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SECURITIES INDUSTRY'S GOALS AND OBJECTIVES FOR THE DOHA DEVELOPMENT ROUND OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS

Summary[1]

The Doha Development Round of the World Trade Organization (WTO) provides U.S. negotiators with an opportunity to remove obstacles in foreign markets that impede the competitiveness of U.S. firms and hamper U.S. economic growth and job creation. Importantly, trade liberalization will result in real benefits in developing countries, by enhancing and strengthening capital market efficiency, increasing financial sector stability, bolstering economic growth, and raising the standard of living. By liberalizing trade in financial services, WTO members (Members) will help suppliers of goods and services capitalize fully on the new market-opening opportunities created by a Doha Round agreement. The following will address three key points: 1) the importance of financial services – and open global markets – to the U.S. economy; 2) the benefits of liberalizing financial markets for developing countries; and, 3) the securities industry's objectives for the Doha Round.

The Financial Services Sector: A Catalyst for U.S. Economic Growth

The U.S. financial services sector is a key component of the U.S. economy. Financial services firms touch all aspects of the economy, from raising capital for new businesses, to extending credit for corporate acquisitions, to managing finances for retail customers, to providing risk-management products and services to U.S. multinationals. In playing its unique and critical role in the U.S. economy, the financial services sector has contributed tremendously to the country's strong rates of economic growth and job creation over the last decade.

The U.S. securities industry fuels the nation's economic engines. The securities industry raised an estimated record $3.8 trillion in corporate capital – the fifth consecutive year the industry has raised more than $3 trillion.[2] In the last six years the securities industry raised nearly $20 trillion for U.S. businesses, an amount that already surpasses the $18.1 trillion raised in the previous 30 years.[3] Impressively, the U.S. securities industry's contribution to total output of the U.S. economy increased by nearly four times from 1989 to 2004 – a period when total output of the economy doubled.[4]

More broadly, the U.S. financial services industry[5] contributed $927 billion to U.S. Gross Domestic Product (GDP) in 2004, about 7.9 percent of total GDP.[6] More than 6.1 million

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[1] Drawn from the testimony of Marc E. Lackritz, President, Securities Industry Association, before the House Committee on Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology, United States House of Representatives Hearing on Increasing Efficiency and Economic Growth Through Trade in Financial Services, November 15, 2005, and from "Recommendations for Liberalization of Trade in Capital Markets-Related Services," Global Securities Industry, October 2005 (www.sia.com/international/pdf/wtomodel_pdf) ("WTO Model").

[2] Includes corporate capital underwriting, private placements and medium-term notes. Sources: Thomson Financial, Investment Dealers Digest.

[3] SIA, *Securities Industry Fact Book 2006* (forthcoming) (www.sia.com).

[4] U.S. Department of Commerce, Bureau of Economic Analysis (BEA) Annual Industry Accounts (www.bea.gov/bea/dn2/home/annual_industry.htm)

[5] Includes securities firms and related activities, banks and insurance companies.

[6] See www.bea.doc.gov/bea/pn/GDPbyInd_VA_NAICS.xls.

employees support the products and services these firms offer.[7] Financial services firms are also exporters. In 2004, exports totaled a record $27.4 billion, and generated a trade surplus of about $16.2 billion.[8] The continued vitality of the financial services sector is directly linked to its ability to sell its products in foreign markets.

U.S. financial services firms have increased their presence in foreign markets because both the U.S. economy and securities markets – while still the largest in absolute terms – have seen their share of the global pie shrink. Nearly 80 percent of the world's GDP,[9] for example, and more than half of the world's equity and debt markets are located outside the United States.[10] Similarly, half of the $15.3 trillion in global pension assets are outside of the United States.[11]

In addition, many of the best growth opportunities are in non-U.S. markets. By some projections, markets such as China, Brazil and India will be among the largest in the world by 2050. U.S. investors and corporations have already begun tapping these new markets, and U.S. securities firms will need to have open and fair access as well to serve the international focus of their clients.

