, dollar proceeds totaled a record $738.7 billion, just edging out the prior record of $722.5 billion raised in the same period a year earlier and 42.1% higher than Q4 2002 levels.

Record monthly asset-backed bond offerings in January of $150.6 billion led to record first quarter volume of $342.5 billion, up 10.9% from the previous record set in Q3 2002 and 22.6% higher than the amount raised in the fourth quarter of last year.

Heavy issuance of straight corporate debt in January lifted the first quarter total to $396.1 billion. While that represents a 65.1% increase from fourth quarter 2002 levels, it is still 12.5% below the record $452.4 billion raised in the first quarter of 2002.



Equity Underwriting – In stark contrast to the debt market, underwriting volume of common and preferred stock sank to an eight-year low in the first quarter of 2003. A mere $22.3 billion was raised in Q1 2003, three-fourths of the prior quarter's $29.5 billion tally and less than one-third of the record $75.4 billion volume in the first quarter of 2000.

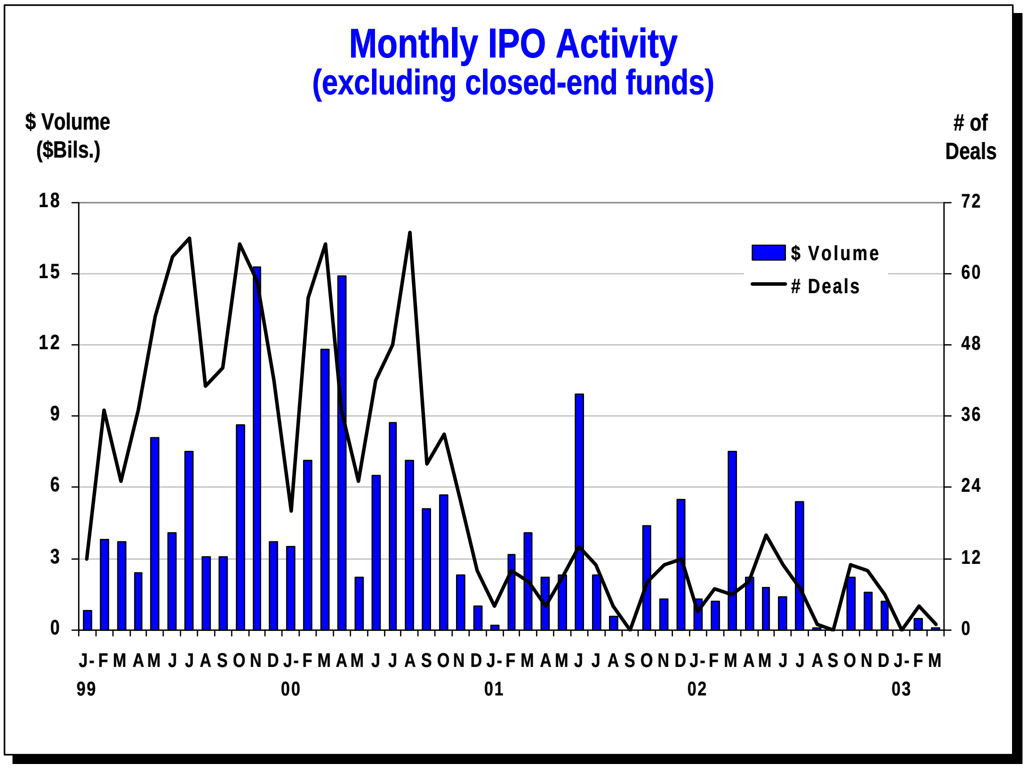


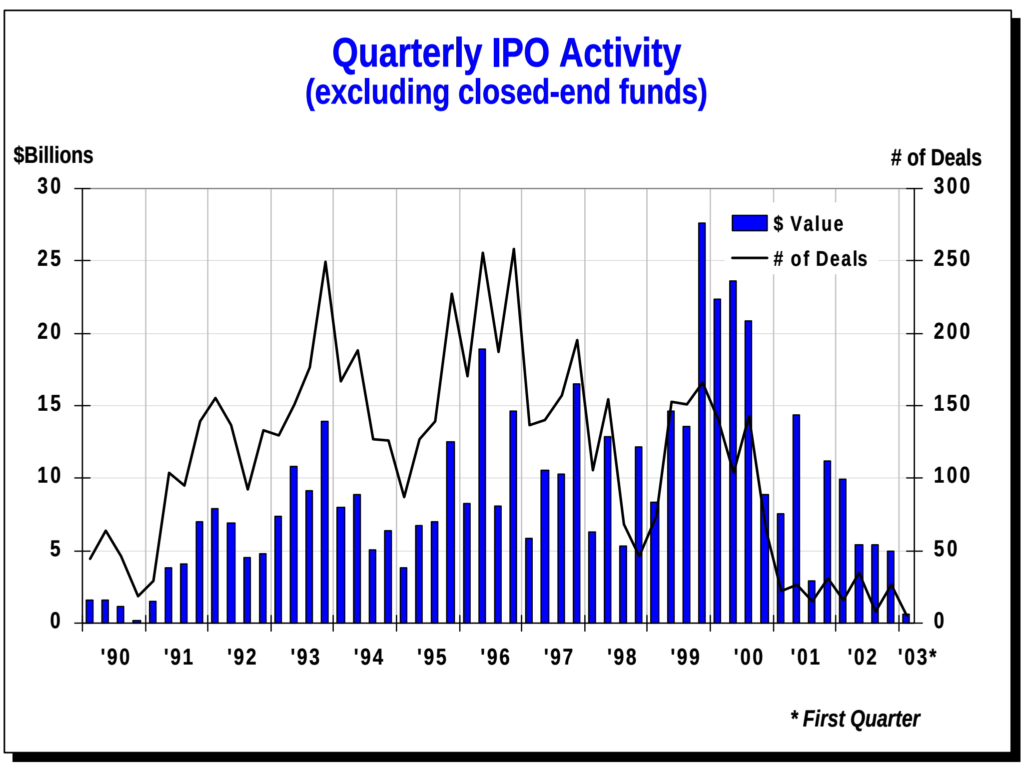
The **IPO market** virtually ground to a halt in this year's first quarter. Only five deals were completed, the lowest quarter total since the fourth quarter of 1975, according to Thomson Financial. The largest deal came in February, when insurer Endurance Specialty Holdings offered $212 million in stock.

Dollar proceeds from IPOs sank to its lowest quarterly level since Q4 1990. A paltry $644.3 billion was raised during the quarter, down a whopping 87.1% when compared with $5.0 billion in 4Q 2002 and a mere fraction of the $10.0 billion raised at this time last year.

The outlook for this marked remains bleak, as only 20 U.S.-registered IPOs are in the pipeline expected to raise $3.6 billion, according to Dealogic.

Grace Toto
Vice President and Director, Statistics


Monthly IPO Activity
(excluding closed-end funds)
$ Volume
($Bils.)
of
Deals
18
15
12
9
6
3
0
72
60
48
36
24
12
0
$ Volume
# Deals
J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M
99
00
01
02
03


Quarterly IPO Activity
(excluding closed-end funds)
$Billions
# of Deals
30
25
20
15
10
5
0
300
250
200
150
100
50
0
$ Value
# of Deals
'90
'91
'92
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03*
* First Quarter

