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THE COSTS OF COMPLIANCE IN THE U.S. SECURITIES INDUSTRY

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MONTHLY STATISTICAL REVIEW

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Table of Contents

THE COSTS OF COMPLIANCE IN THE U.S. SECURITIES INDUSTRY

Introduction

While securities firms have long made it a priority to adopt and implement robust compliance programs as part of their self-regulatory efforts and good business practices, regulatory actions by the U.S. Securities and Exchange Commission (SEC) and the self-regulatory organizations (SROs), such as the New York Stock Exchange (NYSE) and the NASD, have increasingly played a part in influencing the development of the roles and responsibilities of compliance functions within the firms. Over the past five years, in the wake of massive corporate governance failures and the deflation of a speculative "bubble" in equity markets, new laws, regulatory requirements and enforcement settlements have placed increased demands for specific supervisory procedures and systems and reshaped the structure of compliance programs in securities firms.[1]

Every new regulation and legislative mandate adds to the cost of compliance, but there are no independently validated estimates of those costs relative to any benefits they may convey. Although federal agencies are required to rigorously evaluate the costs and benefits of the regulations that they issue,[2] recently some of these efforts have fallen short.[3] Private sector efforts have fared somewhat better, but still prove lacking. For example, one study of the costs of complying with one recently imposed regulation, Section 404 of the Sarbanes-Oxley Act,[4] estimated that it may be as high as $35 billion, or $4.36 million per enterprise,[5] which is an amount 20 times greater than the SEC estimated in 2003.[6] However, this and other studies suffer from a variety of limitations and do not specifically address the impact on the securities industry.

The Securities Industry Association is in the process of developing a study that would generate more reliable estimates of the cost of compliance to the securities industry and to investors. This study will focus on two objectives: (1) developing a deeper understanding of how various regulatory and legislative mandates impact compliance-related activities at industry firms; and, (2) measuring compliance-related costs. A taxonomy of those costs can be organized many ways, but for our initial purposes we shall place them into four categories: staff-related; out-of-pocket; capital; and opportunity costs. This effort is very complex because each regulatory and legislative mandate impacts industry firms in a variety of ways, both at the home office and within the branch network. There is also ample evidence of cross-sectional differences in the impact among firms,[7] which requires applying analysis of the impact of the measures that extends beyond normal cost-benefit analysis. Some of the impacts are easily quantified, while others are not. Many of those impacts, however, extend well beyond securities firms, impacting investors in a variety of unintended ways.

Compliance

The compliance function can be defined as the firm's general efforts designed to achieve compliance with applicable laws, rules, and regulations.[8] Depending on the firm, these compliance functions may reside in several locations within a securities firm in addition to the compliance department, including, for example: the risk management department; the internal audit department; the office of the comptroller, treasurer or chief financial officer; the legal department; the branch network; and, in many firms, the human resources department. While there are specific compliance-related functions associated with each of these departments, compliance in the broadest sense is an integral part of the firm's culture, affecting every employee to some degree.

Specific aspects of the compliance function typically include:

- Advisory roles (providing regulatory and compliance advice to business and control units on an ongoing basis);
- Policies and procedures (assisting management in the development of policies, procedures and guidelines designed to facilitate compliance with applicable laws and regulations);
- Education and training (keeping business personnel and other employees apprised of policies and procedures and regulatory events);
- Monitoring and surveillance (critical ongoing monitoring of business activities, transactions and communications, to identify potential issues, patterns of improper behavior or activities, material or systemic weaknesses and potential product-related problems);
- Business unit compliance reviews;
- Centralized compliance functions (control room function-administering information barriers within the firm, anti-money laundering program, privacy, etc.);
- Licensing, registration and employment-related functions (due diligence on new employees, advising on disciplinary issues, terminations, employee registration/licensing);
- Internal inquiries and investigations (into potential violations of supervisory or regulatory restrictions);
- Regulatory examinations, reporting and investigations;
- Fostering regulatory relationships/fostering a culture of compliance/assessment of compliance programs and functions; and,
- Chaperoning.

The essence of compliance, however, is embedded in the concept of "supervision," where business management, not the compliance department, has ultimate responsibility to ensure that every element of the firm adheres to all regulatory and legislative mandates. The compliance function supports business management in numerous ways, but, in the final analysis, responsibility for compliance rests with management.

Counting Compliance Costs

Describing the various compliance functions, a necessary first step, while complex, is far easier than calculating the associated costs. The direct and indirect cost of compliance can, for the sake of simplicity, be grouped into four categories: staff-related; out-of-pocket; capital; and, opportunity costs.

Staff-Related Costs: While this may appear to be one of the most straightforward costs to quantify, it is far from a simple task. Certain functions (such as those in the compliance department and certain legal and financial department activities) are more easily quantified; most other staff-related costs are not. While a firm-wide time allocation study might provide accurate insights into the proportion of time each employee devotes to compliance-related efforts, this is impractical in most cases. A more workable process would be for management within each department to estimate the overall percent of time spent by his/her employees on compliance-related work. Applying a fully factored average salary to these time estimates would produce an overall measure of staff-related costs.[9]

Out-of-Pocket Costs: Firms are now spending increasing amounts of money to hire outside resources to complete a variety of compliance-related tasks. In addition, as internal resources become overloaded with compliance-related activities, the use of outside resources is often the only way to initiate new products and services. Firms' accounting systems should be able to identify, with relative ease, the out-of-pocket costs associated with the direct purchase of legal, accounting and other services for compliance-related activities. However, the "overload" costs may represent a more significant challenge.

Capital Costs: With the rapid pace of regulatory change and the many new requirements placed on securities firms, many are turning to outside vendors that provide specialized computer software geared to meeting regulatory requirements. There is anecdotal evidence to suggest that many firms are purchasing multiple software systems to keep pace with rapidly evolving regulatory requirements, sometimes introducing inefficiencies through multiple systems. In addition, there are hardware costs as well as "brick and mortar" costs to be measured.

Opportunity Costs: While these represent, perhaps, the most challenging set of cost to identify and quantify, they are nevertheless just as real and, in some instances, more significant. For example, branch managers who now spend 40% of their time on compliance-related activities (compared with only 10% five years ago) or chief executive officers who now spend up to 20%-25% on compliance-related activities (compared with only 5% five years ago) are less able to develop new business. New products and services that took weeks to introduce five years ago now take nearly a year in some instances. Every time an employee spends additional time on compliance-related activities instead of developing business for the firm, there are opportunity costs involved. In addition, when different offices of the same regulator or multiple regulators request the same information, the time spent on this duplicative effort represents an opportunity cost. Any opportunity costs, such as loss of time and benefits foregone (shifted management focus, disrupted provision of products and services, waiting time, etc.), mark-up effects, limitations to entry and expansion and decreases in competition, effects on employment, the price and range of services offered and limitation of consumer choices will be examined.