Benefits of Liberalizing Financial Markets

Liberalization of trade in financial services in general – and in capital markets-related services in particular – is central to achieving the Development Round's goals of economic growth. The development and expansion of the financial sector indisputably advances economic growth in both developed and developing countries. In turn, the more open a financial sector is to competition – whether from inside or outside the country – the greater the benefits are to that economy. For example, in 2001, the World Bank estimated that by 2015 the developing world would gain more than $300 billion in annual output, or an additional two percent of GDP, from financial sector liberalization.[12]

As capital markets "deepen" – that is, as additional, and more varied, securities are issued and more participants trade – they further strengthen the financial systems of developing countries. The World Bank has found that more liquid local bond markets enhance the effectiveness of domestic monetary policy, reduce economies' exposure to foreign currency-denominated debt, and contribute to the overall soundness of domestic financial systems.

In addition, leading regulatory authorities in both the developed and developing worlds concur that an important lesson from recent financial crises is that a wider range of nonbank financial institutions, including viable debt and equity markets, can minimize the danger of overburdening the banking system. Overall, liberalization yields benefits at all levels of an economy: existing financial institutions are able to diversify their investment portfolios; and

7 U.S. Department of Labor, Bureau of Labor Statistics (www.bls.gov/news.release/pdf/empsit.pdf, Table B1, December 2005).

8 BEA, International Economic Accounts, Table 1. Trade in Financial Services, 1992–2004 (www.bea.gov/bea/di/1001serv/1004serv/tab1b.xls).

9 International Monetary Fund, *World Economic Outlook: Building Institutions*, September 2005 (www.imf.org/external/pubs/ft/weo/2005/02/pdf/statappx.pdf), p. 198.

10 International Financial Services, London, *Fund Management – City Business Series*, August 2005 (www.ifsl.org.uk/uploads/CBS_Fund_Management_2005.pdf) p. 7.

11 Ibid., p. 5.

12 World Bank, *Global Economic Prospects and the Developing Countries*, 2001, as quoted in WTO Model, Tab 3, p. 2.

local businesses gain greater access to capital and to new and more flexible means of financing from both domestic and non-domestic investors.

Securities Industry Goals and Objectives for the Doha Round

The General Agreement on Trade in Services[13] (GATS) and the commitments made in the 1997 financial services negotiation represented important first steps in establishing international rules in financial services. However, they will prove to be of fleeting value unless Members move decisively to expand their commitments. Unlike other WTO agreements, the most important market access rules in GATS apply to a Member only in those service sectors and "modes" of supply in which the Member agrees to be bound (the so-called "positive list" approach to trade liberalization). In other words, the value of GATS as a market access tool is only as good as the specific commitments that individual Members agree to undertake.

Although the 1997 financial services negotiation increased Members' specific commitments beyond where they were in 1995, it left many sectors and modes of supply with no coverage or only limited coverage under GATS rules. As a result, securities firms continue to face a number of discriminatory barriers that impede their ability to meet the demands of their clients.

To overcome these difficulties, the global securities industry has drafted a "Model Schedule" of GATS commitments for capital markets-related services.[14] The Model Schedule reflects the industry's view of the types of commitments that would enable securities firms to serve global customers most efficiently while safeguarding important regulatory objectives. The Model Schedule is indeed a global initiative, as it is now co-sponsored by the leading securities associations in the U.S., Europe, Canada, and Australia, with active consultation with counterparts in other jurisdictions, including Japan.[15]

In the Doha Round, the securities industry seeks commitments that reflect the global nature of the modern financial services markets and the way U.S. firms actually provide the capital markets services that their global customers demand. Those services include: 1) trading of debt and equity securities and other financial instruments; 2) underwriting and placement of securities; 3) asset management, including investment advice and financial planning; and, 4) advisory services on all types and on all aspects of financial transactions, including mergers and acquisitions, corporate restructurings, and privatizations.

In each of these subsectors, the industry seeks commitments in all four "modes of supply," meaning: 1) cross-border supply, for example, when customers and suppliers conduct business by telephone or e-mail without either leaving their home territory; 2) customers traveling abroad to consume services; 3) suppliers establishing a subsidiary in the home territory of the consumer; and, 4) suppliers sending their professionals abroad to provide services in the home territory of the consumer.

These broad commitments are sought because a single capital markets transaction today often necessitates more than one securities activity that involves all four modes of GATS "supply."

[13] For more information on GATS, see www.wto.org/english/tratop_e/serv_e/gats_factfiction_e.htm.

