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GOING PRIVATE: RESPONDING TO THE SMALL CAP DILEMMA

Frank Fernandez

GLOBAL REACTIONS TO BASEL II

Judith Chase

SIA COMMENT LETTER TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM ON THE THIRD CONSULTATIVE PAPER ON THE 2003 BASEL CAPITAL ACCORD, August 5, 2003

Risk Management Committee

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MONTHLY STATISTICAL REVIEW

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15..... **SIA Comment Letter to the Board of Governors of the Federal Reserve System on the Third Consultative Paper on the 2003 Basel Capital Accord**, August 5, 2003, by the Risk Management Committee. Our mix of risk-sensitive businesses differs materially from the credit-intensive businesses of commercial banks typically subject to Basel II. Our analysis, which is continuing, indicates that for many of our core activities Basel II prescribes capital requirements that appear to be excessive relative to risk and loss experience. Nonetheless, we believe there are a few key modifications and clarifications that can address the concerns we identify and foster a risk-based capital regime appropriate for commercial banks and investment banks alike.

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GOING PRIVATE: RESPONDING TO THE SMALL CAP DILEMMA

Introduction

It isn't easy being the "little guy," and this is certainly true in capital markets. However, the unlevel "playing field" is becoming more steeply inclined for small companies. In response to this dilemma, small cap companies are, increasingly, opting out: choosing to delist and go private. The following article examines some of the reasons why firms may make this choice.

Defining Small Caps

"Cap" refers to the market *capitalization* or the value of a company's outstanding equity. This is the most common measure of size used to discriminate between companies that have issued stock, and is calculated by multiplying the total number of shares outstanding by the share price. No consensus exists as to what constitutes a small cap company. Generally the term refers to companies whose size ranks at or below the levels of the smallest 20% of companies listed on exchanges such as the NYSE, the NASDAQ and the AMEX. The term "small cap" may extend to still smaller companies that are not listed and trade in the "over-the-counter" (OTC) market and are quoted on OTC systems, such as the OTC Bulletin Board (OTCBB) or the "Pink Sheets." These very small cap companies are often referred to as a micro cap or a nanocap stocks.[1]

Although generally small caps are defined as companies with market values of no more than $500 million, each of the major benchmarks has a higher, and different, upper limit. The most commonly-used benchmarks that track small cap stocks as well as evaluate the performance of the wide range of small cap funds are the S&P 600 Index, the Wilshire 1750 Index and the Russell 2000 Index. The latter index includes companies with capitalizations between $20 million and $1.5 billion, while the largest component of the Russell 2000 exceeds $1 billion, and the S&P 600 has an upper limit of about $900 million.

Small Cap Myths

During 2Q 2003, small cap stocks surged, with the Russell 2000 Index up 23.0%, easily outpacing large caps indexes like the S&P 500 (up 14.9%) and the Dow (12.4%). This "out-performance" has continued in the current quarter and reopened an old argument in the process. Although it has been more than a quarter century since the idea of a small cap performance premium was advanced by Ibbotson and Sinquefield,[2] a vigorous debate continues as to whether small stocks really have outperformed large stocks over the long term. For example, Professor Jeremy Siegel argued that the period from the end of 1974 through the end of 1983 accounts for the entire out-performance of small caps historically, and during the period from end-1978 to end-1996, small caps and large caps earned exactly the same returns.

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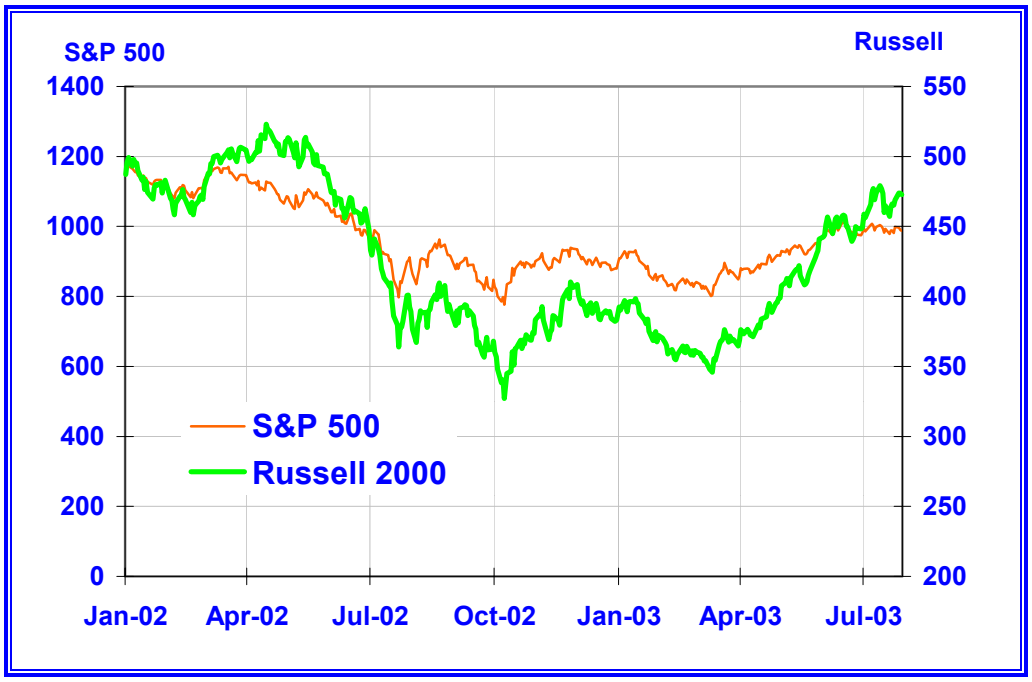
[1] For more information on investing in micro cap stocks see U.S. Securities and Exchange Commission, "Microcap Stock: A Guide for Investors," January 2003, http://www.sec.gov/investor/pubs/microcapstock.htm.

[2] Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills and Inflation: Year-by-Year Historical Returns (1926-74)." *Journal of Business*, Vol. 49, No. 1, (1976). See also, Rolf W. Banz, "The Relationship Between Market Value and Return on Common Stocks," *Journal of Financial Economics*, November 1981.

Small vs. Large-Cap Stock Performance



Do small caps, over time, beat the broad market? The answer is probably "yes," but whether that holds true in a specific instance and by how much depends on a number of things like how long you hold them,[3] the group of stocks and time period you examine,[4] and how you measure that performance.[5] Given this, along with the higher costs associated with investing in small caps, their greater volatility and inherently higher risk, the average investor may not be able to "capture" that premium. In addition, that premium may or may not be adequate compensation for the higher risk and lower liquidity.

Reflecting these characteristics, small cap stocks have had periods of both over-performance and under-performance[6]. Periods of over-performance generally coincide with periods of strengthening economic growth or recovery from a recession, such as now. During poor economic times, small cap stock prices suffer disproportionately as their smaller capital base, generally narrower product offerings and higher capital cost make them more susceptible to failure and investors seek safety in more liquid, actively traded large cap stocks.

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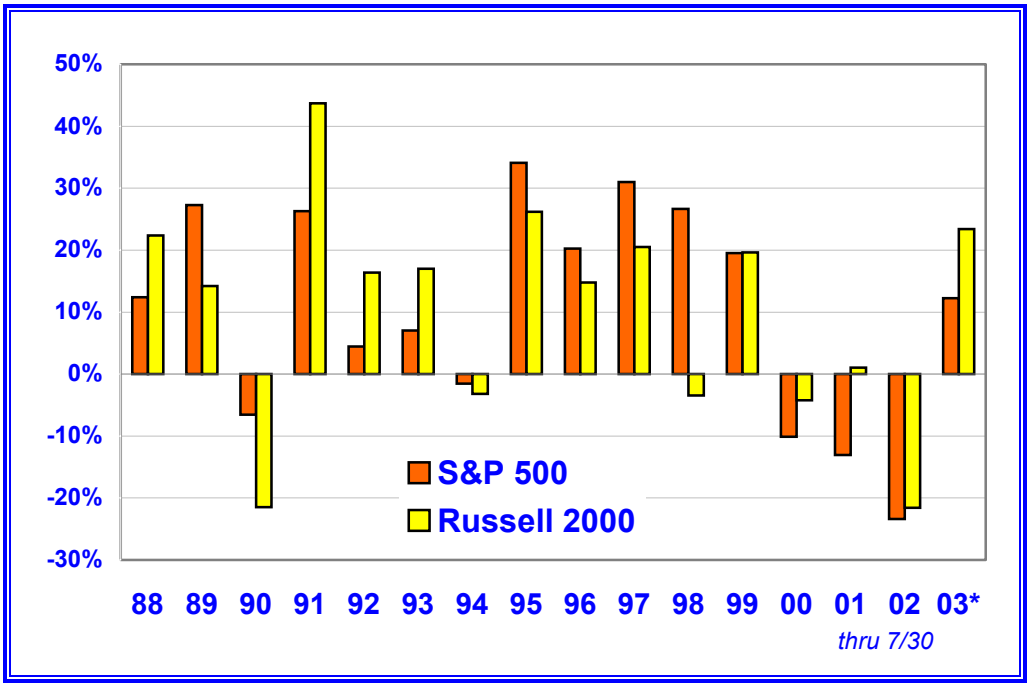
[3] Peng Chen and Sherman Hanna, "Small Stocks vs. Large Stocks: It's How Long You Hold That Counts," *The Journal of American Association of Individual Investors*, July 1999, http://www.aaii.com/promo/ibbotson/marketseg.shtml.

[4] See for example, Michael Barad, "Technical Analysis of the Size Premium," *CCH Business Valuation Alert*, September 2001, Ibbotson Associates, Inc., http://www.ibbotson.com/content/kc_published_research_search.asp.

[5] Measurement problems exist with respect to the exclusion of transaction costs and fees, benchmark mis-specification, survivorship bias (commercial databases of portfolio returns exclude the records of products that have gone out of business and managers do not introduce products with poor track records), back-filling bias ("instant histories" or return histories after the fact are also accepted on new additions to benchmarks for periods prior to their introduction). For a general examination of these issues see Richard M. Ennis and Michael D. Sebastian, "The Small-Cap-Alpha Myth," Ennis Knupp & Associates, Inc., September 2001, www.ennisknupp.com.

[6] See for example, Michael Annin and Dominic Falaschetti, "Is There Still a Size Premium?" *CPA Expert*, Winter 1998.

Small Caps Outperformed
1988, 1991-3, 1999-2003



Capturing the small cap premium is becoming even more difficult today, as the traditional dilemma faced by small cap companies is being compounded the impact of market structure changes.

The Small Cap Dilemma

Issuers of small cap stocks and investors in them confront a number of factors associated with listing and trading in public markets, which together have been termed the "small cap dilemma." Each of these factors appears to have worsened recently prompting a re-evaluation of small company corporate finance strategies. These factors include:

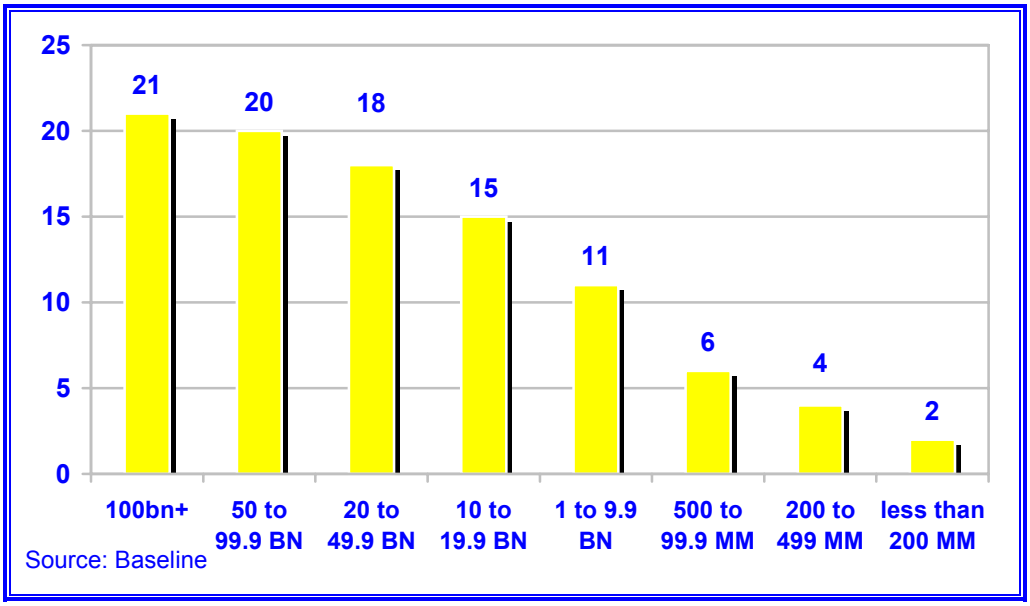
Limited liquidity – Given the small value of their shares outstanding and often infrequent or discontinuous trading, small cap stocks are relatively illiquid. Stock prices are generally discounted to reflect this, and small cap excess returns, or their "premium," can be viewed simply as compensation for this. However, small caps are doubly vulnerable to any unforeseen economic reversal, as liquidity risk rises rapidly at such times as investors seek stocks that are less dependent on narrow product lines and markets and relatively less dependence on debt markets. There are fewer "market makers" in small company stocks these days as a result of industry consolidation and market structure changes. In addition, the limited size of the market "float" of a small cap stocks does not allow most professional money managers to invest in them, which in turn limits the breadth of trading and the heterogeneity of the investor base, further increasing liquidity risk.

Higher transaction costs – Small cap stocks can be more expensive to trade even in the best of times, perhaps as much as four times more than large cap stocks on average,

while the average small cap fund may have total transaction costs 100 basis points (1%) higher than the average large cap fund.[7] While the absolute level of trading all stocks has declined in the wake of the introduction in decimal pricing, the relatively higher costs of trading small cap stocks persists. Small cap stocks contribute less trading volume, and thus generate smaller amounts of commission revenues for brokerage firms. In the recent cost cutting environment in which brokerage firms have had to operate, these types of low volume, low margin business have been cut back or dropped altogether by a number of firms. Fewer competitors and fewer market makers presumably leads to less competition and higher transaction costs.

Information uncertainty and information lags – Less is known about small cap stocks and that information is both harder to come by and available in a less timely fashion. It follows that "[s]mall cap stocks are not researched as thoroughly as larger stocks. Lack of information amounts to relatively higher risk and potentially greater opportunity to exploit market mispricing."[8] As will be examined below, it appears this problem is dramatically worsening as research coverage is disproportionately being withdrawn on small cap stocks.