Other Costs: As firms devote more and more resources to compliance-related activities, these added costs filter down to individual investors who end up paying higher prices as a result. Individual investors are paying in other ways as well. For example, several regulatory initiatives are having the effect of limiting investors' choice of what products they can purchase and who they can employ as their financial advisor. While constraints to investor choice are extremely important issues to assess, quantifying its impact is extremely problematic.

In the coming weeks and months, SIA will be interviewing member firms on the issues described above in its effort to arrive at a useful framework for estimating the cost of compliance, or at least a better understanding of the impact of regulation and rule-making on the industry's cost base as part of a broad-based industry survey. We look forward to working with the industry to answer these difficult, yet very important questions. Your feedback is very welcome.

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ENDNOTES

[1] The SRO Consultative Committee of the International Organization of Securities Commissions (IOSCO) recently published results of a survey of the status of the compliance functions for markets and market intermediaries in the jurisdictions of the IOSCO members throughout the world. Although the role of the compliance officer varies by jurisdiction and depends upon the business and structure of the particular firm, in general the compliance requirements for financial services providers have risen, nowhere more so than in the United States, along with the importance of compliance functions within the individual firms. In December 2003, the Securities and Exchange Commission passed revisions to the Investment Company Act of 1940 and the Investment Advisers Act of 1940 requiring all registered investment companies and all registered investment advisors to designate chief compliance officers who are responsible for implementing compliance programs and reporting annually to the board of directors on the effectiveness of such programs (17 CFR 270.38a-1 and 17 CFR 275.206(4)-7, respectively). The NASD recently implemented Rule 3013 which also requires the designation and reporting by a Chief Compliance Officer.

[2] The SEC is under a number of statutory obligations to consider the economic impact of its regulatory proposals. For example:

– In 1996 The National Securities Markets Improvement Act (NSMIA) Pub. L. No. 104-290, 110 Stat. 34, amended Section 2 of the Securities Act of 1933 and Section 3 of the Securities Exchange Act of 1934 (Exchange Act), among others, to require the SEC in its rulemaking to consider "in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation."

– The Small Business Regulatory Fairness Act of 1996, Pub. L. No. 104-121, 110 Stat. 857 (the "Regulatory Fairness Act") requires, among other things, that a federal regulatory agency, in promulgating a final rule, must make:

> "A description of and an estimate of the number of small entities to which the rule will apply or an explanation of why no such estimate is available,"
>
> "a description of the projected reporting, recordkeeping and other compliance requirements of the rule, including an estimate of the classes of small entities which will be subject to the requirement and the type of professional skills necessary for preparation of the report or record," and
>
> "a description of the steps the agency has taken to minimize the significant economic impact on small entities . . . ." [See Pub. Law No. 104-121, Title II, Subtitle D, Sec. 241 (b), codified as 5 U.S.C. Sec. 604 (a).]

In addition, rules that are found to be likely to result in an annual effect on the economy of $100 million or more are subject to Congressional review and potential override. [See Pub. Law No. 104-121, Title II, Subtitle E, Sec. 251, codified at 5 U.S.C. Sec. 804(2) (A).]

[3] On June 21, 2005, the U.S. Court of Appeals for the District of Columbia ruled that the SEC had violated the Administrative Procedure Act by not adequately considering the compliance costs that mutual funds would incur in complying with an

SEC rule approved in June 2004. Chief Judge Douglas Ginsburg, giving the court's opinion, said the SEC had an "obligation to do what it can to apprise itself — and hence the public and the Congress — of the economic consequences of a proposed regulation before it decides whether to adopt the measure". (See http://pacer.cadc.uscourts.gov/docs/common/opinions/200506/04-1300a.pdf.) The SEC's July 7, 2005 response to the remand by the court of appeals on the decision on investment company governance employed estimates based on salary surveys conducted by the Securities Industry Association (SIA), "a source on which we commonly rely in our rulemakings" (http://www.sec.gov/rules/final/ic-26985fr.pdf). SIA expressed concerns over the use to which the SEC applied SIA data and provided the SEC staff with additional information to enable more accurate estimates (see footnote 9 below).

4 Pub. Law No. 107-204 116 Stat 745 (2002), codified as 15 U.S.C. 7262. Section 404 of this Act required an assessment of the effectiveness of internal controls by management, to be audited and approved by the company's independent accountants.

5 American Electronics Association, Sarbanes-Oxley Section 404: The 'Section' of Unintended Consequences and Its Impact on Small Business, February 2005, http://www.aeanet.org/government affairs/AeASOXPaperFinal021005.asp. This estimate is based on a series of three surveys from January 2004 to March 2005, conducted by Financial Executives International (FEI Special Survey on Sarbanes-Oxley Section 404 Implementation, March 2005). Unfortunately, the response rates fell in each successive survey and samples were not deemed to be representative.

6 At the time of enactment, the SEC estimated that the aggregate annual costs of implementing Section 404(a) of the Sarbanes-Oxley Act to be around $1.24 billion (or $91,000 per company). See SEC Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, 17 CFR Parts 210, 228, 229, 240, 249, 270 and 274 (see www.sec.gov/rules/final/33-8238.htm). The SEC estimate does not include the costs associated with the auditor's attestation report, and the SEC acknowledged that it received comments suggesting this amount could be substantial.

7 There are also theoretical reasons to believe that there is a link between firm size and the cost of information produced. The production of information to meet disclosure and compliance requirements entails fixed costs and thus disclosure costs per unit of size are more likely to decrease with size. Unless a disproportionate share of the benefits accrue to smaller firms (the opposite seems to be the case), many of these regulations may act as little more than a highly regressive tax, penalizing small and medium-sized firms, raising already high barriers to entry and leading to greater industry concentration, reduced competition and efficiency, and higher costs to investors. In part in recognition of these concerns, on December 16, 2004, the Commission established the SEC Advisory Committee on Smaller Public Companies to assess the current regulatory system for smaller public companies under the securities laws, including the impact of the Sarbanes Oxley Act of 2002. The Advisory Committee has been charged with making recommendations for changes in the system by April 2006. On August 10, 2005, the Commission unanimously adopted two resolutions containing recommendations made by the Committee in advance of its final report. With respect to their recommendation for extension of compliance dates for Section

404, the Committee cited a number of reasons for delay, among them: "The costs of implementing Section 404 have been far more expensive than originally forecasted and these costs are disproportionately larger for smaller companies. In addition to the actual costs, because of the newness and complexity of the rules, companies have had to expend considerable management time and effort to establish and attest to the effectiveness of their internal control over their financial reporting. The process of reporting on internal control over financial reporting has been far more complex and difficult to implement than originally thought and is still evolving." See SEC Advisory Committee on Smaller Public Companies, Resolution Regarding Section 404 Compliance Dates For Non-Accelerated Filing Companies (www.sec.gov/info/smallbus/acspc.shtml).