[14] See WTO Model, op. cit. 1.

[15] The organizations include, for example, the SIA, the International Capital Markets Association, the Investment Dealers Association of Canada, and the International Banks and Securities Association of Australia.

For example, a debt underwriting may require in-person meetings with an issuer's management, as well as electronic and telephonic exchanges of information. In addition, the issuer may enter into a derivatives contract with the underwriter to hedge its interest rate risk. Commitments in all capital markets-related activities and in all four modes of supply are essential to securing the benefits of capital-markets liberalization and to sensibly integrating consumers into the global financial markets.

Trade Liberalization Is Consistent With Sound Regulation

A Member's commitments to liberalize trade in capital markets-related services must be undertaken in the context of a fair, effective, and transparent regulatory regime. Sound regulation is essential to healthy, competitive markets because individuals and companies must be confident that markets in which they are seeking to invest or raise funds are well regulated.

Financial services regulations typically include standards that a supplier must meet in order to be authorized or licensed to do business in a market. Such standards – collectively referred to as "authorization requirements" – include the supplier's knowledge, resources, skills and risk management procedures. Similarly, regulations known as "conduct of business rules" apply to suppliers doing business in a market and address disclosure of information (including risk warnings) to customers, disclosure of information about the supplier, order execution and the protection of customer assets. Finally, "market conduct rules" relate to fraud, insider dealing and market manipulation.

The objective of the Model Schedule was to increase market access while not undermining financial regulation. The Model Schedule, therefore, preserves fully intact two important regulatory exceptions provided for in the GATS: 1) the prudential measures clause, which allows Members to protect investors and ensure the integrity and stability of their financial systems; and 2) the balance of payments clause, which allows Members to impose restrictions on capital transfers to address balance of payments or external financial difficulties. The following core objectives underpin the securities industry's Model Schedule.

Freely Established Commercial Presence

Establishing and developing relationships are critical elements in providing financial services. Often, it is essential to have a business presence in the host country to effectively deliver services. Despite the progress made during the last round of negotiations, many developing nations still deny foreign investors the right to structure their businesses efficiently, or they prevent them from establishing a commercial entity at all. In many cases, establishment is limited to minority joint ventures.

A fundamental element of any WTO agreement is the ability to operate competitively through a wholly owned commercial presence or other form of business ownership. Members should permit foreign suppliers of capital markets-related services to establish a new commercial presence or acquire an existing commercial presence in the Members' territories. Such suppliers should be able to choose their corporate form (*e.g.*, a 100 percent-owned subsidiary, a branch, or a joint venture) and be treated no less favorably than domestic suppliers (*i.e.*, national treatment).

Increased Cross-Border Access

In today's capital markets, services are increasingly being supplied electronically, without the consumer or the supplier leaving its home territory. WTO Members, however, have made virtually no commitments with respect to cross-border supply in three of the four sectors of greatest interest to our industry: trading, underwriting, and asset management. The absence of such commitments leaves securities firms unable to supply services cross-border in those markets where it is not permitted by domestic law. Likewise, securities firms cannot supply their services in markets where cross-border supply is currently permitted by domestic law, but not guaranteed by an international commitment.

The Model Schedule calls for Members to make basic commitments to permit cross-border supply without quantitative limits, and to accord such suppliers non-discriminatory treatment. The industry also recommends that Members embody in their GATS commitments one of several types of domestic regulatory regimes that have been developed to promote well-regulated cross-border trade. As described in a report of the International Organization of Securities Commissions,[16] these regimes exempt foreign suppliers under certain circumstances from local authorization requirements, taking into account one or more of the following factors:

— Whether the investor is sophisticated (as defined in local law), thereby recognizing that the securities laws need not protect sophisticated investors in certain circumstances;

— Whether the foreign supplier is well regulated in its home jurisdiction (*i.e.*, unilateral or mutual recognition of other regulators);

— Whether the foreign supplier solicits customers, or actively markets its services, in the local jurisdiction; and,

— Whether the securities transaction is "intermediated by" (*i.e.*, conducted through) a locally authorized supplier.

Even when a domestic regime exempts such suppliers from authorization requirements, the provision of the services typically would remain subject to the conduct of business and market conduct rules.