Average Research Coverage by Market Cap



Limited access to debt/equity capital markets – Small caps generate smaller investment banking fees than do large cap stocks because they require fewer services and do smaller sized deals. However, there is a high proportion of fixed costs associated with doing a capital markets transaction, not the least of which is associated with the performance of due diligence and meeting supervisory and regulatory requirements. As a result, investment bankers tend to focus on more profitable large cap deals, often to the exclusion of smaller companies. This trend has increased with recent acquisition of smaller securities firms, who once specialized in both issuing and trading of small cap firms, by larger securities firms who then consolidate dropping coverage of small cap stocks, both for

[7] See Ennis, op.cit 5.

[8] Neville Hathaway, "The Small Company Effect," *Invesco*, Australian Financial Services Directory Editorial Library, 2003.

trading purposes and the pursuit of corporate financial services opportunities. When they can access markets to raise funds, it tends to cost small caps more in terms of higher interest rates on fixed income instruments and lower price multiples on equity securities, to reflect both the higher risks and the greater inefficiencies.

Increased costs of regulatory and supervisory changes – A broad-based overhaul of the regulatory and supervisory requirements placed on public companies is underway in the wake of corporate governance scandals of recent years. The slew of actions taken in the year just ended following the passage of the Sarbanes-Oxley Act is just the most prominent example. Unfortunately, these rules and regulations, in most cases, apply to all firms regardless of size,[9] and the burden falls disproportionately upon small firms, given that these reporting and disclosure requirements also carry a relatively high proportion of fixed costs.

Dwindling Research Coverage

Research coverage of small cap stocks is dwindling. It is dwindling both due to increased merger activity in the financial services industry, recent layoffs and cutbacks in the market downturn just ended, and due to the burden imposed by recent regulatory and supervisory changes. Analysts report that "[m]erger activity eliminated small regional brokerage firms that provided financial support to small cap stocks. These regional brokerage houses provided investment banking, market making and research coverage to companies in their market area. This provided small cap firms with access to capital and a growing shareholder base. As larger brokerage houses and banks acquired these smaller firms, however, their activities were redirected to the large cap sector. Companies that do not meet a specific market cap or do not have the potential to yield a sizable investment banking deal are being dropped from the coverage lists."[10] The scope of industry layoffs and cost cutting is well documented elsewhere in this and other SIA publications, and research analysts and research budgets have not been spared in these efforts at expense reduction.

This is highly regrettable given that small cap companies are believed to provide "positive externalities" to the economy as a whole. According to Chuck Hill of Thompson Financial First Call, it is usually small firms that lead in the early stages of a bull market and without research coverage it will be more difficult and take longer for investors to find those stocks.[11] Small firms are also believed to generate more jobs per dollar of additional revenues and tend to be a fruitful source of innovation and new product development in certain industries.

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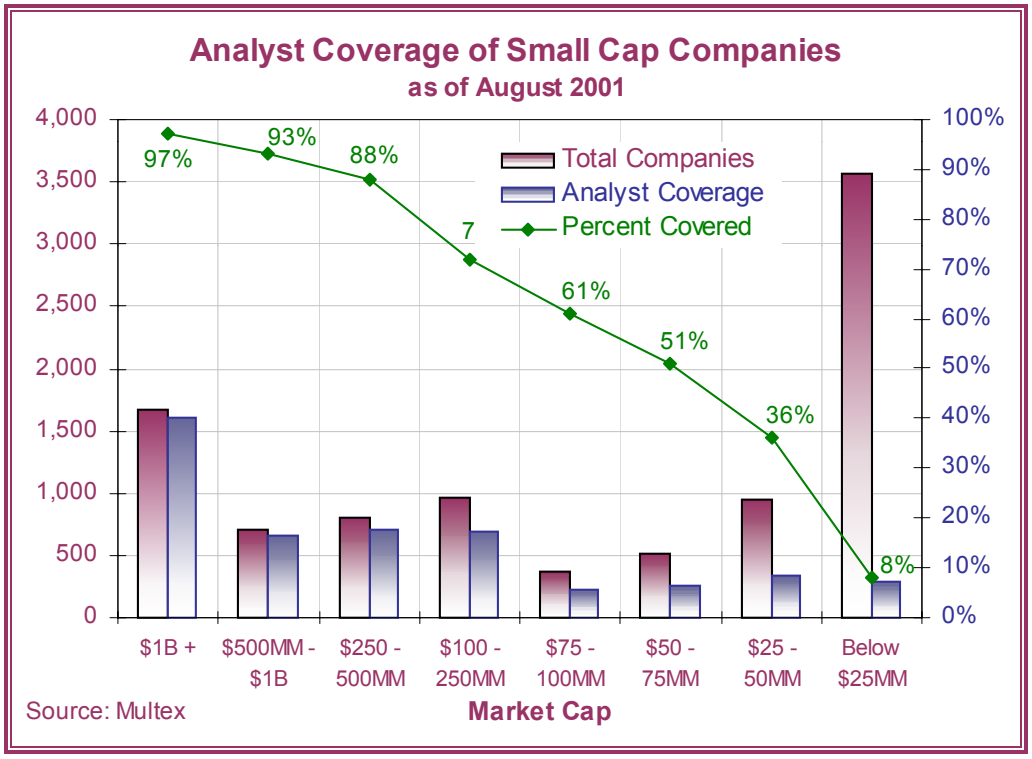
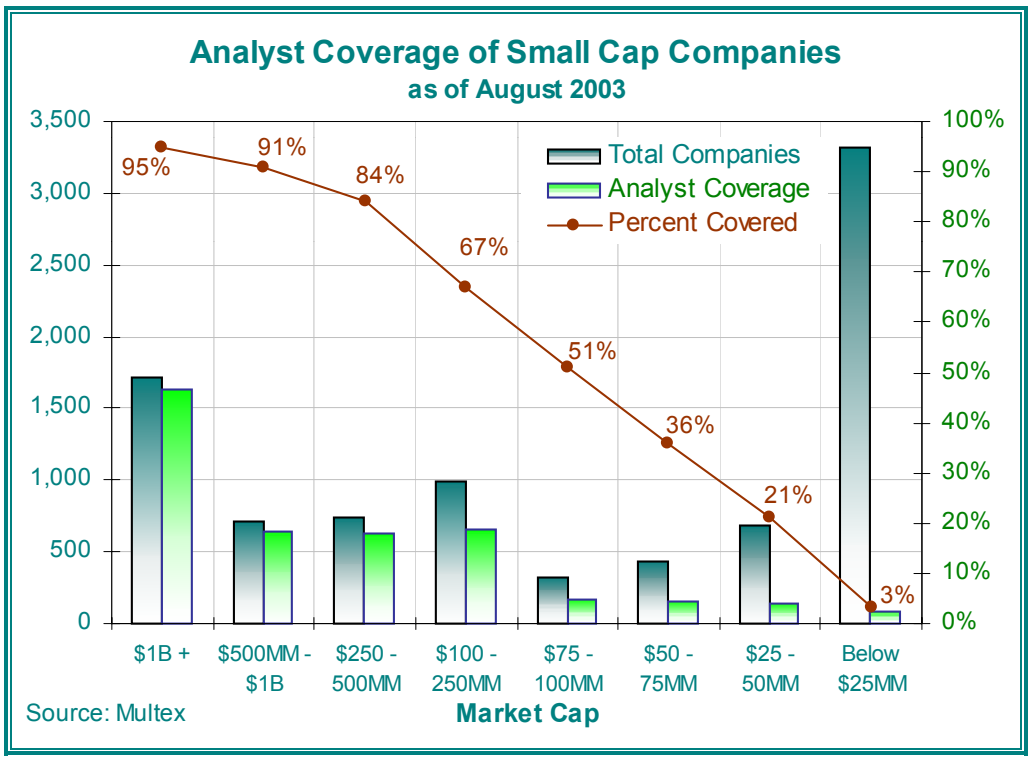
[9] However, the SIA and other groups have and will continue to seek "safe harbor" or "small company" exemptions to some of the most onerous of these new requirements. For example, see the integrated disclosure system for small business issues in Regulation SB. Also, the SRO research rules contain a small firm exemption. See NYSE Rule 472(m) recently approved by the SEC and SEC Rule 11Ac1-6, on order routing disclosure, which for broker-dealers that have routed, on average, 500 or fewer customer orders in covered securities per month during the preceding calendar quarter, and exemption was granted from these quarterly reporting requirements.

[10] Rick Wayman, "The Great Gap," *ResearchStock.com*, December 2001, http://www.investopedia.com/articles/analyst/122001.asp.

[11] Matt Krantz, "Street Cuts Mean Less Stock Research," *USA Today*, March 16, 2003, http://www.usatoday.com/money/industries/brokerage/2003-03-16-layoffs_x.htm.





How severe has the loss of coverage been both for the market in general and for small caps specifically? Over the past two years, 14% of the stocks that had analyst coverage or one out of every seven covered companies have lost that support. More than three-

quarters of those stocks have been "micro caps," small small-cap stocks, companies with market caps of less than $100 million. The charts above (and the table at the end of this report) illustrate this development, based on data provided by MultexInvestor, now a part of Reuters.

There has been a significant decline in research coverage. In August 2001, 4,763 stocks had analyst coverage. By this month, two years later, that number had steadily dwindled to 4,103, a 14% decline. Of the 660 additional "orphan" stocks, stocks for which coverage was halted, 60% had a market cap of less than $50 million. Fewer earnings estimates per stock were issued and the error of those estimates increased.

Higher Compliance Costs

Although it is one of the most notoriously difficult things to estimate, the cost of new government regulations is generally conceded to be rising and to have a high fixed cost component. This is particularly true for public companies, those who issue stock and are publicly listed. For example, a possible regulation being contemplated by the SEC is projected to impose a cost of compliance of one to two ***man-years*** per firm on those affected by it. These costs, however, do appear to be appropriate to address the concerns of Congress and the public.

In the case of the Sarbanes-Oxley Act, the persons who contribute to those man-years tend to be highly paid, with an estimated annual compensation cost of between $250,000 to $300,000. These people disproportionately tend to be lawyers and outside auditors, followed closely by compliance officers and programmers concerned with monitoring and reporting on the new regulations. Fees paid for many of these categories of services have doubled or tripled for public companies in the past two years. Other significant costs include higher insurance costs and internal accounting expenses.

That major parts of the Act's numerous sections are only now coming into effect complicates the estimation further. For large public firms, the cost of compliance is high but more easily borne once the initial fixed costs are incurred. However, higher ongoing costs are expected as well. Large and mid-sized firms are seeing a 20% expansion in budgets for finance and related departments. Fees for directors and officers insurance are estimated to have risen 30% and co-insurance, in which the policyholder pays a fixed portion of eventual claims of 10%-30%, has become more commonplace. Firms are complaining of increased costs in finding and compensating outside or independent directors for boards.

For small businesses, the cost of remaining a public company or of becoming a public company and hence availing yourself of the most efficient way of raising capital may have become prohibitive. Anecdotal evidence suggests that a not insignificant number of firms are either avoiding going public or going private to avoid the compliance cost imposed by new regulations. This is largely due to the high fixed costs of compliance with these measures that absorb a much larger share of a small firm's revenue. For micro cap or the still smaller "nanocap" stocks (stocks with a market cap of $10 million or less, which account for approximately one-third of all public companies) staying or going public does not seem to make much, if any, economic sense, so fewer and fewer of these type of listings should be anticipated. For example, one estimate set the cost of be-

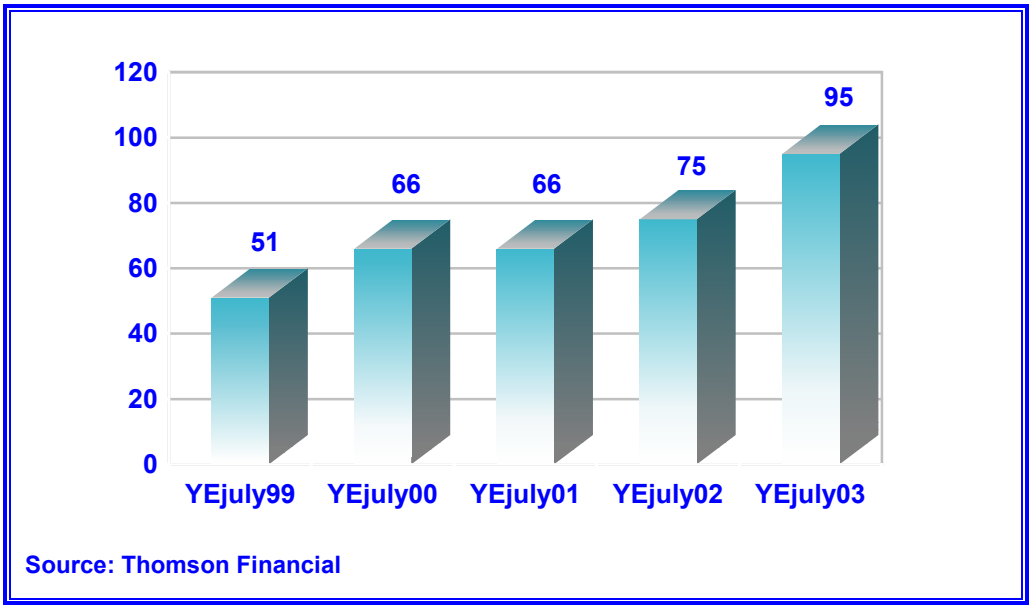
ing a public "nanocap" company at $300,000 annually. It is also estimated that complying with the provisions of the Sarbanes-Oxley Act will be between $300,000 and $500,000 annually, more than doubling the cost of maintaining/gaining a listing. For larger, but still small cap companies the absolute cost will, of course, be higher but the contribution to the overall increase in firm expenses will be less than for micro cap companies.

Confronting the Dilemma: Going Private

Long before the Sarbanes-Oxley Act a stock market trend was already firmly in place: there were already a number of factors contributing to increased concentration and a secular decline in interest in small cap companies.[12] This "has resulted in a large number of high-quality small capitalization companies with extremely low valuations, limited trading volume, research coverage, and investor interest. These companies trade at significant discounts to the broader market and even to their historical valuations, despite attractive profitability and long-term growth prospects."[13]

What are the financial market alternatives for these small cap companies? They could languish, deferring capital raising activities, but that is not a sustainable strategy if demand picks up as it appears to be doing. They could rely solely on internal generation of capital (retained earnings), something common for small cap companies that pay few dividends, but that would make their stock less attractive in the wake of the recent dividend tax rate reduction. They could pursue M&A or sale opportunities, something that appears to be occurring, although like mainstream investment bankers, M&A specialists tend to focus on higher margin, higher revenue deals afforded by large or mid cap companies. Or they can pursue going private. The last option is increasingly being exercised.