8 Technical Committee of the International Organization of Securities Commissions, Consultation Report: Compliance Function at Market Intermediaries, IOSCO, Madrid, Spain, April 2005, p. 6 (http://www.iosco.org/library/pubdocs/pdf/IOSCOPD198.pdf). See also public comment letters on this discussion paper including that filed by the SIA on June 30, 2005 (http://www.sia.com/2005_comment_letters/7359.pdf), and the recent SIA Compliance and Legal Division White Paper on the Role of Compliance, p. 5 (http://www.sia.com/2005_comment_letters/pdf/SIACLwhitePaper7-13-05.pdf).

9 The overall measure proposed to SEC staff by SIA staff employed several adjustments of survey data of salaries by securities industry occupation. These include addition of variable compensation to fixed salaries to arrive at total compensation; addition of employee benefit costs; and, addition of fully loaded overhead (a pro-rata share of total non-interest, non-promotional expenses, etc. that are variable with respect to head count).

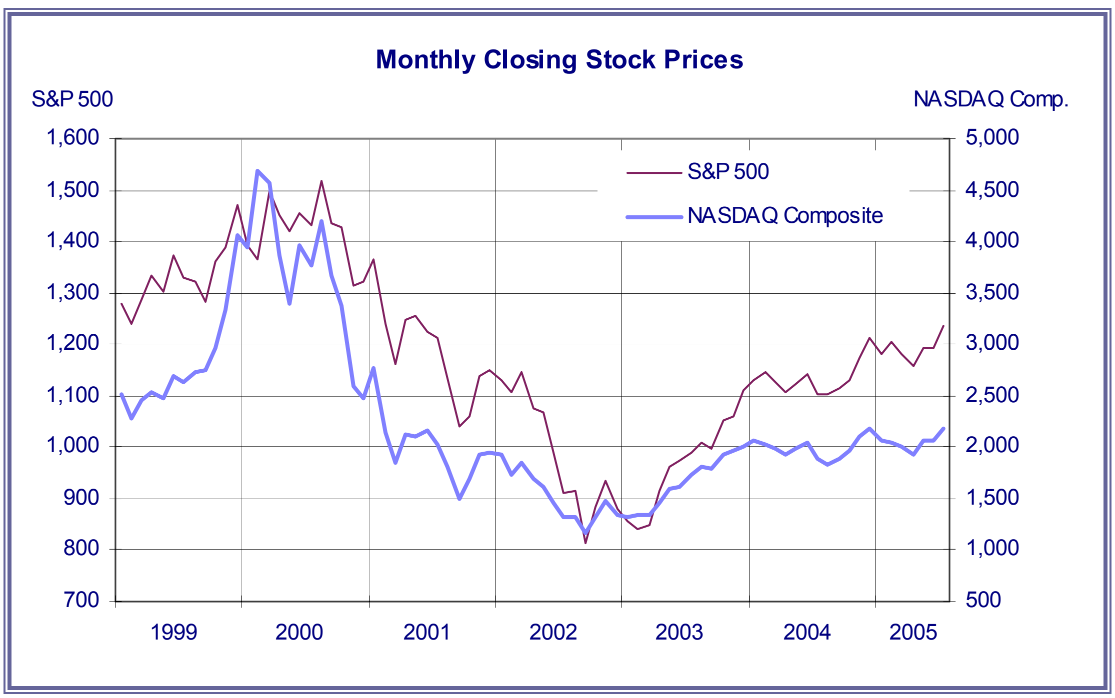
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

S*tock Prices* –The major U.S. stock indices advanced strongly in July, as encouraging corporate earnings news and positive economic indicators buoyed investor sentiment. The NASDAQ Composite led the way with a 6.2% gain for the month. Meanwhile, both the S&P 500 and Dow Jones Industrial Average increased 3.6%, marking their biggest monthly gains since November 2004 and best July performance since 1997.

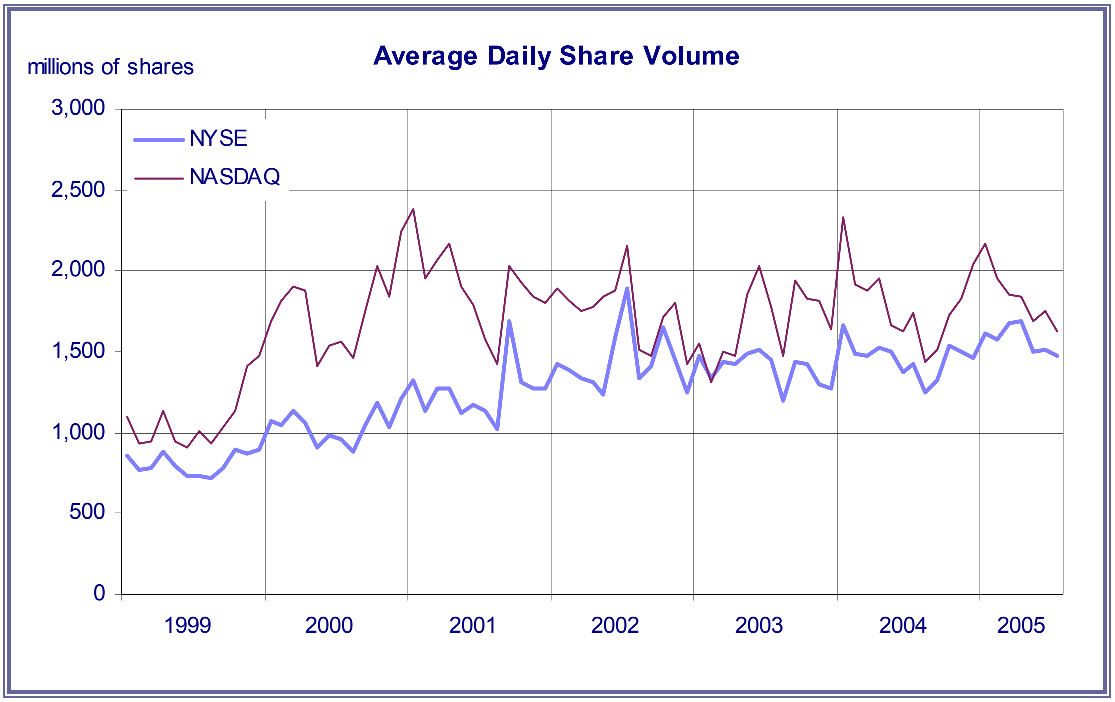
On the corporate earnings front, companies listed on the S&P 500 Index reported better-than-expected profit growth of 14% in the second quarter, and analysts expect profit growth to accelerate further in the third quarter of 2005. Economic news was also upbeat, as preliminary data released by the U.S. Commerce Department showed that real gross domestic product grew at a 3.4% annual rate in the second quarter, making it the ninth consecutive quarter in which economic growth exceeded 3%.