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	Follow-Ons	**TOTAL** UNDER-**WRITINGS**
19851985	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
<u>2002</u>											
Jan	145.7	0.2	71.2	217.1	8.6	10.8	19.4	1.8	1.3	6.9	236.5
Feb	106.2	3.8	70.2	180.1	6.7	1.2	8.0	1.9	1.2	4.8	188.0
Mar	200.5	3.2	121.7	325.4	16.9	2.7	19.6	8.5	7.5	8.3	344.9
Apr	127.3	0.0	77.5	204.9	8.7	4.4	13.1	2.9	2.2	5.8	218.0
May	106.7	0.1	81.4	188.2	13.3	1.6	14.9	2.4	1.8	10.9	203.1
June	121.3	0.4	105.2	226.9	17.7	4.1	21.8	4.1	1.4	13.6	248.7
July	74.1	0.4	84.9	159.4	11.0	1.8	12.8	6.1	5.4	4.9	172.2
Aug	74.7	0.0	91.7	166.4	3.8	2.0	5.7	2.5	0.1	1.3	172.2
Sept	106.8	0.0	132.3	239.1	7.3	2.0	9.3	2.4	0.0	4.9	248.4
Oct	70.5	0.1	117.4	188.1	7.0	2.6	9.5	3.8	2.2	3.2	197.6
Nov	88.5	0.4	86.4	175.3	10.2	2.1	12.3	2.6	1.6	7.7	187.6
Dec	80.8	0.0	75.6	156.4	5.2	2.4	7.6	2.3	1.2	2.9	164.0
<u>2003</u>											
Jan	149.9	0.0	150.6	300.5	6.8	1.8	8.6	1.0	0.0	5.8	309.1
Feb	115.2	0.0	98.7	213.9	4.7	2.9	7.5	1.9	0.5	2.8	221.4
Mar	131.0	0.1	93.2	224.3	4.7	1.4	6.1	3.3	0.1	1.4	230.4
Apr											
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '02	452.4	7.1	263.0	722.5	32.2	14.7	46.9	12.2	10.0	20.0	769.4
YTD '03	396.1	0.1	342.5	738.7	16.2	6.1	22.3	6.1	0.6	10.0	761.0
% Change	-12.5%	-98.2%	30.2%	2.2%	-49.7%	-58.7%	-52.5%	-49.6%	-93.5%	-49.9%	-1.1%

Note: IPOs and follow-ons are subsets of common stock. “True” IPOs exclude closed-end funds.
Source: Thomson Financial Securities Data

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
2002										
Jan	1.1	12.3	13.4	4.3	3.8	8.1	21.5	1.65	5.04	3.39
Feb	1.5	10.6	12.1	4.9	4.0	8.9	20.9	1.73	4.91	3.18
Mar	1.7	13.0	14.7	4.9	5.6	10.5	25.2	1.79	5.28	3.49
Apr	2.3	14.7	17.0	4.4	4.1	8.5	25.5	1.72	5.21	3.49
May	2.4	20.7	23.1	4.0	6.9	10.9	34.0	1.73	5.16	3.43
June	1.5	20.3	21.8	5.2	11.6	16.8	38.6	1.70	4.93	3.23
July	1.1	15.7	16.8	4.8	6.2	11.0	27.8	1.68	4.65	2.97
Aug	0.6	20.4	21.0	3.8	6.6	10.4	31.5	1.62	4.26	2.64
Sept	1.1	16.8	17.8	4.1	5.6	9.7	27.5	1.63	3.87	2.24
Oct	2.9	24.0	26.9	5.9	8.9	14.8	41.7	1.58	3.94	2.36
Nov	1.4	25.3	26.7	3.0	5.6	8.5	35.2	1.23	4.05	2.82
Dec	2.0	16.6	18.6	2.9	4.4	7.3	26.0	1.19	4.03	2.84
2003										
Jan	1.3	16.5	17.8	4.4	4.3	8.7	26.5	1.17	4.05	2.88
Feb	2.3	14.8	17.1	5.1	7.5	12.6	29.7	1.17	3.90	2.73
Mar	2.1	15.3	17.4	4.2	5.6	9.8	27.2	1.13	3.81	2.68
Apr										
May										
June										
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '02	4.2	35.9	40.1	14.2	13.3	27.5	67.6	1.72	5.08	3.35
YTD '03	5.7	46.6	52.3	13.7	17.4	31.1	83.4	1.16	3.92	2.76
% Change	33.8%	29.8%	30.2%	-3.3%	30.8%	13.2%	23.3%	-32.9%	-22.8%	-17.6%