U.S. Public Companies Going Private
(Announced Going Private Transactions, Excludes M&A)



Source: Thomson Financial

[12] See "Overview of Going Private Activity," *Merger Monthly*, Mergers & Acquisitions Research, Robert W. Baird & Co., July 2003. http://www.rwbaird.com/research.

[13] Ibid, p.8.

Although it is impossible to know how many firms have decided not to go public, statistics are available on going private transactions that provide information on both the number of deals and the value of each deal (Thompson Financial). They show that recent activity is on the rise. There does not seem to be a typical transaction size, with deals ranging "from $1 million to over $1.9 billion, although less than 25% of the transactions in the past 18 months were in excess of $100 million."[14] This trend appears to be strengthening. More recently, "almost all the cash takeovers are of micro-cap stocks. Over the last three-weeks there have been 14 announced public company takeovers using cash. Thirteen of the 14 were under $160 million. In other words, there are plenty of "orphan" stocks out there selling at less than going concern values. Unfortunately for most professional money managers, the market caps are too small for them to take advantage of this play."[15] Unfortunately for most individual investors, the loss of research and brokerage coverage, and the increasing number of quality firms going private, means they too will have increasing difficulty even considering this investment opportunity. Unfortunately too for the general health of the markets, going private does appear to be a rational choice for many small cap companies.

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	August 2003			August 2001			
	Total Companies	Analyst Coverage	Percent Covered	Total Companies	Analyst Coverage	Percent Covered	Change in Analyst Coverage
Over $1B	1,720	1,628	95%	1,664	1,607	97%	21
$500MM – $1B	706	640	91%	711	658	93%	(18)
$250 – 500MM	741	626	84%	797	699	88%	(73)
$100 – 250MM	984	659	67%	958	686	72%	(27)
$75 – 100MM	327	168	51%	373	228	61%	(60)
$50 – 75MM	428	152	36%	507	258	51%	(106)
$25 – 50MM	678	142	21%	940	343	36%	(201)
Below $25MM	3,315	88	3%	3,562	284	8%	(196)
Total	**8,899**	**4,103**	**46%**	**9,512**	**4,763**	**50%**	**(660)**

[14] Ibid, p.9.

[15] Charles Biderman, Trimtabs Research, August 15, 2003.

U.S. Index Comparison - Price Indices

(based on monthly returns)

	Large Cap					Mid Cap		Small Cap			Small/Mid Cap			Total Market		
	S&P 500	Russell 1000	Dow Jones Ind Avg	Russell Top 200	S&P 900	S&P MidCap 400	Russell Midcap Index	S&P SmallCap 600	Russell 2000	Wilshire Sml Cap 1750	S&P 1000	Russell Small Cap Completeness	Russell 2500	S&P SuperComposite 1500	Russell 3000	Wilshire Total Mkt (5000)
Index Value	974.50	518.94	8985.44	436.32	2154.81	480.22	1416.63	220.98	448.37	218.44	2697.22	972.02	394.52	215.33	546.74	9342.95
Returns																
1 Month	1.13%	1.17%	1.53%	1.27%	1.14%	1.20%	0.88%	2.52%	1.67%	2.05%	1.60%	1.80%	1.78%	1.19%	1.21%	1.35%
3 Months	14.89%	15.23%	12.43%	14.39%	15.08%	17.28%	17.81%	19.59%	23.00%	23.83%	17.99%	20.58%	21.46%	15.24%	15.74%	16.03%
YTD	10.76%	11.32%	7.72%	10.28%	10.84%	11.73%	14.56%	12.39%	17.04%	17.97%	11.94%	16.36%	16.05%	10.90%	11.70%	11.98%
1 Year	-1.55%	-0.91%	-2.79%	-1.49%	-1.58%	-1.90%	0.97%	-4.48%	-3.09%	0.97%	-2.70%	1.61%	-0.16%	-1.68%	-1.07%	-0.44%
3 Years (% pa)	-12.50%	-12.31%	-4.90%	-14.93%	-11.66%	-0.11%	-3.49%	1.60%	-4.65%	-4.39%	0.39%	-11.35%	-2.81%	-11.29%	-11.78%	-11.80%
5 Years (% pa)	-2.98%	-2.62%	0.07%	-3.92%	-2.37%	5.93%	1.80%	2.90%	-0.40%	1.76%	5.14%	-	2.15%	-2.24%	-2.50%	-2.61%
7 Years (% pa)	5.48%	5.48%	6.84%	5.18%	5.80%	10.68%	7.20%	7.40%	3.75%	6.35%	9.80%	-	6.29%	5.80%	5.24%	5.06%
10 Years (% pa)	5.53%	6.09%	8.50%	-	-	-	-	-	-	-	-	-	-	-	-	-
1992	4.46%	5.89%	4.17%	-	-	-	-	-	-	-	-	-	-	-	-	-
1993	7.06%	7.33%	13.72%	-	-	-	-	-	-	-	-	-	-	-	-	-
1994	-1.54%	-2.42%	2.14%	-	-	-	-	-	-	-	-	-	-	-	-	-
1995	34.11%	34.44%	33.45%	-	-	28.56%	-	28.60%	26.21%	30.20%	28.62%	-	-	33.23%	33.58%	33.40%
1996	20.26%	19.72%	26.01%	21.26%	19.96%	17.33%	16.85%	20.13%	14.76%	16.82%	18.13%	-	17.20%	19.94%	19.19%	18.84%
1997	31.01%	30.49%	22.64%	32.17%	30.94%	30.43%	26.97%	24.53%	20.52%	23.78%	28.67%	-	22.58%	30.66%	29.47%	29.17%
1998	26.67%	25.12%	16.10%	32.06%	25.65%	17.68%	8.39%	-2.10%	-3.45%	0.16%	11.96%	-	-1.04%	24.56%	22.32%	21.72%
1999	19.53%	19.46%	25.22%	20.34%	19.04%	13.35%	16.46%	11.52%	19.62%	26.06%	12.87%	-	22.35%	18.77%	19.43%	22.05%
2000	-10.14%	-8.84%	-6.18%	-13.08%	-8.50%	16.21%	6.75%	11.02%	-4.20%	-0.02%	14.72%	-9.88%	2.84%	-8.01%	-8.52%	-11.85%
2001	-13.04%	-13.59%	-7.10%	-15.66%	-12.26%	-1.63%	-7.00%	5.73%	1.03%	-0.26%	0.48%	-11.79%	-0.26%	-11.79%	-12.62%	-12.06%
2002	-23.37%	-22.94%	-16.76%	-24.64%	-22.78%	-15.45%	-17.47%	-15.32%	-21.58%	-20.84%	-15.39%	-21.30%	-18.99%	-22.53%	-22.81%	-22.08%
Risk (% pa)																
3 Years Std Dev	18.66%	19.00%	18.66%	19.19%	18.62%	20.39%	19.96%	21.75%	23.01%	23.37%	20.50%	24.71%	21.29%	18.60%	19.06%	19.21%
5 Years Std Dev	18.94%	19.15%	19.00%	19.57%	18.96%	21.51%	19.84%	22.32%	24.46%	24.44%	21.25%	-	22.49%	18.89%	19.13%	19.47%
10 Years Std Dev	15.72%	15.78%	16.08%	-	-	-	-	-	-	-	-	-	-	-	-	-
Sharpe Ratio																
3 Years	-0.222	-0.214	-0.095	-0.256	-0.208	0.014	-0.064	0.014	-0.063	-0.057	-0.006	-0.138	-0.047	-0.202	-0.204	-0.203
5 Years	-0.076	-0.068	-0.028	-0.086	-0.066	0.022	0.001	0.022	-0.013	0.012	0.049	-	0.012	-0.064	-0.067	-0.066
10 Years	0.086	0.085	0.115	-	-	-	-	-	-	-	-	-	-	-	-	-
5 Yr Correlation with S&P Index		0.9965	0.9221	0.9957			0.9691		0.9689	0.9657			0.9580		0.9963	0.9871

GLOBAL REACTIONS TO BASEL II

On August 5, SIA's Risk Management Committee issued a comment letter to the Federal Reserve in response to the Basel Committee for Banking Supervision's third consultative paper (CP3) about the new Basel Capital Accord, also known as Basel II. The text of that letter follows. Here, we highlight some of the reactions to CP3 from around the world.

On July 31, the International Swaps and Derivatives Association (ISDA) and The Bond Market Association (TBMA) submitted a letter to the Basel Committee, in which they address, among other issues, the Accord's treatment of counter-party risk and supervisory review. The letter raises concerns with regard to the multipliers that would result from the number of exceptions generated by their Value-at-Risk (VaR) models when those models are back-tested. The letter points out that firms may be dissuaded from using VaR models to calculate levels of counter-party risk, due to the worry that the level of multipliers could lead to overstated capital requirements.

The ISDA/TBMA letter also advises the Basel Committee to avoid situations in which firms that are active in more than one jurisdiction undergo reviews by multiple supervisors. They suggest that lead supervisors be designated for global consolidated groups. They also request that supervisors disclose the average capital required under the review process in various jurisdictions, as well as disclosing the number of firms that have "achieved each of the proposed regulatory approaches to capitalizing credit, market and operational risk."

The Institute of International Finance (IIF), the Washington, D.C. trade association of financial institutions, also issued a response to CP3 recommending that supervisors across different jurisdictions coordinate with one another. The IIF suggests that a "College of Supervisors" be established to facilitate this coordination. The Basel Committee should also establish, according to the IIF, an official forum within the Accord Implementation Group in which conflicts among supervisors could be resolved.

The IIF also points to major unresolved issues in Basel II, as well as to regulations in the Accord that need streamlining, despite the Basel Committee's wish to come to a final agreement on the Accord by the end of the year. For example, the IIF points out that there is a possibility that firms could be disincentivized from improving their risk management frameworks within individual business lines, because incentives encouraging enhanced risk management in the Accord apply to cases in which business lines are aggregated.

On August 1, the British Bankers' Association and the London Investment Banking Association also issued a response to CP3. One of the main overarching issues addressed in this letter parallels the concerns of the above organizations, which is "the very real possibility of duplicated regulatory calculations." The letter points to "[r]ecent discussions with certain regulators [that] suggest a diversity of opinion on both the adoption and implementation protocols for Basel 2."

The letter highlights the responsibility of the Basel Committee to instruct supervisors on the key principle of consistency in interpretation in order to avoid "distortions in the competitive landscape." They suggest that the home supervisor, designated according to the firm's "main" place of business, should lead the global supervision of consolidated groups.

In May, the Association of German Banks recommended, based on test calculations released by the Basel Committee, that procyclical effects of the Accord be further analyzed and dampened to the extent possible to avoid any additional pressure on banks to reduce their lending during an economic downturn. The Association points out that figures reported contain serious inaccuracies, "as some elements crucial for determining the size of capital requirements, e.g. the definition of the time of default on a loan, could not yet be taken into account adequately" during the testing. They recommend additional test calculations be undertaken even after completion of CP3, to be followed by yet another impact study before adoption of the Accord is considered at the end of the year.

At the beginning of August, a global coalition of industry organizations and participants, comprised of the American Securitization Forum, the Australian Securitisation Forum, The Bond Market Association, the European Securitisation Forum, the International Association of Credit Portfolio Managers, the International Swaps and Derivatives Association, and the Japanese Bankers Association, issued a response to CP3 in which they address proposals that specifically pertain to securitization transactions. The letter highlights six areas where "misalignment[s] of capital to risk for securitization" have been identified. Some of the key areas relevant to securities firms include: calibration of risk weights under the internal approach; calibration of the supervisory floor; appropriate treatment for interest only strips; capital requirements for revolving transactions; and treatment of synthetic securitizations.

In terms of actual countries' reactions to the Accord, China recently formally rejected the Accord, and declared its intention to introduce its own requirements on capital adequacy, retaining an 8% minimum capital adequacy ratio requirement. It also plans to include requirements for supervision and information disclosure, two elements that figure prominently in Basel II. It was reported that, "[l]ike India, China has decided that the new accord drawn up by the Bank for International Settlements in Basel does not take into account the particular circumstances of banks in developing countries." Stay tuned.

Judith L. Chase
Vice President and Director, Securities Research

August 5, 2003

Basel 2003 Capital Proposal
Board of Governors of the Federal Reserve System
Mail stop 155
20th Street and Constitution Avenue
Washington, DC 20551

Re: Basel Accord / Third Consultative Paper

Dear Board Members:

The Risk Management Committee of the Securities Industry Association[1] is pleased to offer you comments on the third consultative paper ("CP 3") on the new Basel Capital Accord ("Basel II"). As globally active financial institutions primarily engaged in the investment banking and securities businesses ("investment banks"), we offer these comments in the expectation that the interaction of the European Union's Financial Conglomerates and Capital Adequacy Directives will result in the application of Basel II to our firms within EU and US regulatory frameworks. We note that our mix of risk-sensitive businesses differs materially from the credit-intensive businesses of commercial banks typically subject to Basel II. Our analysis, which is continuing, indicates that for many of our core activities Basel II prescribes capital requirements that appear to be excessive relative to risk and loss experience. Nonetheless, we believe there are a few key modifications and clarifications that can address the concerns we identify and foster a risk-based capital regime appropriate for commercial banks and investment banks alike.

We recognize the scope and complexity of the Committee's efforts in the development of a new Capital Accord and commend the Committee for establishing within Basel II a comprehensive framework for the assessment of credit risks and credit risk management. We firmly believe that a flexible capital regime that relates regulatory requirements to observable risk will promote innovation and enhance financial stability. Hence, we focus primarily on assessing the proposal's effectiveness in relating capital to risk for the businesses and markets in which we operate.

[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, brokerdealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry employs nearly 700,000 individuals. Industry personnel manage the accounts of more than 92-million investors directly and indirectly through corporate, thrift, and pension plans. In 2002, the industry generated $222 billion in U.S. revenue and $356 billion in global revenues. (More information about SIA is available on its home page: http://www.sia.com.)

We believe that our larger, globally active firms are among the world leaders in market and credit risk measurement, and so can provide a valuable perspective on the effectiveness of Basel II capital charges in reflecting relative risk. We continue to work on developing more precise data on the impact of Basle II on our lines of business. As this work progresses, we intend to share our analysis and data with our local regulators and other appropriate parties in order to enable a more comprehensive impact assessment.