July's rally pushed the S&P 500 and NASDAQ Composite to their highest levels in four years and erased the losses sustained since the start of the year. For the year-to-date through July, these indices were up 1.8% and 0.4%, respectively, but the DJIA was still down 1.3%. More recently, though, stocks have headed lower as oil prices surged skyward. By the market's close on August 24, all three major market gauges were once again in negative territory for the year.



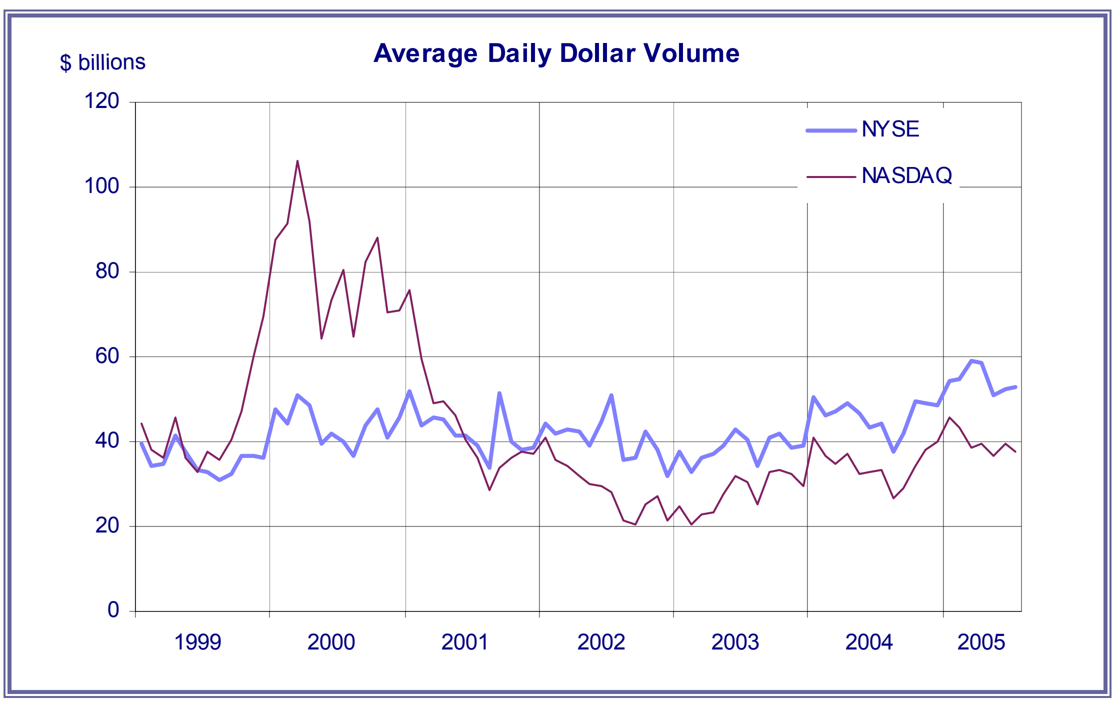
Share Volume – In July, both the New York Stock Exchange and NASDAQ experienced their slowest month of trading so far this year. Average daily share volume on the NYSE fell 2.4% in July to 1.48 billion from 1.52 billion in June. On NASDAQ, volume declined 7.2% from June's level to 1.62 billion in July, its slowest pace in 10 months.

From January to July of 2005, NYSE daily share volume averaged 1.58 billion, 6.2% higher than the 1.49 billion reached in the same period of 2004. However, NASDAQ volume fell by 1.8% to nearly 1.84 billion from 1.87 billion in last year's comparable period.



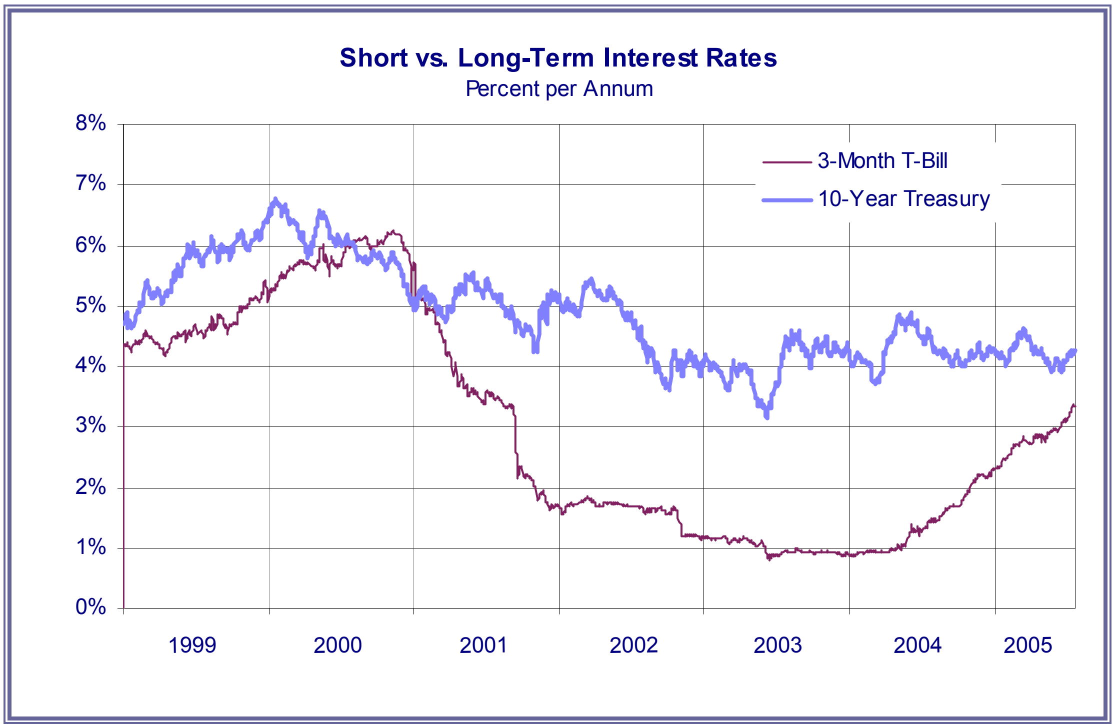
Dollar Volume – The value of daily trading in NYSE stocks edged up 1.1% in July to $53.1 billion from $52.5 billion in the previous month, while NASDAQ dollar volume slipped 4.1% to $37.8 billion from $39.4 billion.

Through the first seven months of 2005, average daily dollar volume on the NYSE increased by 17.1% to $54.7 billion, compared to $46.7 billion a year earlier. NASDAQ dollar volume averaged $40.1 billion year-to-date, up 13.2% from $35.4 billion in the comparable period last year.