Sources: Thomson Financial Securities Data; 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
2002									
Jan	9,920.00	1,130.20	6,116.90	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	6,117.96	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	6,348.79	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	6,071.22	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	6,035.27	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	5636.54	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July	8,736.59	911.62	5,195.61	1,328.26	1,886.3	79.0	2,158.2	50.9	28.1
Aug	8,663.50	916.07	5,239.81	1,314.85	1,341.4	58.4	1,509.0	35.5	21.2
Sept	7,591.93	815.28	4,709.96	1,172.06	1,409.0	90.3	1,477.3	36.3	20.5
Oct	8,397.03	885.77	5,000.32	1,329.75	1,654.8	68.3	1,709.3	42.5	25.4
Nov	8,896.09	936.31	5,236.85	1,478.78	1,454.4	57.7	1,799.5	37.9	27.3
Dec	8,341.63	879.82	5,000.00	1,335.51	1,247.9	57.6	1,423.6	32.1	21.6
2003									
Jan	8,053.81	855.70	4,868.68	1,320.91	1,474.7	62.9	1,547.6	37.5	24.7
Feb	7,891.08	841.15	4,716.07	1,337.52	1,336.4	53.6	1,311.4	32.8	20.4
Mar	7,992.13	848.18	4,730.21	1,341.17	1,439.3	64.7	1,493.3	36.3	23.2
Apr									
May									
June									
July									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '02	10,403.94	1,147.39	6,348.79	1,845.35	1,382.3	56.5	1,820.7	43.2	37.1
YTD '03	7,992.13	848.18	4,730.21	1,341.17	1,419.4	60.6	1,455.3	35.6	22.8
% Change	-23.2%	-26.1%	-25.5%	-27.3%	2.7%	7.3%	-20.1%	-17.5%	-38.5%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	MUTUAL FUND ASSETS					MUTUAL FUND NET NEW CASH FLOW*					
	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	8.3	140.7	-46.6	74.7	121.3
2002											
Jan	3,372.1	347.2	946.9	2,303.4	6,969.6	19.4	2.2	10.4	14.0	46.0	32.0
Feb	3,310.5	348.3	962.5	2,301.0	6,922.3	4.7	2.3	10.9	-5.5	12.4	17.9
Mar	3,495.7	359.2	958.3	2,247.9	7,061.1	29.6	3.3	6.6	-53.0	-13.5	39.5
Apr	3,367.8	354.5	980.6	2,231.4	6,934.4	12.8	3.3	7.7	-19.6	4.3	23.9
May	3,341.5	356.4	994.1	2,230.7	6,922.7	4.8	1.5	10.5	-3.2	13.6	16.8
June	3,088.7	341.4	1,003.7	2,197.4	6,631.2	-18.3	0.4	12.2	-43.6	-49.3	-5.7
July	2,770.1	320.7	1,032.9	2,254.6	6,378.4	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	2,781.1	324.9	1,063.7	2,217.5	6,387.3	-3.1	0.6	17.4	-38.7	-23.9	14.9
Sept	2,505.3	305.4	1,089.0	2,164.6	6,064.2	-16.1	-0.6	15.4	-54.9	-56.2	-1.4
Oct	2,659.5	316.7	1,083.6	2,177.5	6,237.2	-7.5	-1.0	6.4	12.5	10.4	-2.1
Nov	2,818.4	332.3	1,098.7	2,309.3	6,558.6	7.0	1.2	7.6	129.9	145.6	15.8
Dec	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-8.3	-0.2	7.3	-38.8	-40.0	-1.2
2003											
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2	-0.4	1.1	13.0	-1.2	12.5	13.7
Feb	2,538.5	323.2	1,171.0	2,235.6	6,268.3	-11.1	0.1	19.6	-39.6	-31.0	8.6
Mar											
Apr											
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '02	3,310.5	348.3	962.5	2,301.0	6,922.3	24.1	4.5	21.4	8.4	58.4	50.0
YTD '03	2,538.5	323.2	1,171.0	2,235.6	6,268.3	-11.5	1.2	32.6	-40.8	-18.5	22.3
% Change	-23.3%	-7.2%	21.7%	-2.8%	-9.4%	-147.7%	-73.9%	52.6%	-584.4%	-131.7%	-55.4%

* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges
Source: Investment Company

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