Based on our review of Basel II and our analysis to date, we are able to offer preliminary observations. Investment banks typically value risk assets, including loans, on a mark-to-market basis, and estimate risk to that market value using various tools, including robust VAR models. Risk models are continuously enhanced to incorporate new products and markets, and may be used by investment banks to measure the risk of activities that are considered under Basel II as part of a "banking book." (Investment banks place virtually all their financial instruments in the "trading book.") Our initial analysis suggests that an internal models-based approach to calculating risk capital (such as adopted in the 1996 market risk amendment) is more effective at estimating risk for many credit sensitive assets than the weightings-based approach for banking book assets under Basel II. To the extent that an institution can produce reliable mark-to-market values and robust VAR-based risk estimates, we recommend that the Committee permit a trading-book approach in lieu of a banking book approach. Such an election could be permitted at the discretion of the primary regulator, after review of the applicable models.

Most investment banks' mix of credit risk-sensitive business is dominated by product lines (e.g. secured financing transactions and OTC derivatives) for which CP 3 imposes capital charges that are higher than are warranted by the underlying risks. Comprehensive analysis supporting our assertion is included in the July 31, 2003 comment letter (with appendices) submitted by the International Swaps and Derivatives Association ("ISDA") and The Bond Market Association ("BMA"), which we endorse. Many of our firms' most experienced risk management professionals contributed to the ISDA and BMA analysis. We highlight the following items that are of particular concern to SIA firms:

Securities Financing Transactions (SFTs)

- Capital required for securities lending and prime brokerage activities should be calculated using a VaR-based exposure model as long as the transactions are subject to daily mark to market and daily remargining, and relevant netting and collateral provisions meet high standards of legal enforceability.

- Risk reduction for exposures with original or remaining maturity below one year is not adequately reflected in the proposed computation. Investment banks typically have many short-dated instruments, including overnight repos. De minimis historical losses in activities such as securities lending and prime brokerage indicate that credit risk declines to essentially zero as the original maturity drops to a few days.

- In addition to the low expected loss of such short exposures, capital required should be extremely low because losses that occur over a horizon of one or two days have a correlation of nearly zero with losses that occur over a one-year horizon. This occurs due to the diversification of systematic market changes over time. This is not reflected in the current maturity adjustment.

- The proposal can be interpreted as disallowing non-investment grade and unrated bonds as collateral for firms using "own estimate" haircuts. Own estimate haircuts may be used only if stringent qualitative requirements are met. In particular, firms must take into account the liquidity of lower-quality assets, substantiated with stress tests. This is already the practice of sophisticated firms. Therefore, non-investment grade and unrated bonds should be allowed as collateral for firms using "own estimate" haircuts.

Potential Exposures associated with OTC derivatives

- Enhancements to the exposure computations for OTC derivatives should be implemented at the same time as the other provisions of the Accord, particularly with respect to the add-ons. In addition, the guidelines should recognize the benefit of collateral support agreements, which greatly reduce potential future exposure.

Substitution

- Where loans have been hedged with credit derivatives, recognition should be given to risk reduction using a "double default" approach reflecting the joint probability of default rather than a substitution approach.

Operational Risk

- Many firms question whether statistical techniques can be used to reliably quantify operational risk by 2006, and have significant work ahead to collect and validate data on industry-wide historical operational losses. Because proposed revenue-based approaches yield operational risk estimates that are grossly exaggerated relative to the industry's experienced losses, we suggest further study focused on investment banks before finalizing an approach that will provide a reasonable cushion against losses not encompassed in the market and credit risk capital calculations.

* * * * * * * * * *

We will continue to devote substantial resources to evaluating the impact on our firms and the financial markets in which we are active. We look forward to a continuing dialogue with our regulators and, if desired, with the Board and/or Committee as you refine risk-based capital standards appropriate for global financial firms.

We are pleased to have this opportunity to comment on the Accord and would be happy to discuss our views with Board members at greater length. For additional information, please feel free to contact me (212) 272-7597, or our staff adviser, Jerry Quinn (212) 618-0507, at your convenience.

Sincerely,

Michael Alix
Chairman
Risk Management Committee

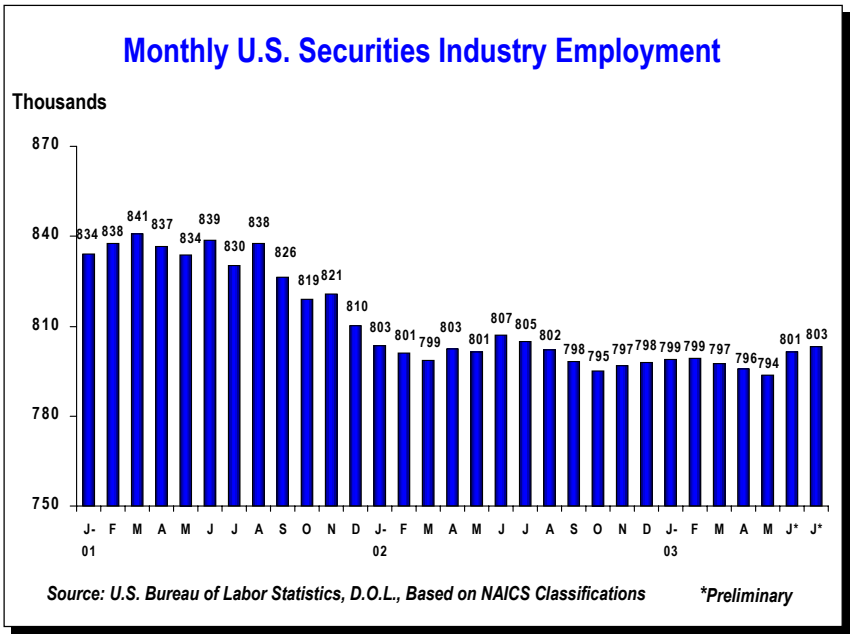
cc: Basel Committee on Banking Supervision

SECURITIES INDUSTRY EMPLOYMENT

Nationwide Job Market Turns the Corner

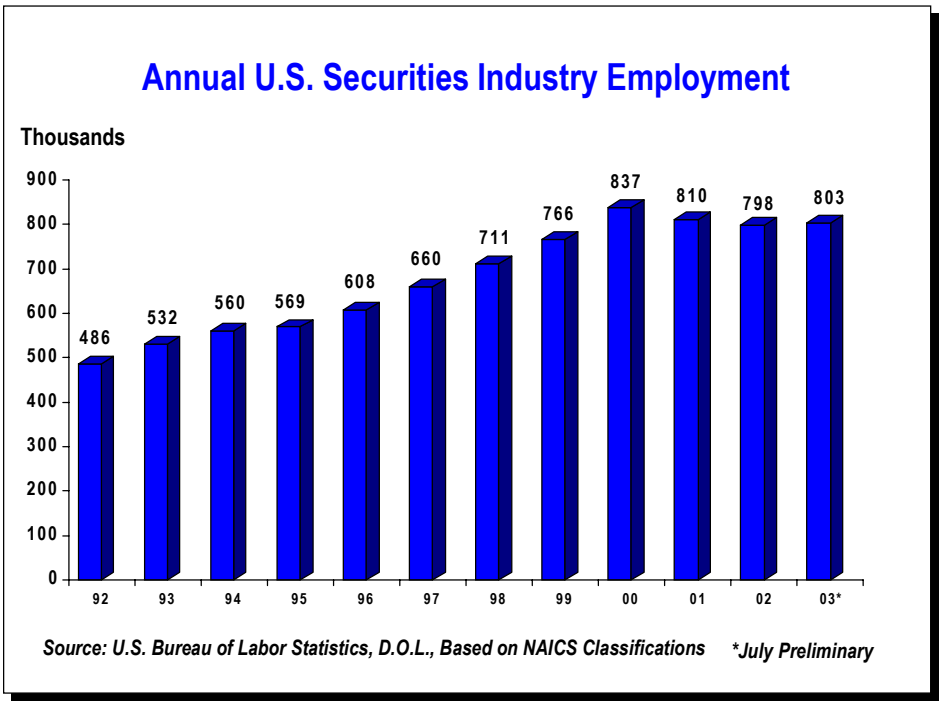
The U.S. Department of Labor's Bureau of Labor Statistics (BLS)[1] reports another increase this July for national jobs, an additional 1,800 jobs since June's enormous spike of 7,600. It is the second meaningful increase in U.S. securities industry employment in a year, albeit subject to revisions next month, as both data sets are still preliminary. In total, securities industry jobs increased by 9,400 this June and July to 803,100, a 1.2% increase over May's 793,700. This was also the highest employment level since last August, and June's increase was the single largest monthly gain in three years, since the 8,900 or 1.1% gain in July 2000. While the employment data is subject to revision, the industry just posted its two best profit quarters in over two years, and all evidence is that the industry has finally turned the corner for activity and profitability, and even that the "jobless recovery" itself may be turning the corner. The big beneficiaries were states outside New York, as New York gave back some of its June's gains in July.

Driving the employment gains was the first meaningful improvement in stock prices and activity in quite some time. After sinking to lows in mid-March, which nearly touched the five- year lows set last fall, benchmark indices such as the DJIA, S&P 500 and Nasdaq Composite staged a powerful five-month rally, rising to their highest levels in over a year, with all major stock indices still posting double-digit returns for the second quarter of 2003 and touching new highs during July and August. This bodes well for a reversal in the prior layoff trend, where occasional spikes in employment were followed by reversals to new lows, and we expect a trend in increased employment to be confirmed over the balance of the year.



[1] The U.S. Bureau of Labor Statistics (BLS) employment figures utilize the new North American Industry Classification System (NAICS) for the securities and commodities industry. This 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. These 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. Employment data can be obtained on the BLS web site at: http://data.bls.gov/labjava/outside.jsp?survey=ce

Securities and commodities industry employment reached an all-time high of 840,900 in March of 2001 and then declined by 47,200, or 5.6%, over the next two years to a recent low of 793,700 jobs in May 2003. Again, preliminary data shows a total 1.2% increase for June and July 2003.



Year-end annual data showed a steady increase of jobs in the industry through December 2000 to 836,900. This was followed by two years of declines to 810,200 and 798,000 at year-end 2001 and 2002, respectively. By July 2003, we are already above last year's close with five months remaining. It would take an additional 4.0% increase in employment in the next five months to return to year-end 2000 record levels, which is a possibility as long as the current favorable environment accelerates for the industry.

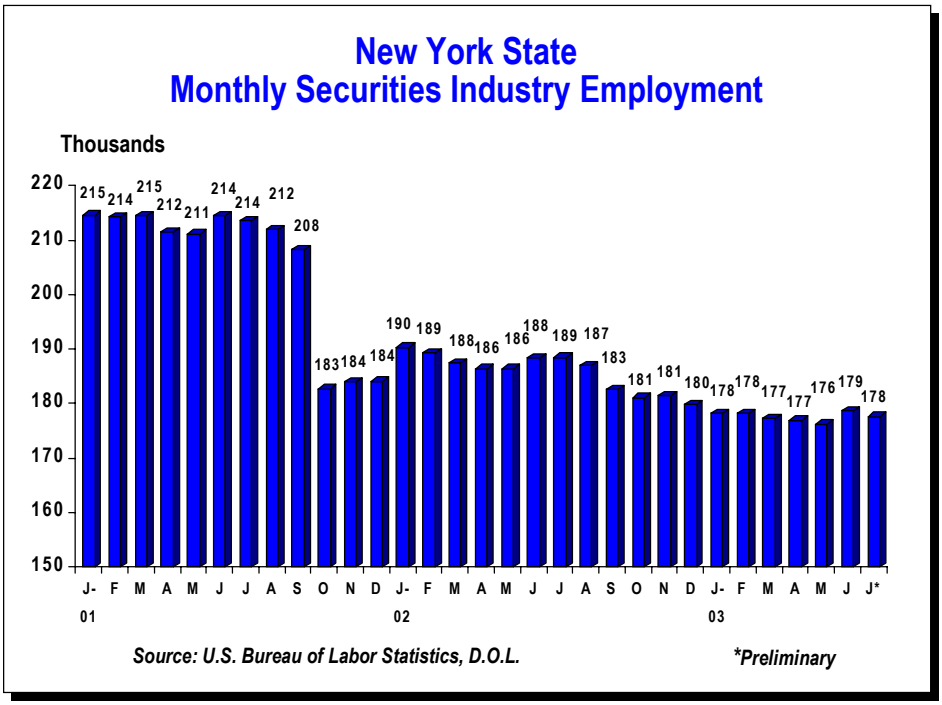
New York – Biggest Job Losses and Another Giveback

New York, as usual, experienced the vast bulk of the job declines during the recent securities industry recession. This was due to the same forces that inflicted severe securities industry job losses in New York during prior industry recessions. These include: the heavy concentration of total industry employment in the state and city; New York's concentration of highly specialized, and highly compensated areas such as investment banking, securities, derivatives trading, and arbitrage; and New York's tendency to lead the U.S. in a recession's onset and lag in its reversal.

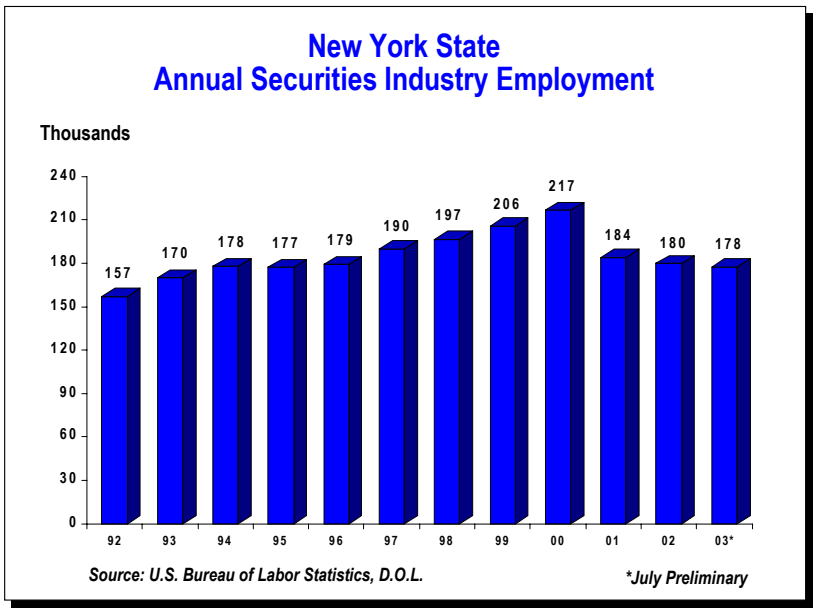
New York State's securities and commodities industry employment reached its peak of 216,700 in December 2000 when layoffs began, a full quarter prior to the national employment peak. Over the next 29 months, the State lost a record 40,500 securities industry jobs, or 18.7%, falling to 176,200 by the end of this May. That equaled 86% of the nationwide job losses of 47,200 experienced over the past two years, leaving the other 49 states with only a 1.1% decline in securities industry employment in two-plus years vs. New York's 18.7% total decline.