Transparency

Regulatory transparency is as much a market access issue for securities firms as tariffs are for manufacturers. A non-transparent regulatory system can skew competition in favor of domestic suppliers even where a market is technically open to foreign suppliers. Both suppliers and consumers of capital markets-related services must know what the rules are and have confidence that the rules will be applied consistently and fairly. Although there are different ways to achieve this objective, in general, regulators should: 1) propose regulations in draft form and provide interested parties the opportunity to comment on such draft regulations, where practicable; 2) make publicly available the requirements that suppliers must meet in

[16] Technical Committee of the International Organization of Securities Commissions, "Regulation of Remote Cross-Border Financial Intermediaries," February 2004, p. 4 (www.iosco.org/library/pubdocs/pdf/IOSCOPD162.pdf) as described in WTO Model, p. 2.

order to supply a service; and, 3) enforce laws and regulations according to fair and transparent criteria.

Binding Commitments to Open Markets

Many Members currently provide market access that is consistent with some or all of the previously described recommendations. In most cases, however, this level of access is not reflected in Members' GATS commitments. At a minimum, therefore, both developed and developing country Members should upgrade their commitments to reflect the level of market access afforded under their domestic laws. This will provide the legal certainty and predictability that stimulate economic activity.

Conclusion

The Doha Round negotiations offer another opportunity to secure open and fair access to foreign markets for U.S. firms and their clients. But the benefits of capital market liberalization are much broader than that. Capital market liberalization offers opportunities for all participants as it yields benefits at all levels of an economy: existing financial institutions are able to diversify their investment portfolios, thereby enhancing their stability; and local businesses gain greater access to capital and to new and more flexible means of financing from both domestic and non-domestic investors. More investment, in turn, leads to the formation of more new local businesses and to the expansion of existing ones – *i.e.*, economic growth, which benefits all citizens by creating jobs, and generating more and better products and services at more competitive prices.

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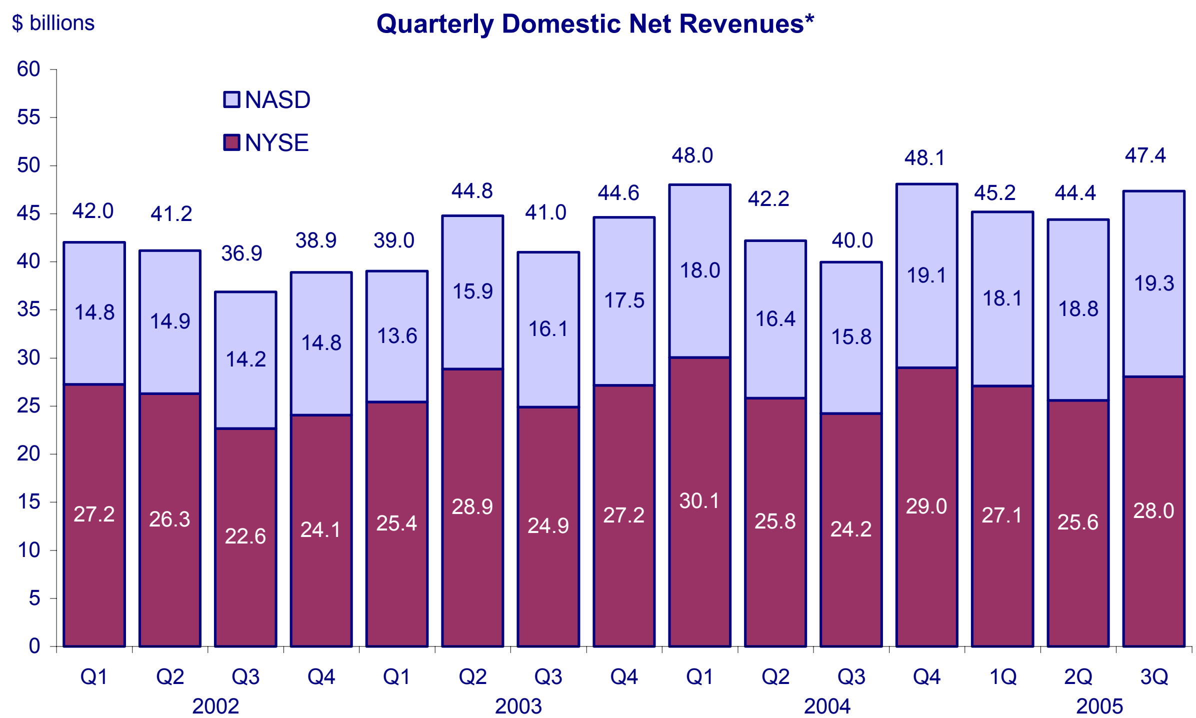
Vice President and Director, Securities Research