Interest Rates – In the bond market, the 10-year Treasury yield (which moves inversely to prices) climbed in July, reversing a three-month downward trend partly due to recent signs of economic strength. Indeed, Federal Reserve Chairman Alan Greenspan, in his semi-annual report on monetary policy to Congress, said that the U.S. economy is on a firm footing and indicated that the central bank will continue to raise interest rates at a measured pace.

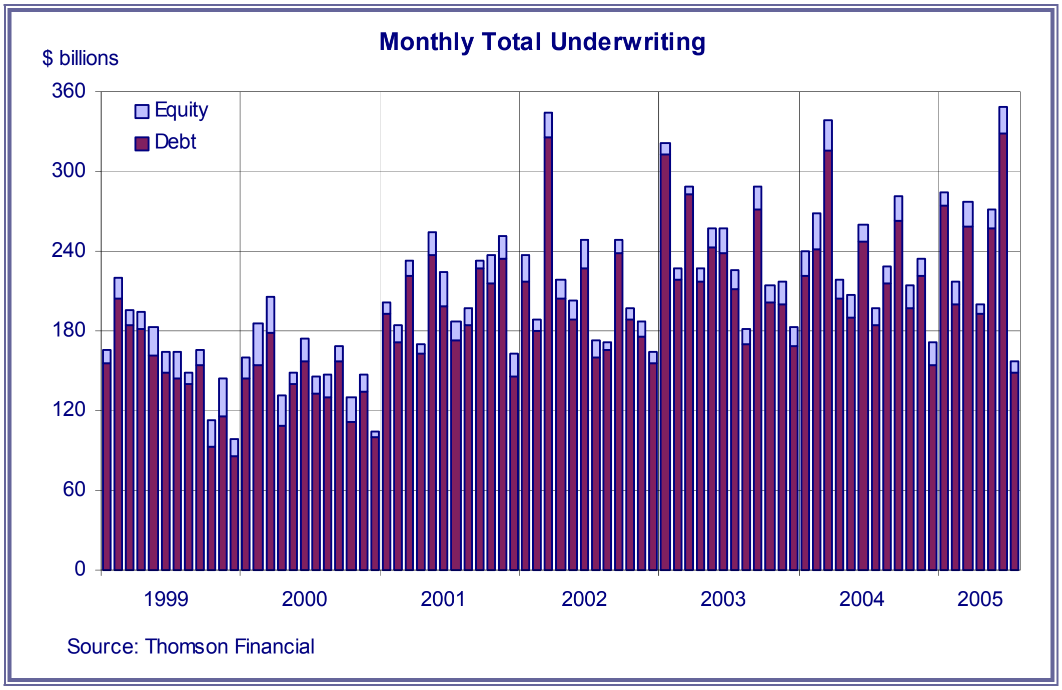
The yield on the benchmark 10-year Treasury note backed up to 4.28% by the end of July from 3.94% at the beginning of the month. Meanwhile, the yield on three-month Treasury bills – which has trended upward for the past 16 months – increased to 3.34% at the end of July from 3.06% at June's close. As a result, the spread between short- and long-term interest rates widened slightly to 94 basis points from 88 basis points.



U.S. Underwriting Activity

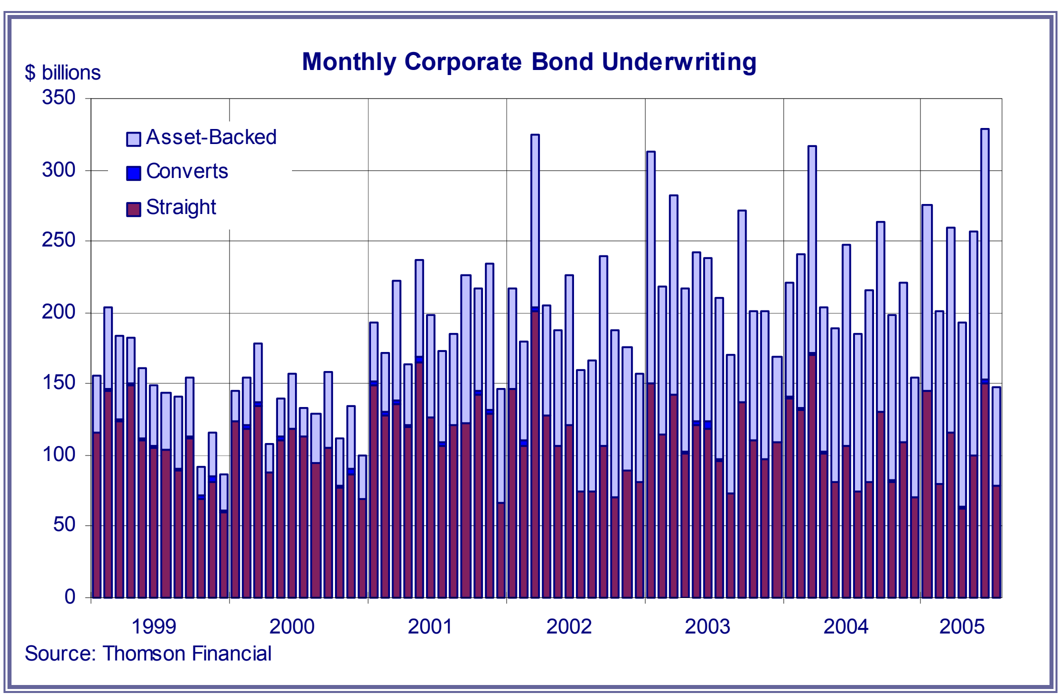
The new issues market experienced a marked slowdown in July. After surging 28.2% in June to a new monthly record of $348.1 billion, total underwriting activity tumbled 54.9% to $156.9 billion in July, the lowest monthly total since December 2000. Steep declines were seen across all debt and equity products during July.

Through the first seven months of 2005, overall underwriting activity in the U.S. market totaled $1.75 trillion, a slim 1.5% increase over the $1.73 trillion issued in the same period last year.