Of course, the biggest drop-off ever came in the month following the World Trade Center terrorist attacks – a record 25,500 industry job losses in New York, or 12.2%. This drop-off was a result of casualties, job relocations out of state (some temporary, some permanent), temporarily dislocated workers with no physical offices to report to (closed or destroyed), and actual long-term downsizing.

Nevertheless, New York also had a 1.4% gain in securities employment this June, a 2,400 spike in headcount, the best increase since January 2002. However, in July New York reported a loss of 1,000 of those gains, from 178,600 in June down to 177,600 in July. Still, we are above May's lows of 176,200, or still up 1,400 jobs (0.8%) in total for June and July (preliminary). While New York had a share of almost a third of nationwide gains (31.6%) in June, this July's national gains show a 2,800 increase in securities jobs exclusively in the other 49 states.

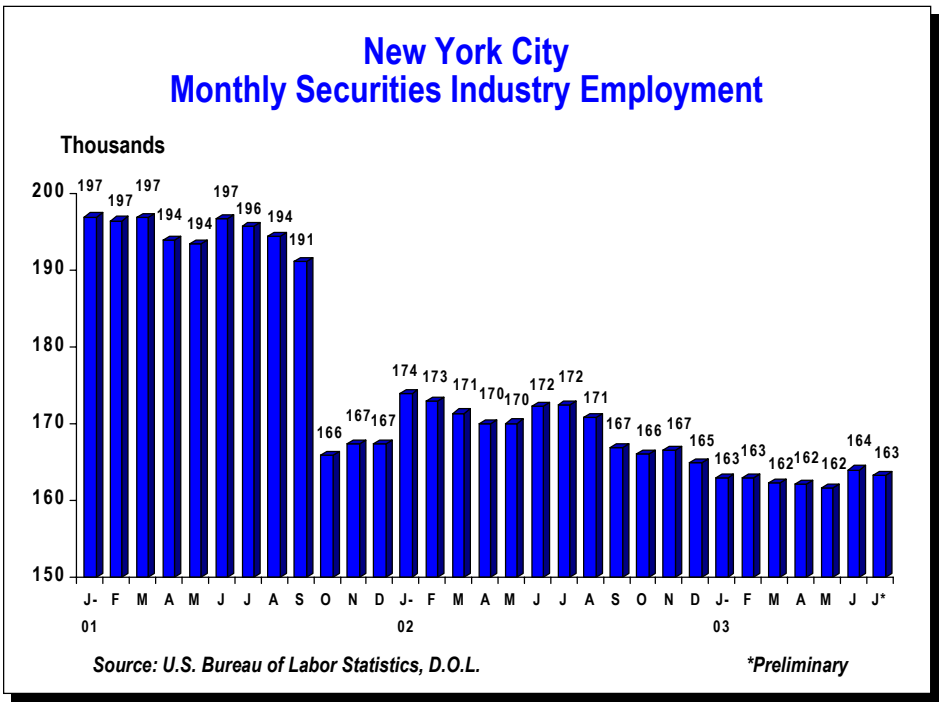


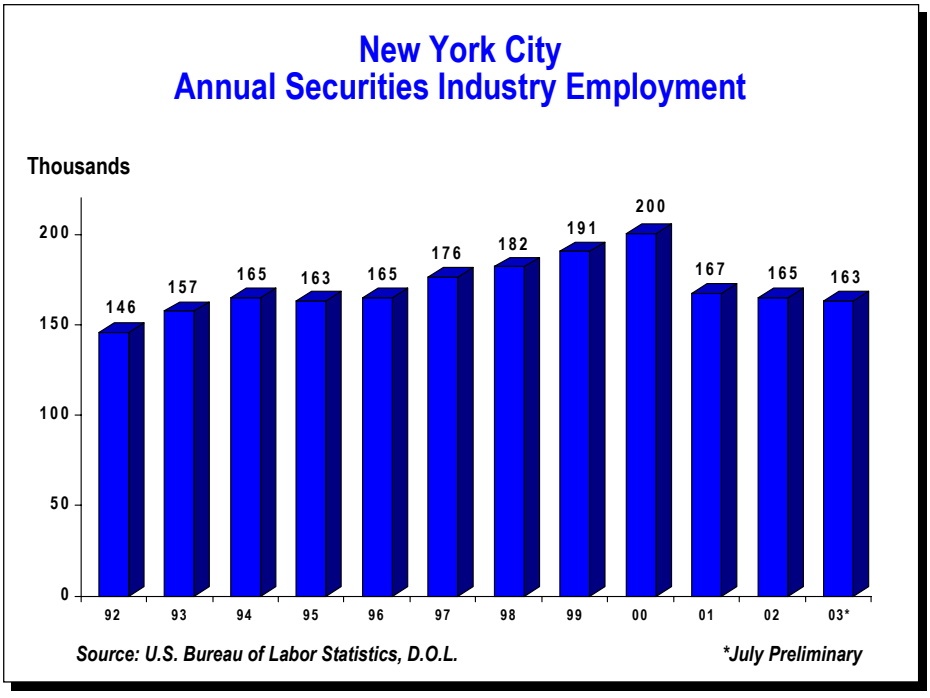
Despite June's uptick, securities employment in New York State is still below July 1994 levels, nine years ago.



New York City Accounted for Over Four-Fifths of Nationwide Securities Job Losses

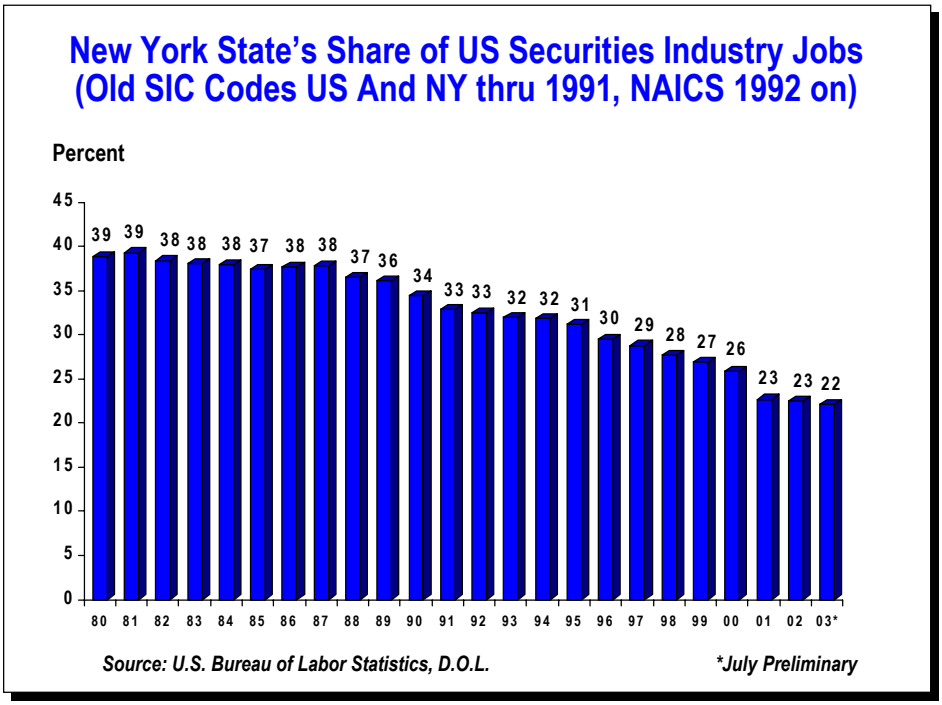
Securities and commodities industry employment in New York City, virtually all in Manhattan and accounting for 92% of statewide securities employment, also reached its all-time peak in December 2000 at 200,300. Over the next 29 months, the city's securities industry lost a record 38,700 jobs, or 19.3%, as employment sank to a recent low of 161,600 in May 2003. Amazingly, the single Borough of Manhattan accounted for 82% of the total nationwide reductions in securities personnel over the past two years. Again, even with June's uptick and a slight giveback in July, the city's securities workforce is at the same level as was nine years ago.

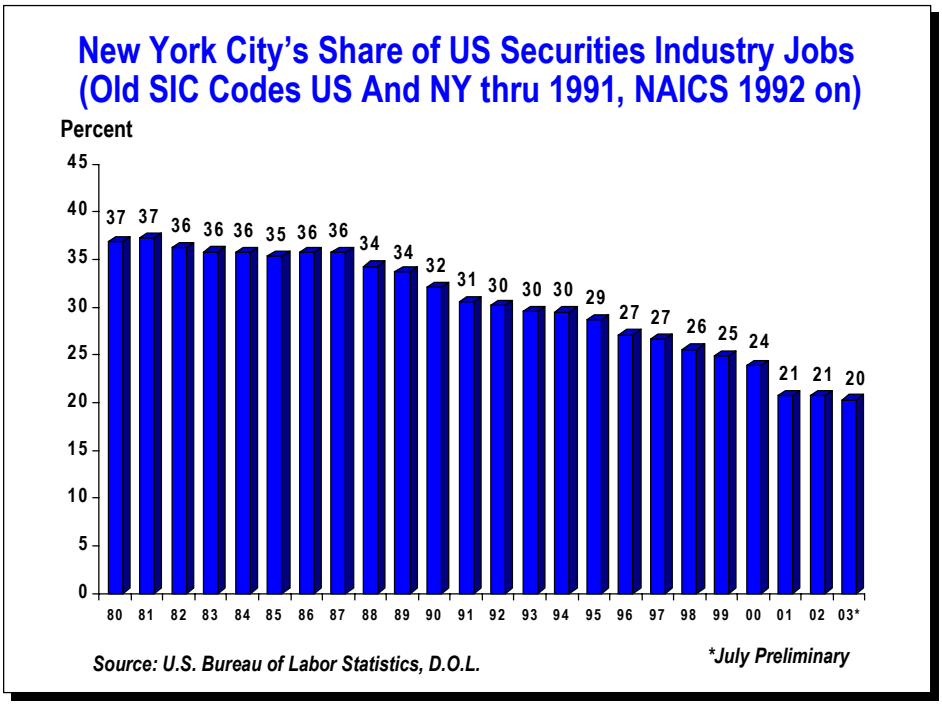


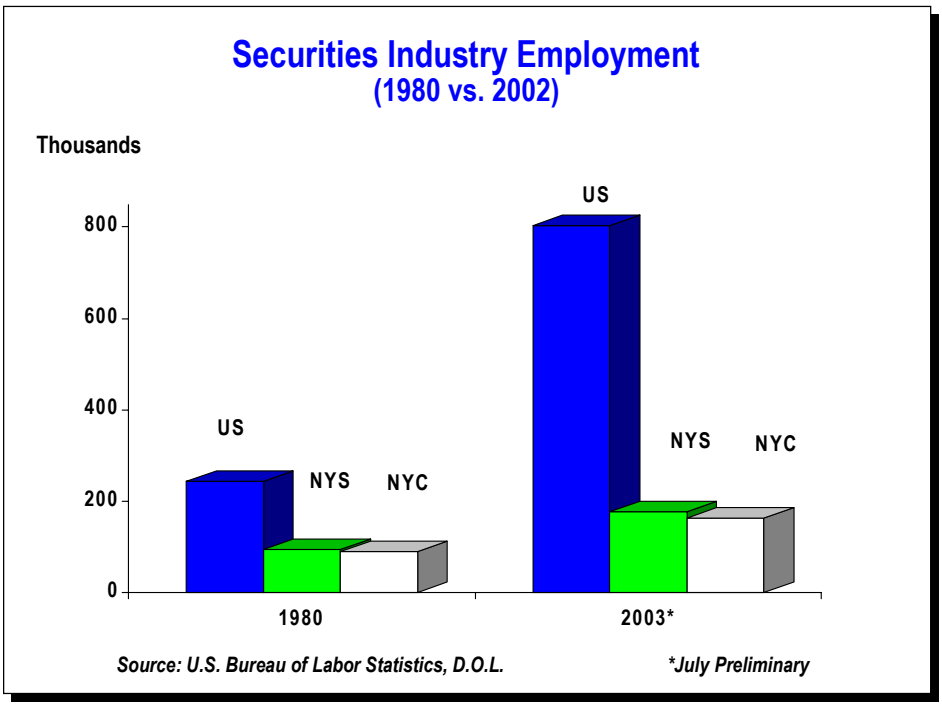


New York's Shrinking Share of U.S. Securities Industry Jobs

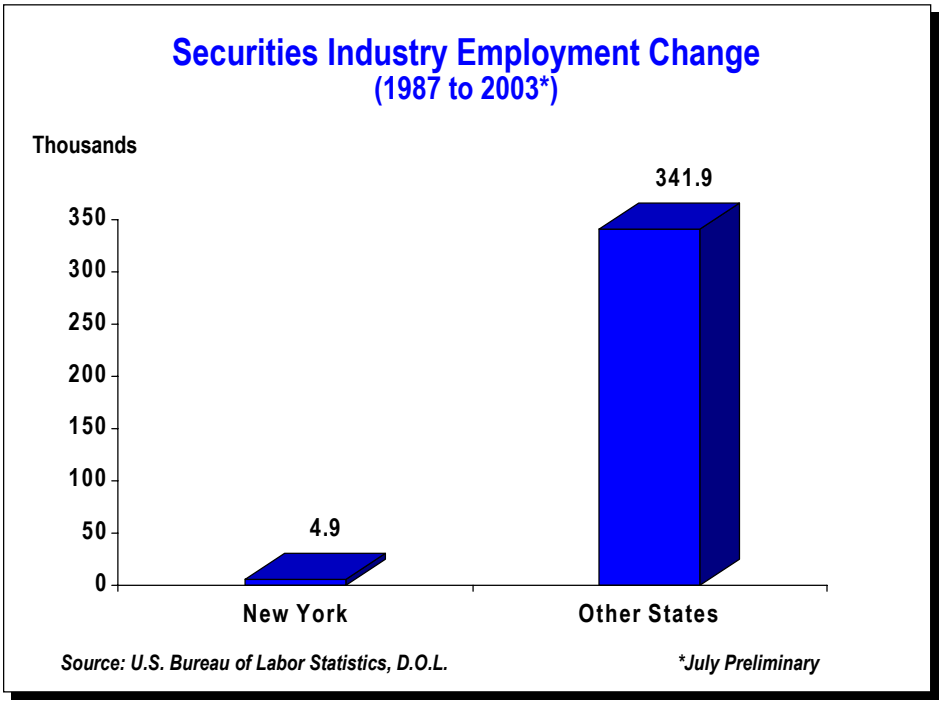
The brutal job losses experienced in New York the past two years merely accelerated a long-term trend in industry employment. New York State and City securities and commodities industry employment has been shrinking relative to its national employment for decades. New York State and City's share of U.S. securities jobs was cut nearly in half from 1980 to 2003, falling from 39% and 37%, respectively, to 22% and 20%.