SECURITIES INDUSTRIES UPDATE: 3Q'05 PROFITS OF $5.01 BILLION REPORTED

Summary

During 3Q'05 the securities industry posted profits (pre-tax net income) of $5.01 billion. Securities industry profits surged 26.2% in 3Q'05, from $3.97 billion in 2Q'05, and were up 47.6% from the year-earlier period. Net revenues rose 6.7%, from $44.4 billion in 2Q'05 to $47.4 billion in 3Q'05, and were up 18.5% from prior-year levels.

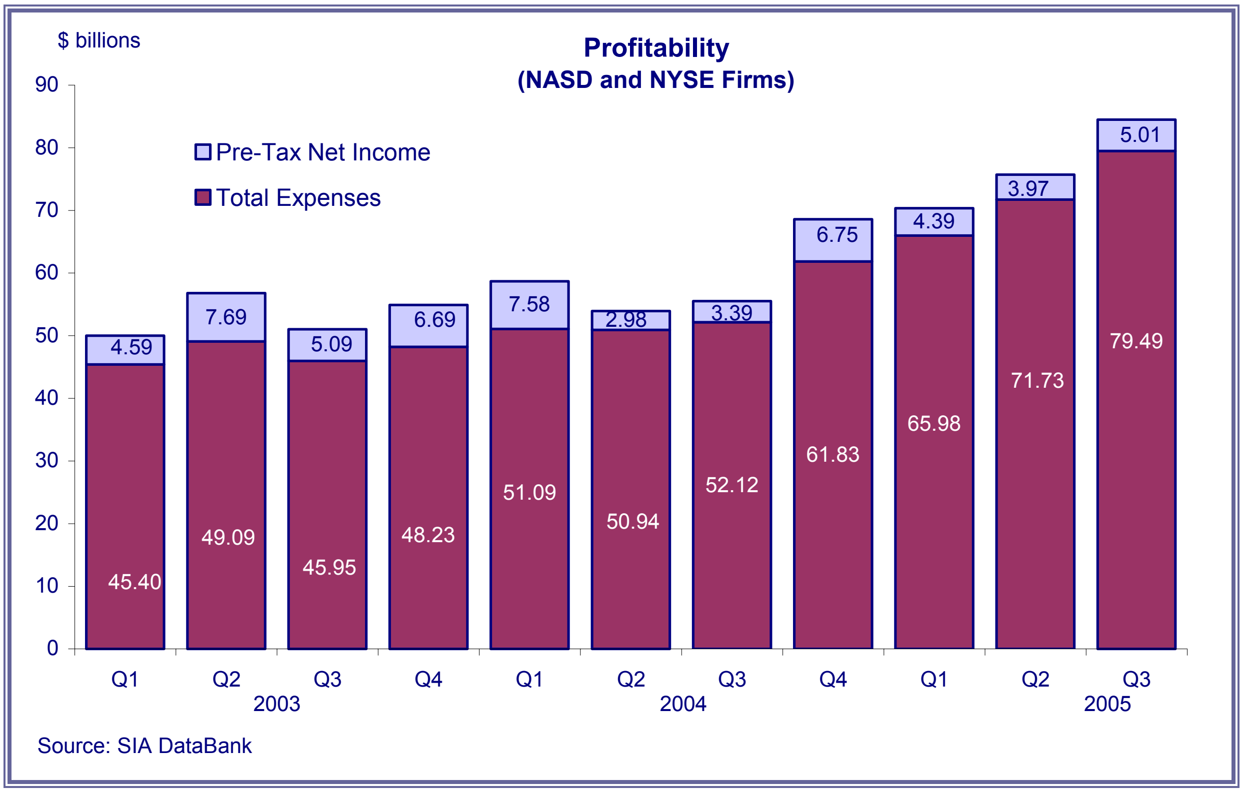
The solid third-quarter results were welcomed after a disappointing performance in the first half of last year. The industry posted broad-based growth across all major business lines, excluding debt trading, which continued its decline but at a slower rate. Revenue increases were led by the sustained growth of 'other revenues related to the securities business'. This revenue line, which includes corporate finance advisory services, mergers and acquisitions, prime brokerage, and derivatives and structured products activities, posted revenues of $35.7 billion, a 16.7% gain from 2Q'05 and up 106.5% from prior-year levels. Highlights of the industry's performance are provided below, while more detailed analysis of the drivers of industry profitability will be provided in the upcoming issue of *Securities Industry Trends*.