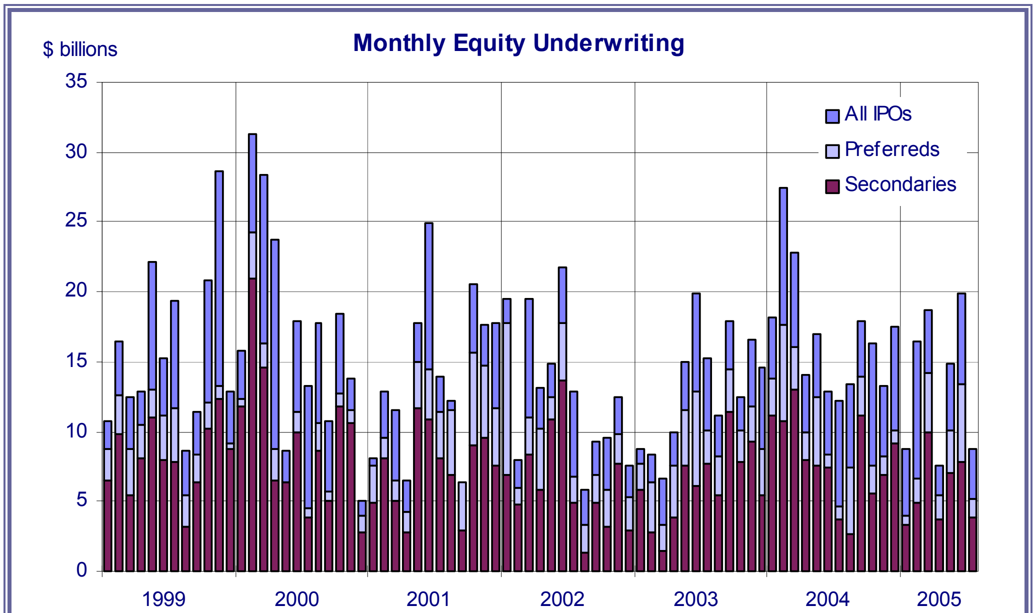


Corporate Bond Underwriting – New issuance of corporate bonds slumped to its lowest level since December 2001, totaling $148.1 billion in July. That represents a 54.9% decline from the monthly record $328.3 billion in June. Still, year-to-date corporate debt issuance of $1.66 trillion was 3.5% above the $1.60 billion issued in last year's first seven months.

Preliminary figures indicate that asset-backed debt offerings plunged 60.4% in July to a 19-month low of $69.5 billion from a record $175.4 billion in June. Nevertheless, asset-backed issuance year-to-date, at $924.8 billion, is up 16.3% from $794.8 billion in the comparable period in 2004. Straight corporate debt underwriting sank 47.8% in July from June's elevated level to $78.7 billion, and is down 9.3% year-to-date, with issuance totaling $731.7 billion compared to $806.3 billion in the same year-ago period.



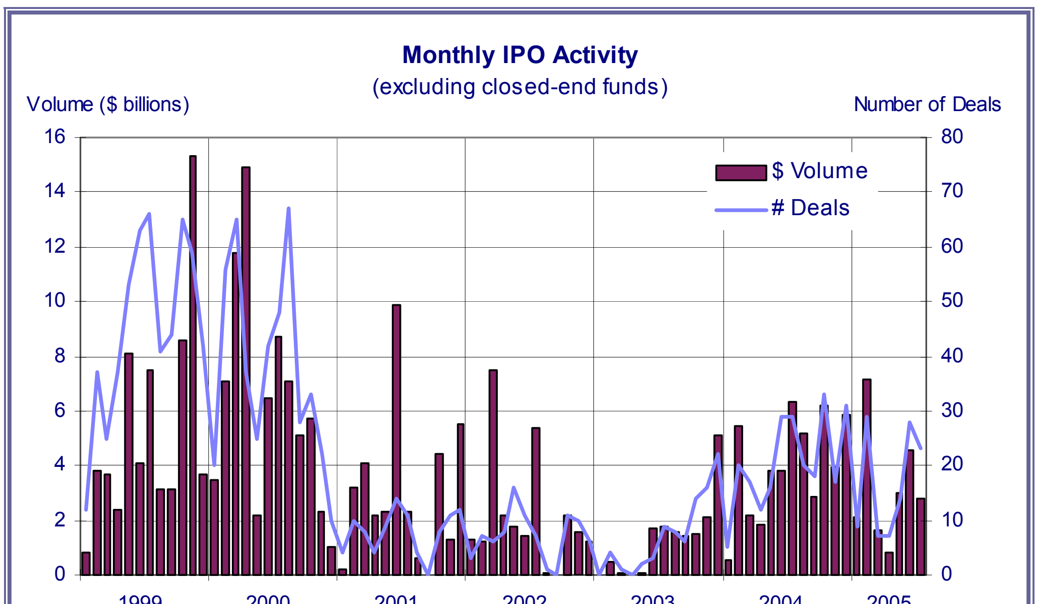
Equity Underwriting – After climbing to a 2005 peak of $19.8 billion in June, total common and preferred stock issuance plummeted 55.6% for the month to $8.8 billion in July, the second lowest monthly volume in 2005 behind April. This brought the year-to-date total to $94.9 billion, representing a decline of 23.8% from $124.5 billion a year ago.



Source: Thomson Financial

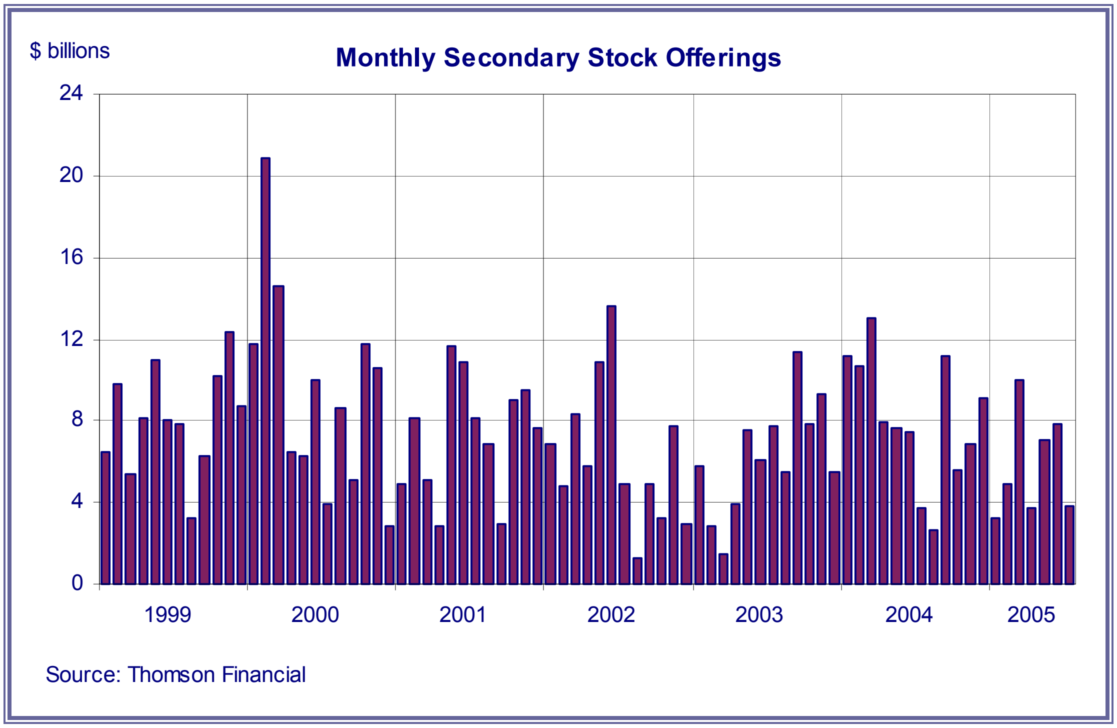
Initial Public Offerings (IPOs) – Activity in the U.S. IPO market was lackluster in July, with 23 deals raising $2.8 billion compared with 28 deals worth $4.6 billion in June. IPO dollar volume year-to-date, at $22.0 billion, was 7.9% below the amount raised in the same year-earlier period.