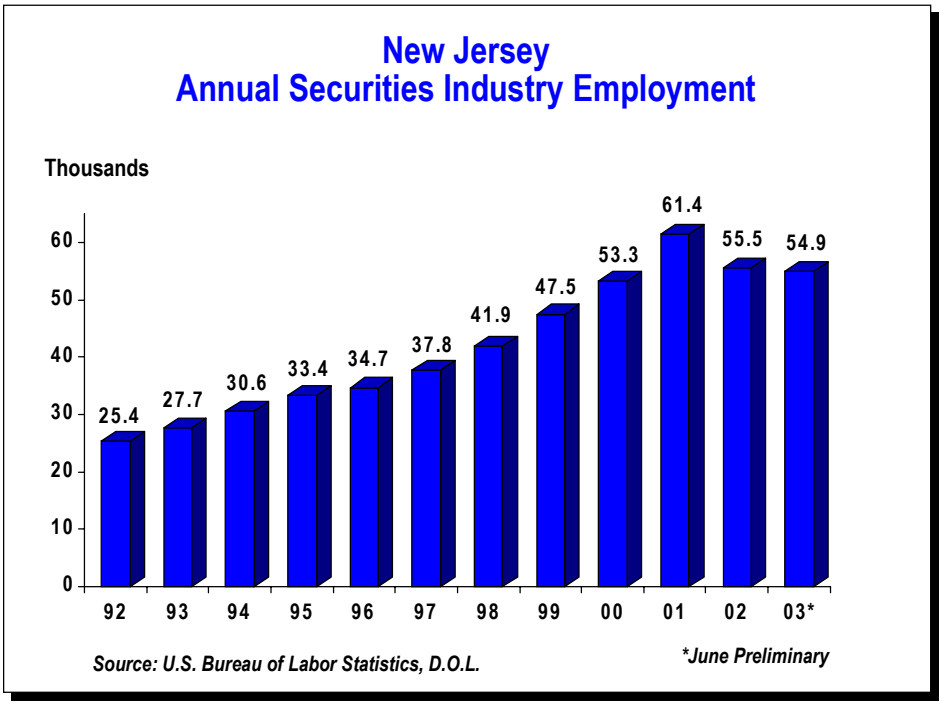


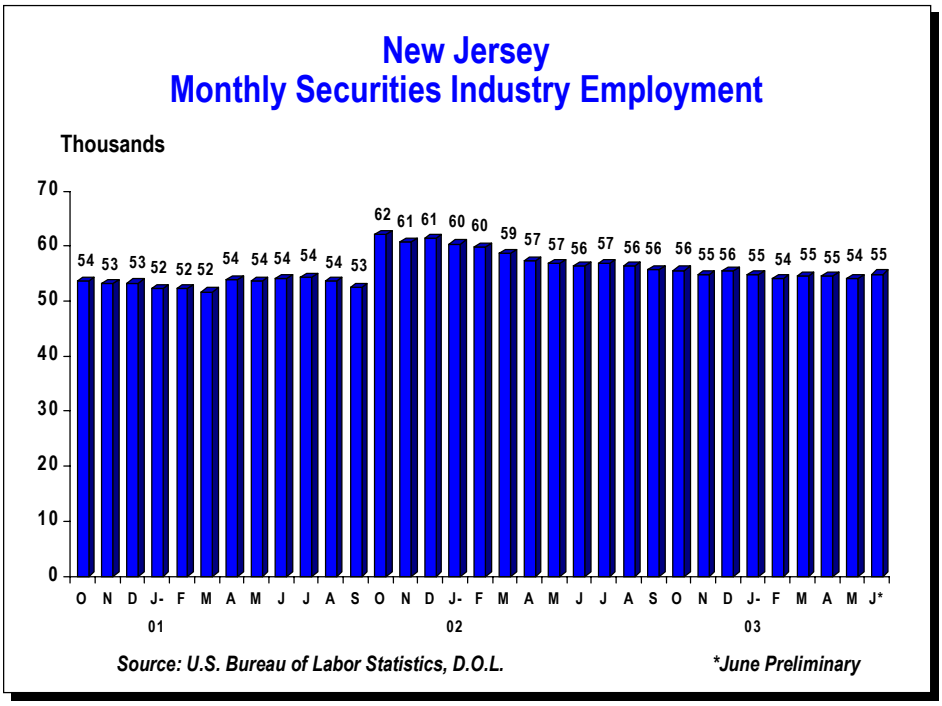
Although New York State still commands 22% of the securities and commodities industry's workforce, the number of net new securities industry jobs created in New York since the 1987 stock market crash is only 1.4% of the number created in the other 49 states through this July.



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

New Jersey's security and commodity industry employment grew 215% from 1990 to 2001 (December to December), yet fell by 5,900 jobs last year, a decrease of 9.6%. However, this was mainly due to a year-end spike in 2001 following the WTC tragedy with temporary relocations across the river in 2001, which was reversed in 2002.





New Jersey's monthly security and commodity employment numbers picked up sharply in October 2001 by 9,700 jobs, while New York City's and State's securities employment fell sharply following the September 11th attack and WTC relocations. Some of these jobs migrated back to New York in the following months while the New York securities recession spanned the entire Metro-area, bringing New Jersey down to its lowest employment level since the WTC attack – 54,100 jobs by May 2003. Preliminary June figures for New Jersey also show a 1.5% uptick (July 2003 preliminary figures not yet available). New Jersey's employment base of securities industry jobs has stabilized, while New York's numbers continued to plummet. This is partly due to New Jersey's cost advantages over New York and partly due to business continuity plans that call for geographical diversity and redundancy following the WTC tragedy and the continuing terrorist threat.

George R. Monahan
Vice President and Director, Industry Studies

Bella Mardakhaev
Research Assistant

SECURITITIES INDUSTRY EMPLOYMENT
(in thousands; SIC Codes US and NY thru 1991, NAICS 92 on)

Year End	U.S.	Change From Prior Year (U.S.)	N.Y. State	Change From Prior Year (N.Y. State)	N.Y. State as % of U.S.	N.Y. City	Change From Prior Year (N.Y. City)	N.Y. City as % of N.Y. State	N.Y. City as % of U.S.
1973	182.1	-9.6%	77.4	-15.1%	42.5%	74.5	-15.0%	96.3%	40.9%
1974	167.1	-8.2%	69.0	-10.9%	41.3%	66.1	-11.3%	95.8%	39.6%
1975	171.3	2.5%	69.4	0.6%	40.5%	67.0	1.4%	96.5%	39.1%
1976	177.4	3.6%	72.8	4.9%	41.0%	70.1	4.6%	96.3%	39.5%
1977	183.4	3.4%	73.3	0.7%	40.0%	70.2	0.1%	95.8%	38.3%
1978	194.3	5.9%	77.0	5.0%	39.6%	73.7	5.0%	95.7%	37.9%
1979	214.2	10.2%	82.1	6.6%	38.3%	78.4	6.4%	95.5%	36.6%
1980	243.7	13.8%	94.8	15.5%	38.9%	90.0	14.8%	94.9%	36.9%
1981	267.0	9.6%	105.0	10.8%	39.3%	99.6	10.7%	94.9%	37.3%
1982	283.8	6.3%	108.9	3.7%	38.4%	102.7	3.1%	94.3%	36.2%
1983	328.3	15.7%	125.0	14.8%	38.1%	117.5	14.4%	94.0%	35.8%
1984	341.1	3.9%	129.2	3.4%	37.9%	121.7	3.6%	94.2%	35.7%
1985	367.5	7.7%	137.6	6.5%	37.4%	130.0	6.8%	94.5%	35.4%
1986	417.1	13.5%	157.1	14.2%	37.7%	148.8	14.5%	94.7%	35.7%
1987	456.3	9.4%	172.7	9.9%	37.8%	163.0	9.5%	94.4%	35.7%
1988	438.7	-3.9%	160.3	-7.2%	36.5%	150.4	-7.7%	93.8%	34.3%
1989	426.9	-2.7%	154.1	-3.9%	36.1%	144.0	-4.3%	93.4%	33.7%
1990	417.4	-2.2%	143.5	-6.9%	34.4%	133.9	-7.0%	93.3%	32.1%
1991	424.1	1.6%	139.5	-2.8%	32.9%	129.6	-3.2%	92.9%	30.6%
1992	485.9	14.6%	158.0	13.3%	32.5%	146.5	13.0%	92.7%	30.2%
1993	531.5	9.4%	170.0	7.6%	32.0%	157.4	7.4%	92.6%	29.6%
1994	560.2	5.4%	178.0	4.7%	31.8%	165.0	4.8%	92.7%	29.5%
1995	568.8	1.5%	177.4	-0.3%	31.2%	163.0	-1.2%	91.9%	28.7%
1996	608.3	6.9%	179.3	1.1%	29.5%	164.9	1.2%	92.0%	27.1%
1997	659.9	8.5%	190.2	6.1%	28.8%	176.3	6.9%	92.7%	26.7%
1998	711.0	7.7%	196.7	3.4%	27.7%	182.1	3.3%	92.6%	25.6%
1999	766.4	7.8%	205.8	4.6%	26.9%	190.5	4.6%	92.6%	24.9%
2000	836.9	9.2%	216.7	5.3%	25.9%	200.3	5.1%	92.4%	23.9%
2001	810.2	-3.2%	184.1	-15.0%	22.7%	167.4	-16.4%	90.9%	20.7%
2002	798.0	-1.5%	179.8	-2.3%	22.5%	164.9	-1.5%	91.7%	20.7%
Jan:02	803.4	-3.7%	190.3	-6.4%	23.7%	173.9	-6.7%	91.4%	21.6%
Feb:02	801.1	-4.3%	189.2	-7.1%	23.6%	172.9	-7.2%	91.4%	21.6%
Mar:02	798.7	-5.0%	187.5	-7.9%	23.5%	171.4	-8.2%	91.4%	21.5%
Apr:02	802.6	-4.1%	186.4	-8.0%	23.2%	170.0	-8.6%	91.2%	21.2%
May:02	801.4	-3.9%	186.4	-7.9%	23.3%	170.1	-8.4%	91.3%	21.2%
June:02	807.1	-3.8%	188.4	-8.6%	23.3%	172.3	-9.2%	91.5%	21.3%
July:02	804.8	-3.0%	188.5	-8.0%	23.4%	172.4	-9.0%	91.5%	21.4%
Aug:02	802.2	-4.2%	186.9	-9.2%	23.3%	170.8	-10.4%	91.4%	21.3%
Sep:02	798.1	-3.4%	182.6	-10.0%	22.9%	166.9	-12.1%	91.4%	20.9%
Oct:02	795.1	-2.9%	181.1	-4.2%	22.8%	166.0	-4.8%	91.7%	20.9%
Nov:02	796.8	-2.9%	181.4	-5.9%	22.8%	166.5	-6.5%	91.8%	20.9%
Dec:02	798.0	-1.5%	179.8	-5.6%	22.5%	164.9	-6.0%	91.7%	20.7%
Jan:03	798.9	-0.6%	178.2	-6.4%	22.3%	162.9	-6.3%	91.4%	20.4%
Feb:03	799.2	-0.2%	178.2	-5.8%	22.3%	162.9	-5.8%	91.4%	20.4%
Mar:03	797.4	-0.2%	177.3	-5.4%	22.2%	162.3	-5.3%	91.5%	20.4%
Apr:03	795.9	-0.8%	176.9	-5.1%	22.2%	162.1	-4.6%	91.6%	20.4%
May:03	793.7	-1.0%	176.2	-5.5%	22.2%	161.6	-5.0%	91.7%	20.4%
June:03*	801.3	-0.7%	178.6	-5.2%	22.3%	164.0	-4.8%	91.8%	20.5%
July:03*	803.1	-0.2%	177.6	-5.8%	22.1%	163.3	-5.3%	91.9%	20.3%

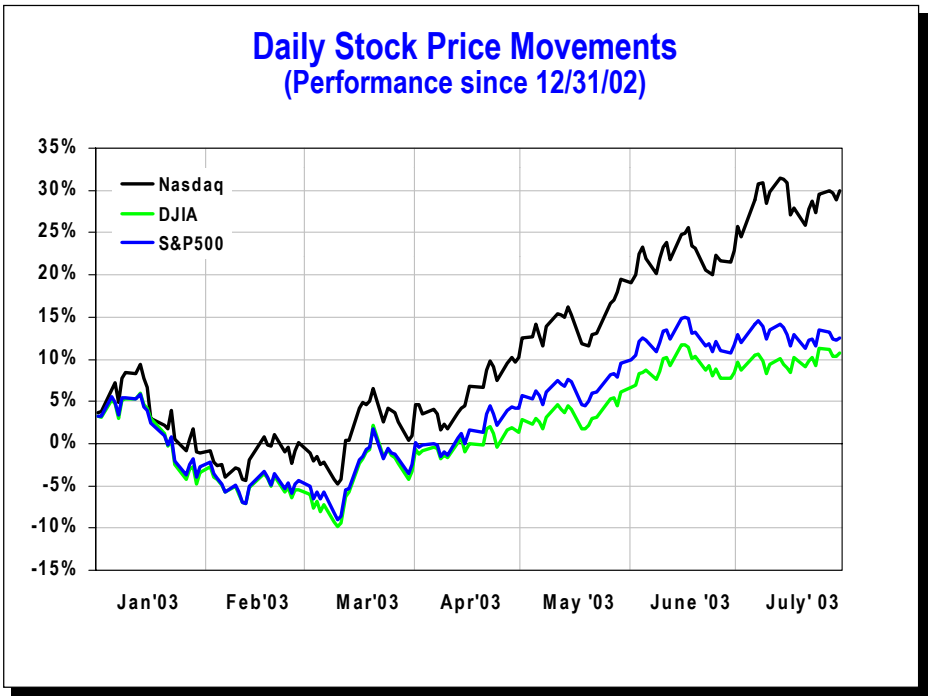
*Preliminary
Sources: U.S. Department of Labor, Bureau of Labor Statistics; New York State Department of Labor