On a brighter note, recent reports indicate that August was a surprisingly busy month for U.S. IPOs, with nearly $6 billion raised via 29 deals. The stock market recovery in July and strong aftermarket performance of recent IPOs attracted both issuers and investors alike.



Source: Thomson Financial

Common stock secondary offerings plunged 51.9% in July to $3.8 billion from $7.9 billion in June. For the year-to-date through July, secondary stock issuance totaled $40.6 billion, 33.8% below the $61.4 billion issued in the same period a year ago.



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	Secondaries	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
2003	1,370.7	10.6	1,352.3	2,733.6	118.5	37.8	156.3	43.7	15.9	74.8	2,889.9
2004	1,278.4	5.5	1,372.3	2,656.2	169.6	33.2	202.7	72.8	47.9	96.7	2,859.0
2004											
Jan	139.4	1.4	80.3	221.1	15.6	2.6	18.2	4.4	0.5	11.2	239.2
Feb	132.2	0.7	108.1	240.9	20.5	6.9	27.4	9.8	5.4	10.7	268.2
Mar	170.5	0.6	145.2	316.2	19.8	3.1	22.8	6.7	2.2	13.0	339.1
Apr	101.6	0.3	101.9	203.9	12.0	2.1	14.1	4.1	1.8	7.9	218.0
May	81.4	0.1	108.1	189.6	12.2	4.8	17.0	4.6	3.8	7.6	206.6
June	107.0	0.0	140.6	247.6	11.8	1.0	12.9	4.5	3.8	7.4	260.5
July	74.2	0.0	110.7	184.9	11.2	1.0	12.2	7.5	6.3	3.7	197.1
Aug	81.0	0.0	134.7	215.7	8.6	4.8	13.4	6.0	5.2	2.6	229.1
Sept	130.5	0.6	132.1	263.2	15.2	2.7	17.9	4.0	2.8	11.2	281.1
Oct	81.0	1.1	115.6	197.7	14.4	1.9	16.3	8.8	6.2	5.6	214.0
Nov	108.7	0.4	111.7	220.9	11.8	1.3	13.1	5.0	4.0	6.9	234.0
Dec	70.9	0.3	83.5	154.6	16.5	1.0	17.5	7.4	5.8	9.1	172.1
2005											
Jan	144.6	0.2	130.2	274.9	8.1	0.7	8.8	4.9	2.1	3.3	283.7
Feb	80.3	0.0	120.1	200.4	14.7	1.7	16.4	9.8	7.1	4.9	216.8
Mar	115.7	0.5	142.8	259.0	14.4	4.3	18.7	4.4	1.6	10.0	277.7
Apr	62.4	0.8	129.3	192.5	6.0	1.6	7.6	2.2	0.8	3.8	200.1
May	99.2	0.0	157.5	256.7	11.9	3.0	14.9	4.8	3.0	7.0	271.6
June	150.9	2.0	175.4	328.3	14.3	5.5	19.8	6.5	4.6	7.9	348.1
July	78.7	0.0	69.5	148.1	7.5	1.3	8.8	3.6	2.8	3.8	156.9
YTD '04	806.3	3.1	794.8	1,604.2	103.1	21.5	124.5	41.6	23.9	61.4	1,728.7
YTD '05	731.7	3.5	924.8	1,659.9	76.9	18.0	94.9	36.3	22.0	40.6	1,754.8
% Change	-9.3%	14.6%	16.3%	3.5%	-25.4%	-16.3%	-23.8%	-12.9%	-7.9%	-33.8%	1.5%

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

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
2003	21.1	215.8	236.9	54.7	87.7	142.4	379.3	1.01	4.02	3.00
2004	17.2	209.8	227.1	51.5	77.7	129.2	356.3	1.37	4.27	2.90
<u>2004</u>										
Jan	0.7	10.4	11.1	3.6	5.7	9.3	20.4	0.88	4.15	3.27
Feb	1.0	13.0	14.1	4.8	7.7	12.5	26.5	0.93	4.08	3.15
Mar	2.7	19.7	22.4	5.6	10.5	16.1	38.5	0.94	3.83	2.89
Apr	1.0	18.1	19.0	3.5	8.2	11.8	30.8	0.94	4.35	3.41
May	1.4	28.0	29.5	3.1	4.7	7.8	37.2	1.02	4.72	3.70
June	1.3	24.0	25.3	4.5	5.4	9.8	35.1	1.27	4.73	3.46
July	1.8	14.6	16.5	5.1	3.7	8.9	25.3	1.33	4.50	3.17
Aug	0.6	15.5	16.1	4.0	7.6	11.6	27.7	1.48	4.28	2.80
Sept	1.7	13.2	14.9	5.3	4.8	10.1	25.0	1.65	4.13	2.48
Oct	2.4	17.7	20.0	5.3	6.5	11.8	31.9	1.76	4.10	2.34
Nov	1.1	17.2	18.3	2.3	4.6	6.8	25.1	2.07	4.19	2.12
Dec	1.5	18.5	20.0	4.5	8.3	12.7	32.7	2.19	4.23	2.04
<u>2005</u>										
Jan	1.0	11.7	12.6	3.6	6.6	10.1	22.8	2.33	4.22	1.89
Feb	1.5	15.6	17.1	4.5	9.2	13.7	30.8	2.54	4.17	1.63
Mar	1.2	24.1	25.3	7.1	12.5	19.6	44.9	2.74	4.50	1.76
Apr	1.9	16.6	18.5	5.1	8.0	13.1	31.5	2.76	4.34	1.58
May	1.3	21.7	23.1	4.0	9.4	13.5	36.5	2.84	4.14	1.30
June	2.4	24.6	27.0	7.2	9.3	16.5	43.5	2.97	4.00	1.03
July	1.5	20.6	22.1	3.7	6.6	10.3	32.4	3.22	4.18	0.96
YTD '04	10.0	127.8	137.8	30.2	45.9	76.1	213.9	1.04	4.34	3.29
YTD '05	10.8	134.9	145.7	35.2	61.5	96.7	242.4	2.77	4.22	1.45
% Change	7.7%	5.5%	5.7%	16.7%	33.9%	27.1%	13.3%	165.4%	-2.7%	-56.0%