NOTE: The U.S. Bureau of Labor Statistics (BLS) employment figures shown here are from the old SIC system through 1991 and the new NAICS series thereafter. The data 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, industry announced layoffs often are company intentions for global layoffs while BLS data reflect only U.S. employment. 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

U.S. Equity Market Activity

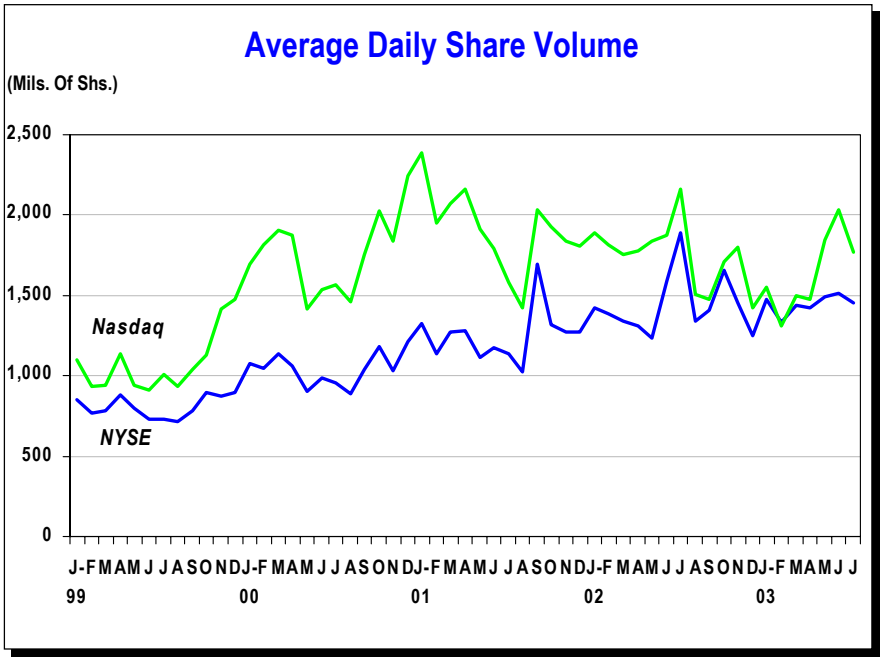
Stock Prices – Tech stocks continued to outperform in July, as upbeat earnings reports from several leading tech companies helped boost stock prices. The Nasdaq Composite climbed to a 15-month high on July 14th before drifting lower as profit-taking set in. For the month overall, the Nasdaq increased 6.9% and posted its sixth consecutive monthly gain for the first time since 1995. Meanwhile, other major stock gauges were stuck in a narrow trading range for most of the month and were unable to break through their June highs. Overall, the DJIA and S&P 500 rose 2.8% and 1.6%, respectively, in July, marking their fifth straight month of gains and longest winning streak since September 1998 through January 1999.

Year-to-date through the end of July, the Nasdaq Composite has surged 29.9%, while the S&P 500 climbed 12.6%, and the DJIA advanced 10.7%.



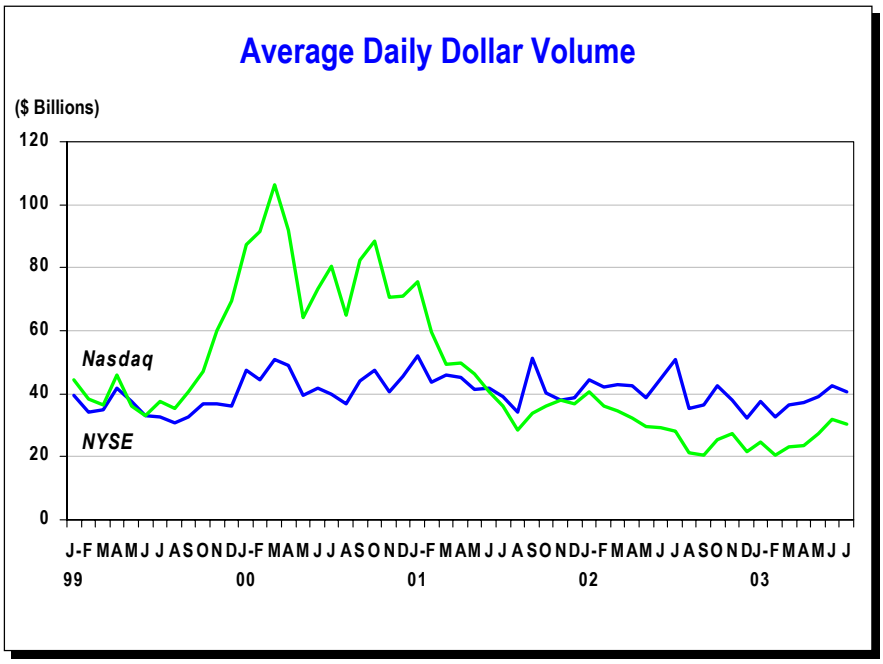
Share Volume – Trading volume on the major U.S. equity markets retreated in July to its lowest level in three months. NYSE volume slipped 4.3% to 1.45 billion shares daily from the 2003 monthly high of 1.52 billion shares per day in June. That brought the year-to-date average to nearly 1.45 billion shares daily, up minimally from the annual record pace of 1.44 billion shares daily set last year.

On Nasdaq, average daily volume fell 12.8% from June's high of 2.0 billion shares to 1.77 billion shares in July. Through the first seven months of 2003, Nasdaq volume averaged 1.65 billion shares daily, down 6.1% from 2002's 1.75 billion daily average.

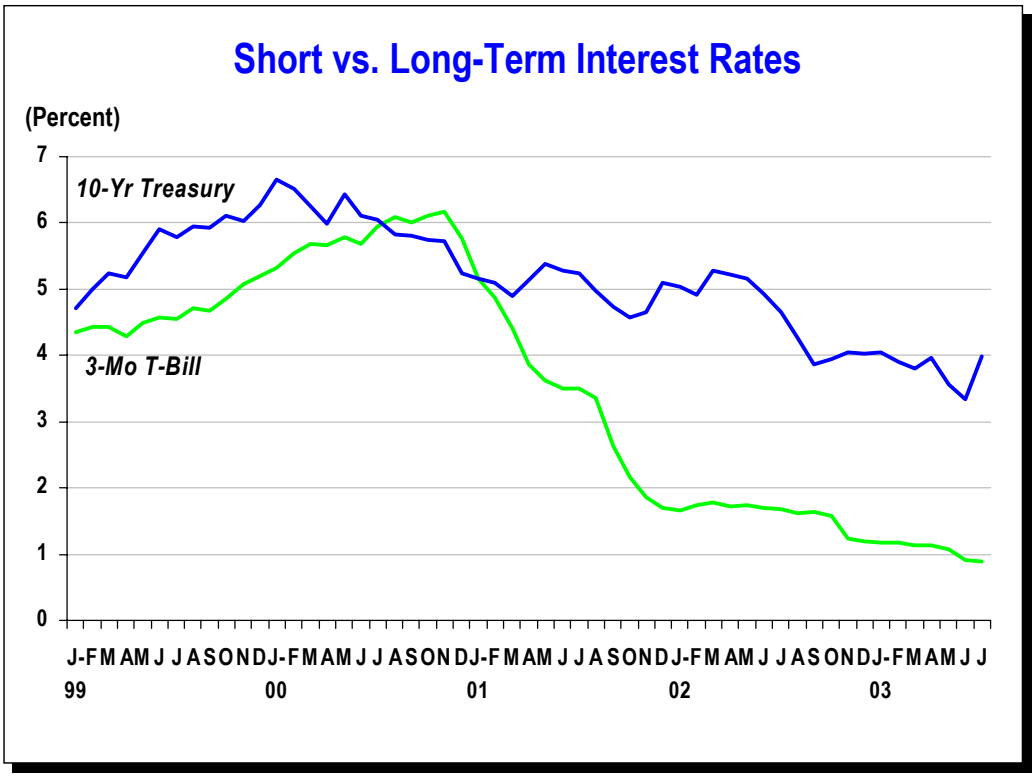


Dollar Volume – The value of trading in NYSE and Nasdaq stocks fell in July, reflecting the slowdown in trading activity. After trending higher for four consecutive months, NYSE dollar volume dropped 4.6% in July from June's level to $40.7 billion daily. NYSE dollar volume year-to-date, at $38.1 billion daily, stands 6.8% below 2002's $40.9 billion daily average.

Similar to the decline on the NYSE, average daily dollar volume on Nasdaq fell 4.6% in July to $30.5 billion from $32.0 billion in June. Year-to-date Nasdaq dollar volume of $26.0 billion daily trails 2002's $40.9 billion daily average by 9.7%.

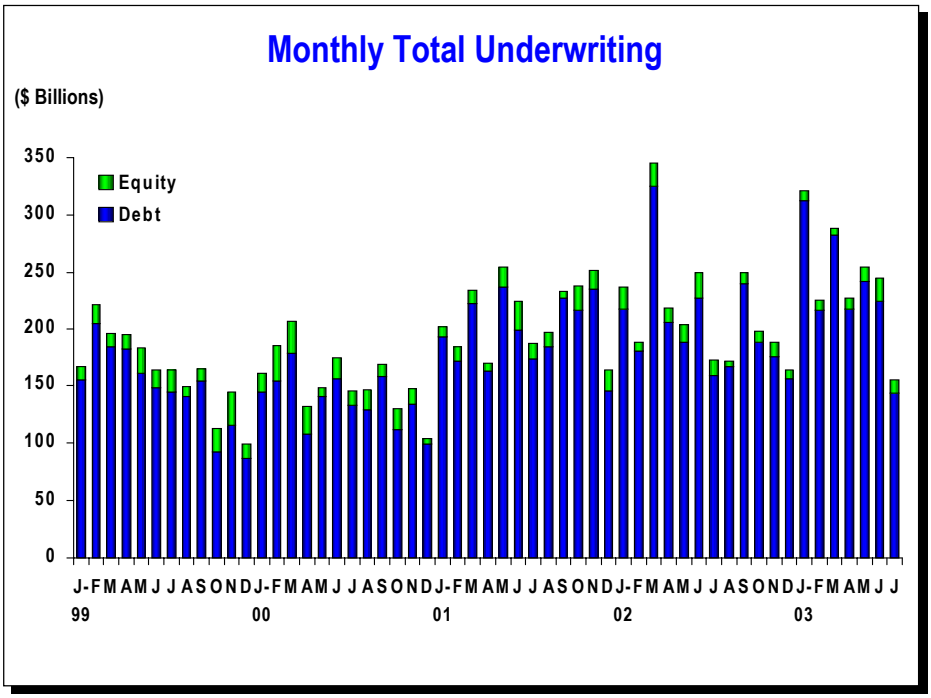


Interest Rates – A selling frenzy routed the U.S. bond market in July, driving 10-year Treasury yields to one-year highs by month end. The 10-year Treasury yield, which fell sharply in May and June to a 45-year low of 3.13% on June 13th, spiked to 4.49% by July 31st. Market participants noted that hedging strategies of mortgage investors exacerbated the steep decline in prices and subsequent increase in yields. For the month of July overall, yields on the benchmark 10-year Treasury rose 65 basis points, the most in one month since September 1987. On the short-end, 3-month T-bill yields hardly budged in July, averaging 0.90% compared with 0.92% in June. As a result, the spread between three-month and 10-year Treasuries widened to 308 basis points, its broadest gap since last June.

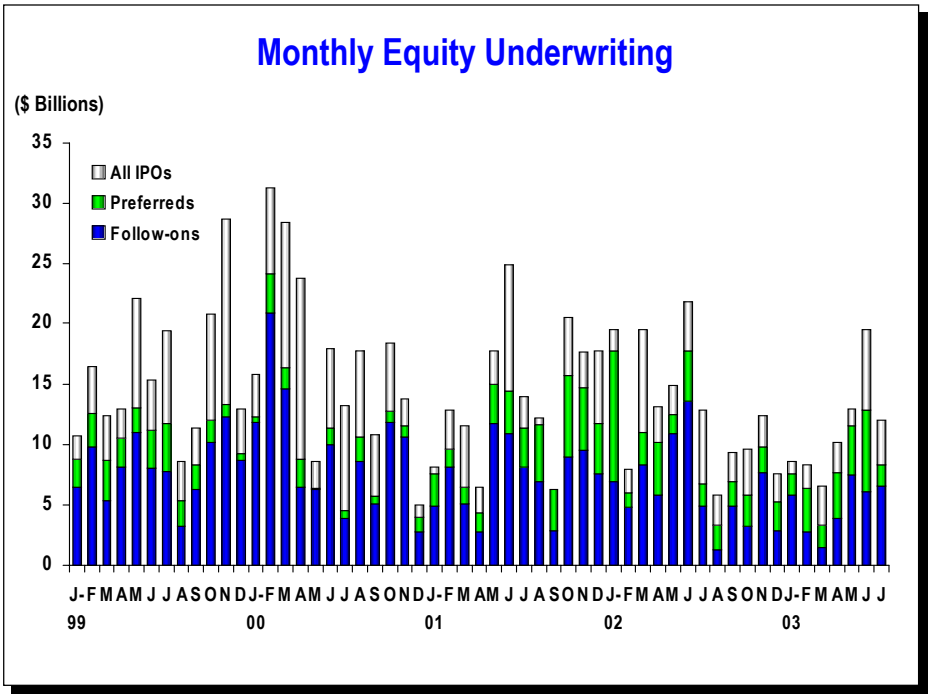


U.S. Underwriting Activity

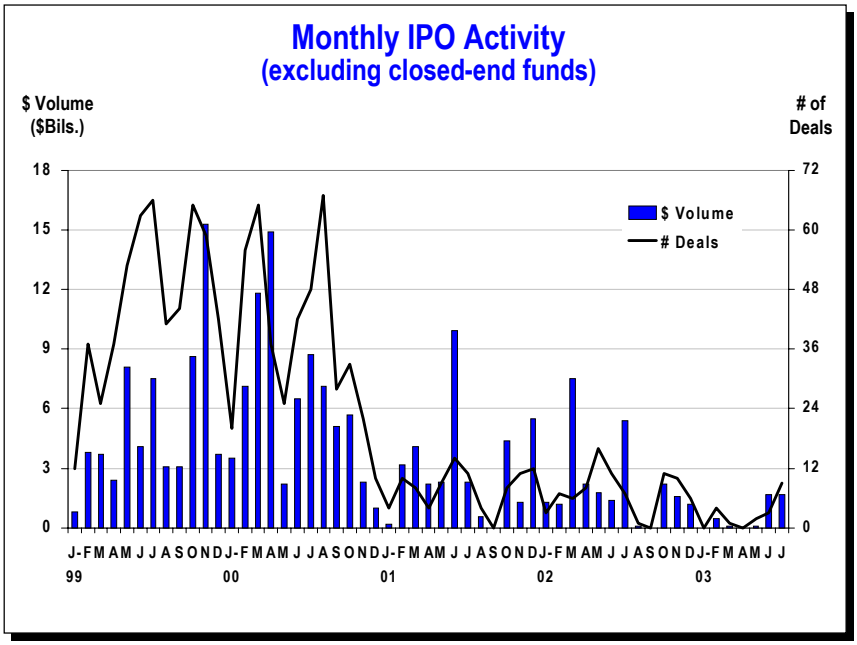
Total Underwriting – New issuance of corporate stocks and bonds weakened in July to its lowest level of the year due to seasonal factors and the sudden surge in long-term interest rates. Total underwriting activity plummeted 36.3% to $155.2 billion from $243.5 billion in June. Despite this monthly decline, the year-to-date total of $1.71 trillion is up 6.4% from the $1.61 trillion raised in the same period a year ago.



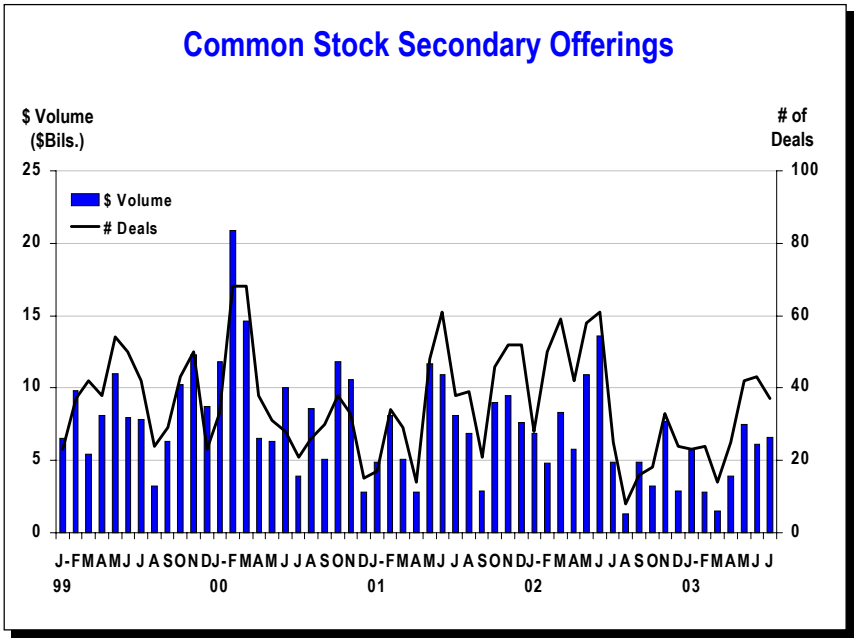
Equity Underwriting – After climbing over the past three months to a 2003 high of $19.6 billion in June, total equity issuance plunged 39.0% to $11.9 billion in July. A sharp curtailment in preferred stock offerings drove down the overall total, as only 10 deals raised nearly $1.7 billion in July compared with June's 19 deals that raised $6.7 billion. Year-to-date, new issuance of both common and preferred stock totaled $78.1 billion, a 28.7% decrease from $109.5 billion in last year's comparable period.



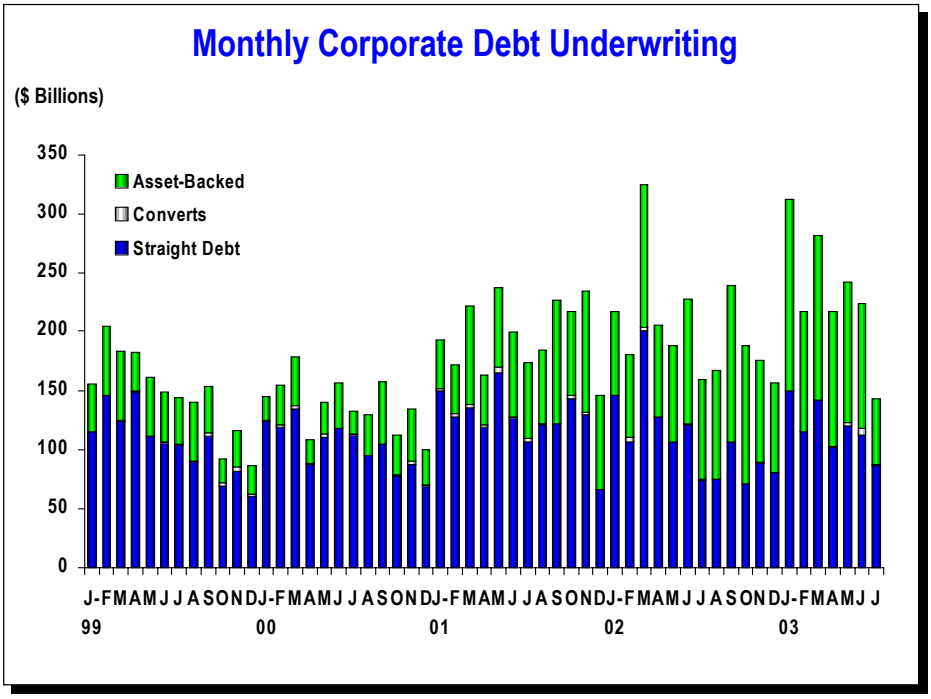
Initial Public Offerings – IPO dollar volume in July was flat with June, but deal volume was the strongest it's been since last October. In both June and July, proceeds totaled roughly $1.7 billion; nine deals were completed in July versus 3 deals in June. Through the first seven months of 2003, a mere $4.2 billion was raised in this market, just one-fifth of the $20.7 billion raised during last year's comparable period. Currently, 22 deals are in the pipeline seeking to raise $2.6 billion. Hopefully, the recent pickup in IPO filings will lead to a more active IPO market going forward.



Secondary offerings of common stock increased 7.7% in July to $6.6 billion, its second best monthly showing this year behind May's $7.5 billion. Year-to-date, dollar proceeds from secondaries totaled $34.2 billion, a 38.1% decline from $55.2 billion 2002's comparable period.



Corporate Bond Underwriting – Issuers and investors alike shunned the corporate debt market amid July's turbulent Treasury market and resultant sharp upswing in interest rates. Domestic underwriting of corporate debt securities sank 36.0% to a new 2003 monthly low of $142.3 billion from $223.9 billion in June. Still, the amount of corporate debt deals underwritten so far this year, at $1.64 trillion, is up 8.9% from $1.50 trillion billion a year ago.



New issuance of straight corporate debt stumbled 23.0% from June's level to $86.6 billion in July, the slowest pace of the year and a far cry from January's $150.0 billion. That brought the year-to-date total to $826.9 billion, 6.2% below the $881.9 billion issued during the same period last year.

Proceeds from asset-backed bond offerings in July plunged 47.0% to $56.2 billion from $106.2 billion in June as refinancing activity cooled down. That marked the second consecutive month of declines and the lowest monthly total since April 2001, when $42.9 billion was raised. Yet, volume year-to-date is running 30.6% ahead of last year's pace, with $799.2 billion issued so far this year compared with $611.9 billion in the first seven months of 2002.

Grace Toto
Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	TOTAL **DEBT**	Common Stock	Preferred Stock	TOTAL **EQUITY**	All IPOs	"True" IPOs	Follow-Ons	**TOTAL** UNDER-**WRITINGS**
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
2002											
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
2003											
Jan	150.0	0.0	162.5	312.4	6.8	1.8	8.6	1.0	0.0	5.8	321.0
Feb	114.6	0.0	101.7	216.4	4.7	3.6	8.3	1.9	0.5	2.8	224.7
Mar	141.8	0.1	140.2	282.1	4.8	1.8	6.5	3.3	0.1	1.5	288.7
Apr	101.5	1.3	113.6	216.5	6.4	3.8	10.2	2.5	0.0	3.9	226.6
May	119.8	3.0	118.7	241.5	8.9	4.0	12.9	1.4	0.1	7.5	254.4
June	112.5	5.2	106.2	223.9	12.8	6.7	19.6	6.7	1.7	6.1	243.5
July	86.6	0.4	56.2	143.2	10.3	1.7	11.9	3.7	1.7	6.6	155.2
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '02	881.9	8.1	611.9	1,501.9	82.9	26.5	109.5	27.7	20.7	55.2	1,611.4
YTD '03	826.9	10.0	799.2	1,636.1	54.7	23.4	78.1	20.5	4.2	34.2	1,714.2
% Change	-6.2%	24.0%	30.6%	8.9%	-34.1%	-11.7%	-28.7%	-26.1%	-79.8%	-38.1%	6.4%

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

MUNICIPAL BOND UNDERWRITINGS

(In $ Billions)

INTEREST RATES

(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
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	1.4	16.8	18.2	4.4	4.3	8.7	27.0	1.17	4.05	2.88
Feb	1.8	15.5	17.3	5.1	7.6	12.7	30.0	1.17	3.90	2.73
Mar	2.0	15.8	17.8	4.2	5.8	10.0	27.8	1.13	3.81	2.68
Apr	1.6	18.3	19.9	4.6	10.2	14.7	34.6	1.13	3.96	2.83
May	3.0	19.0	21.9	5.5	6.3	11.8	33.7	1.07	3.57	2.50
June	2.0	20.6	22.6	6.7	17.0	23.6	46.2	0.92	3.33	2.41
July	2.1	16.8	18.9	6.1	4.9	11.0	29.9	0.90	3.98	3.08
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '02	11.5	107.4	118.9	32.6	42.0	74.6	193.5	1.71	5.03	3.31
YTD '03	13.9	122.7	136.6	36.6	56.0	92.7	229.3	1.07	3.80	2.73
% Change	20.6%	14.3%	14.9%	12.6%	33.3%	24.2%	18.5%	-37.6%	-24.4%	-17.6%

Sources: Thomson Financial; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				STOCK MARKET VOLUME (Daily Avg., Mils. of Shs.)			VALUE TRADED (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
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	1,499.9	36.3	23.0
Apr	8,480.09	916.92	5,131.56	1,464.31	1,422.7	54.7	1,478.2	37.1	23.5
May	8,850.26	963.59	5,435.37	1,595.91	1,488.6	69.6	1,847.9	39.2	27.4
June	8,985.44	974.50	5,505.17	1,622.80	1,516.3	79.5	2,032.2	42.7	32.0
July	9,233.80	990.31	5,558.99	1,735.02	1,451.1	67.4	1,771.7	40.7	30.5
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '02	8,736.59	911.62	5,195.61	1,328.26	1,452.7	61.9	1,875.0	43.8	32.8
YTD '03	9,233.80	990.31	5,558.99	1,735.02	1,448.6	64.8	1,646.7	38.1	26.0
% Change	5.7%	8.6%	7.0%	30.6%	-0.3%	4.7%	-12.2%	-12.9%	-20.7%

MUTUAL FUND ASSETS

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.0	346.3	811.1	1,845.2	6,964.7
2001	3,418.2	346.3	925.1	2,285.3	6,975.0
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3
2002					
Jan	3,372.1	347.2	946.9	2,303.4	6,969.6
Feb	3,310.5	348.3	962.5	2,301.0	6,922.3
Mar	3,495.7	359.2	958.3	2,247.9	7,061.1
Apr	3,367.8	354.5	980.6	2,231.4	6,934.4
May	3,341.5	356.4	994.1	2,230.7	6,922.7
June	3,088.7	341.4	1,003.7	2,197.4	6,631.2
July	2,770.1	320.7	1,032.9	2,254.6	6,378.4
Aug	2,781.1	324.9	1,063.7	2,217.5	6,387.3
Sept	2,505.3	305.4	1,089.0	2,164.6	6,064.2
Oct	2,659.5	316.7	1,083.6	2,177.5	6,237.2
Nov	2,818.4	332.3	1,098.7	2,309.3	6,558.6
Dec	2,667.0	327.4	1,124.9	2,272.0	6,391.3
2003					
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2
Feb	2,537.8	322.9	1,171.1	2,236.2	6,268.0
Mar	2,551.3	325.3	1,183.3	2,204.7	6,264.6
Apr	2,770.3	346.8	1,210.5	2,157.7	6,485.3
May	2,958.5	365.8	1,238.7	2,140.6	6,703.6
June	3,031.5	373.3	1,248.5	2,164.7	6,818.0
July					
Aug					
Sept					
Oct					
Nov					
Dec					
YTD '02	3,088.7	341.4	1,003.7	2,197.4	6,631.2
YTD '03	3,031.5	373.3	1,248.5	2,164.7	6,818.0
% Change	-1.9%	9.4%	24.4%	-1.5%	2.8%

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	31.9	9.5	87.7	375.6	504.8	129.2
2002	-27.7	8.3	140.7	-46.6	74.7	121.3
2002						
Jan	19.4	2.2	10.4	14.0	46.0	32.0
Feb	4.7	2.3	10.9	-5.5	12.4	17.9
Mar	29.7	3.3	6.6	-53.0	-13.4	39.5
Apr	12.9	3.3	7.7	-19.6	4.3	23.9
May	4.9	1.5	10.5	-3.2	13.6	16.8
June	-18.2	0.4	12.2	-43.6	-49.3	-5.6
July	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	-3.1	0.6	17.4	-38.7	-23.9	14.9
Sept	-16.1	-0.6	15.4	-54.9	-56.2	-1.4
Oct	-7.5	-1.0	6.4	12.5	10.4	-2.1
Nov	7.0	1.2	7.6	129.9	145.6	15.8
Dec	-8.3	-0.2	7.3	-38.8	-40.0	-1.2
2003						
Jan	-0.4	1.1	13.0	-1.2	12.5	13.7
Feb	-11.1	0.1	19.7	-39.6	-30.9	8.7
Mar	-0.3	0.9	10.6	-32.3	-21.0	11.3
Apr	16.1	2.7	10.5	-53.8	-24.4	29.4
May	11.9	3.1	8.9	-17.8	6.1	23.9
June	18.7	4.0	5.3	23.2	51.1	27.9
July						
Aug						
Sept						
Oct						
Nov						
Dec						
YTD '02	53.2	13.0	58.3	-111.0	13.5	124.5
YTD '03	34.9	11.9	68.0	-121.6	-6.7	114.9
% Change	-34.3%	-8.5%	16.6%	NM	-149.7%	-7.8%

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

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