Sources: Thomson Financial; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				STOCK MARKET VOLUME (Daily Avg., Mils. of Shs.)			VALUE TRADED (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	NASDAQ Composite	NYSE	AMEX	NASDAQ	NYSE	NASDAQ
1985	1,546.67	211.28	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
2003	10,453.92	1,111.92	6,440.30	2,003.37	1,398.4	67.1	1,685.5	38.5	28.0
2004	10,783.01	1,211.92	7,250.06	2,175.44	1,456.7	65.6	1,801.3	46.1	34.6
2004									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	83.5	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.6	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	77.3	1,880.6	47.1	34.9
Apr	10,225.57	1,107.30	6,439.42	1,920.15	1,524.7	78.3	1,950.8	49.0	37.3
May	10,188.45	1,120.68	6,484.72	1,986.74	1,500.0	72.1	1,663.6	46.9	32.3
June	10,435.48	1,140.84	6,602.99	2,047.79	1,371.4	57.4	1,623.3	43.5	32.9
July	10,139.71	1,101.72	6,403.15	1,887.36	1,418.1	54.1	1,734.8	44.1	33.2
Aug	10,173.92	1,104.24	6,454.22	1,838.10	1,243.5	49.9	1,431.0	37.7	26.7
Sept	10,080.27	1,114.58	6,570.25	1,896.84	1,322.2	52.7	1,510.7	41.8	29.1
Oct	10,027.47	1,130.20	6,692.71	1,974.99	1,543.5	61.3	1,730.7	49.5	34.5
Nov	10,428.02	1,173.82	7,005.72	2,096.81	1,494.4	68.5	1,827.6	49.0	38.0
Dec	10,783.01	1,211.92	7,250.06	2,175.44	1,463.3	63.3	2,042.2	48.4	39.9
2005									
Jan	10,489.94	1,181.27	7,089.83	2,062.41	1,618.4	62.5	2,172.3	54.1	45.5
Feb	10,766.23	1,203.60	7,321.23	2,051.72	1,578.2	62.7	1,950.2	54.5	43.2
Mar	10,503.76	1,180.59	7,167.53	1,999.23	1,682.6	66.7	1,849.0	59.1	38.8
Apr	10,192.51	1,156.85	7,008.32	1,921.65	1,692.8	61.7	1,839.2	58.8	39.6
May	10,467.48	1,191.50	7,134.33	2,068.22	1,502.1	52.9	1,685.6	50.8	36.6
June	10,274.97	1,191.33	7,217.78	2,056.96	1,515.8	58.0	1,747.9	52.5	39.4
July	10,640.91	1,234.18	7,476.66	2,184.83	1,478.9	58.8	1,621.8	53.1	37.8
YTD '04	10,139.71	1,101.72	6,403.15	1,887.36	1,489.5	71.1	1,869.5	46.7	35.4
YTD '05	10,640.91	1,234.18	7,476.66	2,184.83	1,582.0	60.5	1,835.1	54.7	40.1
% Change	4.9%	12.0%	16.8%	15.8%	6.2%	-15.0%	-1.8%	17.1%	13.2%

MUTUAL FUND ASSETS

($ Billions)

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	3,418.2	346.3	925.1	2,285.3	6,975.0	31.9	9.5	87.7	375.6	504.8	129.2
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-27.7	8.6	140.3	-46.7	74.5	121.2
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1	152.3	32.6	31.0	-258.5	-42.6	215.8
2004	4,384.1	519.3	1,290.3	1,913.2	8,106.9	177.7	42.6	-10.6	-156.8	52.9	209.7
2004											
Jan	3,804.2	440.7	1,256.6	2,032.1	7,533.7	43.0	5.4	-0.3	-19.5	28.7	48.2
Feb	3,893.5	452.7	1,267.2	2,015.2	7,628.6	26.2	5.0	1.5	-20.9	11.8	32.7
Mar	3,885.1	455.7	1,277.7	2,006.8	7,625.4	15.6	4.8	7.5	-9.0	18.8	27.8
Apr	3,811.3	452.5	1,245.7	1,964.2	7,473.7	23.0	4.6	-7.8	-44.1	-24.3	19.8
May	3,855.0	457.1	1,223.3	1,974.6	7,510.0	0.4	2.3	-16.2	8.6	-4.9	-13.5
June	3,948.0	467.0	1,220.9	1,954.3	7,590.3	10.0	2.4	-7.5	-21.0	-16.1	4.9
July	3,798.5	461.6	1,231.7	1,950.7	7,442.6	9.4	3.0	-1.2	-2.1	9.1	11.2
Aug	3,804.1	469.9	1,253.4	1,944.5	7,471.8	1.2	2.6	4.2	-10.3	-2.3	8.0
Sept	3,916.5	479.0	1,263.9	1,903.6	7,563.0	10.3	3.0	2.8	-42.4	-26.3	16.1
Oct	3,994.1	487.4	1,277.8	1,891.4	7,650.7	7.2	3.5	3.6	-14.1	0.1	14.2
Nov	4,222.3	504.5	1,276.5	1,920.2	7,923.5	21.4	4.1	2.0	26.5	54.0	27.6
Dec	4,384.1	519.3	1,290.3	1,913.2	8,106.9	10.2	1.9	0.8	-8.1	4.9	13.0
2005											
Jan	4,289.2	516.7	1,302.0	1,892.9	8,000.8	10.0	5.3	4.6	-27.5	-7.6	19.9
Feb	4,416.8	529.9	1,304.6	1,875.6	8,126.9	22.2	4.4	2.6	-18.9	10.2	29.2
Mar	4,348.8	526.4	1,294.1	1,875.8	8,045.0	15.1	3.9	-1.3	-2.3	15.5	17.8
Apr	4,247.1	523.7	1,305.7	1,842.7	7,919.2	8.6	2.6	1.2	-35.4	-23.0	12.4
May	4,406.6	535.9	1,321.9	1,859.3	8,123.7	11.2	2.3	3.5	13.8	30.8	17.0
June	4,471.2	544.9	1,334.8	1,866.3	8,217.2	6.2	2.1	4.1	3.0	15.3	12.3
July	4,669.7	555.9	1,337.9	1,893.7	8,457.2	10.1	1.5	7.4	22.7	41.6	18.9
YTD '04	3,798.5	461.6	1,231.7	1,950.7	7,442.6	127.5	27.5	-23.9	-107.9	23.1	131.1
YTD '05	4,669.7	555.9	1,337.9	1,893.7	8,457.2	83.4	22.0	22.0	-44.6	82.9	127.4
% Change	22.9%	20.4%	8.6%	-2.9%	13.6%	-34.6%	-20.0%	NM	NM	258.1%	-2.8%

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

Source: Investment Company Institute

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