*Net of interest expense. Subtotals may not add to totals due to independent rounding.
Data for the industry reflects the reporting by 219 NYSE-reporting member firms and 4,965 NASD-reporting firms, effectively all registered broker-dealers doing a public business in the U.S.
Source: SIA DataBank

Third Quarter 2005 Results

Final 3Q'05 results from all U.S. broker-dealers doing a public business came in unusually late, arriving in January 2006. These aggregate results followed, with a substantial lag, the unseasonably good (in some cases record) performances reported by individual firms on a pro-forma basis last year. Renewed investor confidence and surprisingly strong growth in several high margin business lines boosted overall revenue growth. In 3Q'05 pre-tax profits reached $5.01 billion, 26.2% higher than in 2Q'05 and 47.6% above 3Q'04. Total revenue increased to $84.51 billion, 11.6% above 2Q'05 and 52.2% higher than that in the same year-earlier period. Total expenses grew at a slower rate of 10.8% to reach $79.49 billion in 3Q'05, up 52.5% from 3Q'04. These good overall gains in total or gross operating revenues translated into net revenues of $47.37 billion, an increase of 6.7% from the prior quarter and up 18.5% from 3Q'04.

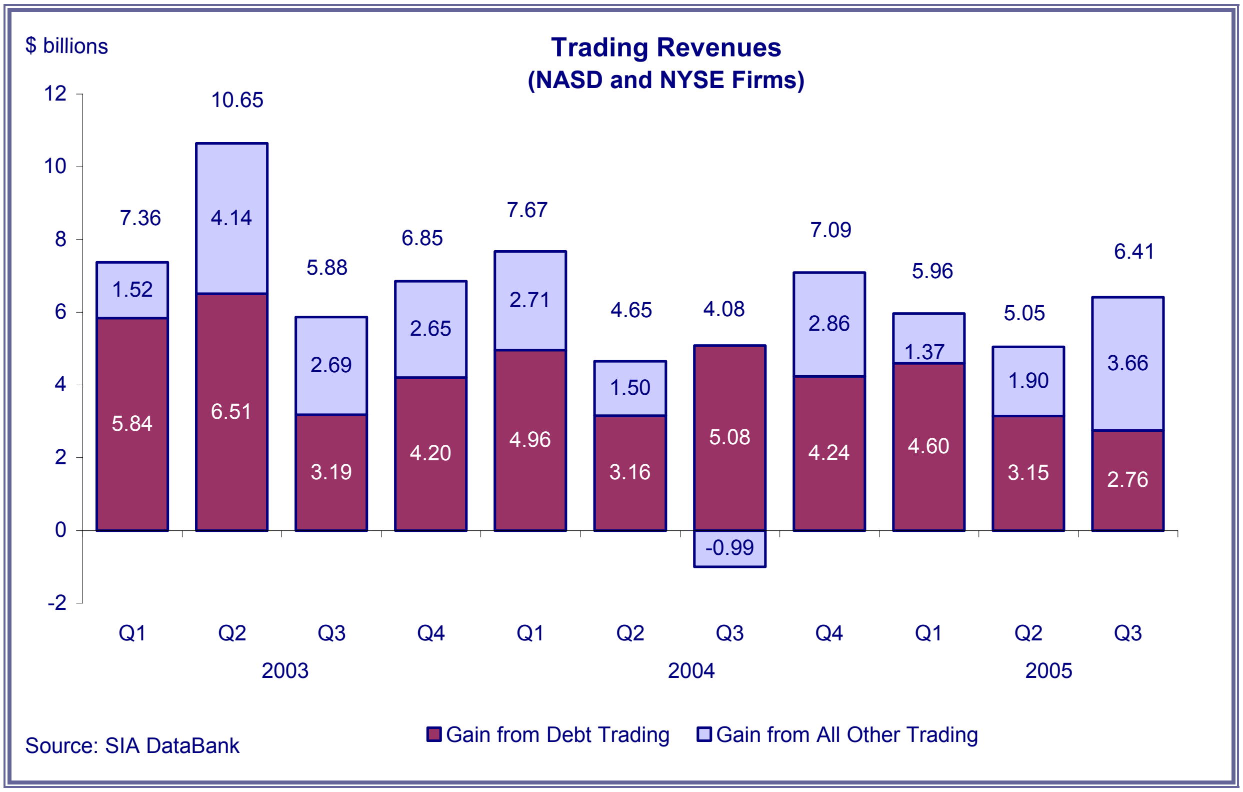


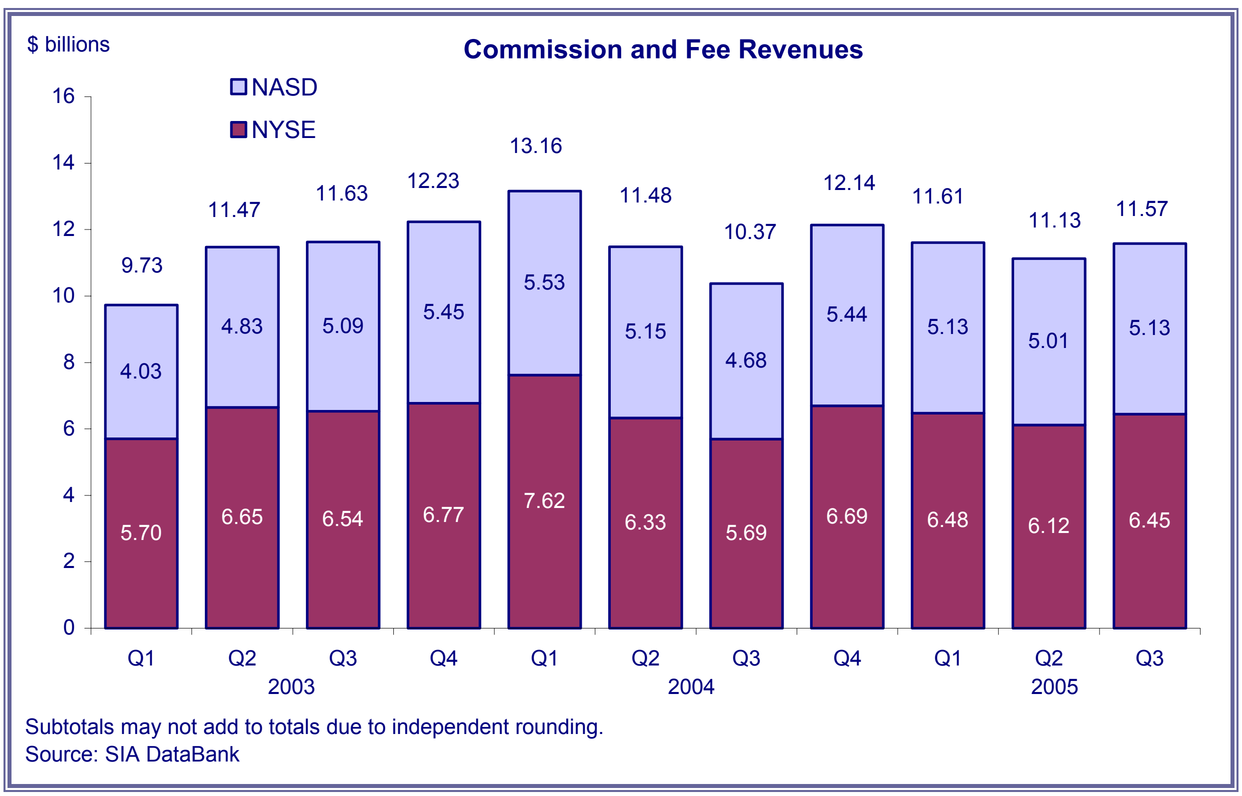
Trading Gains

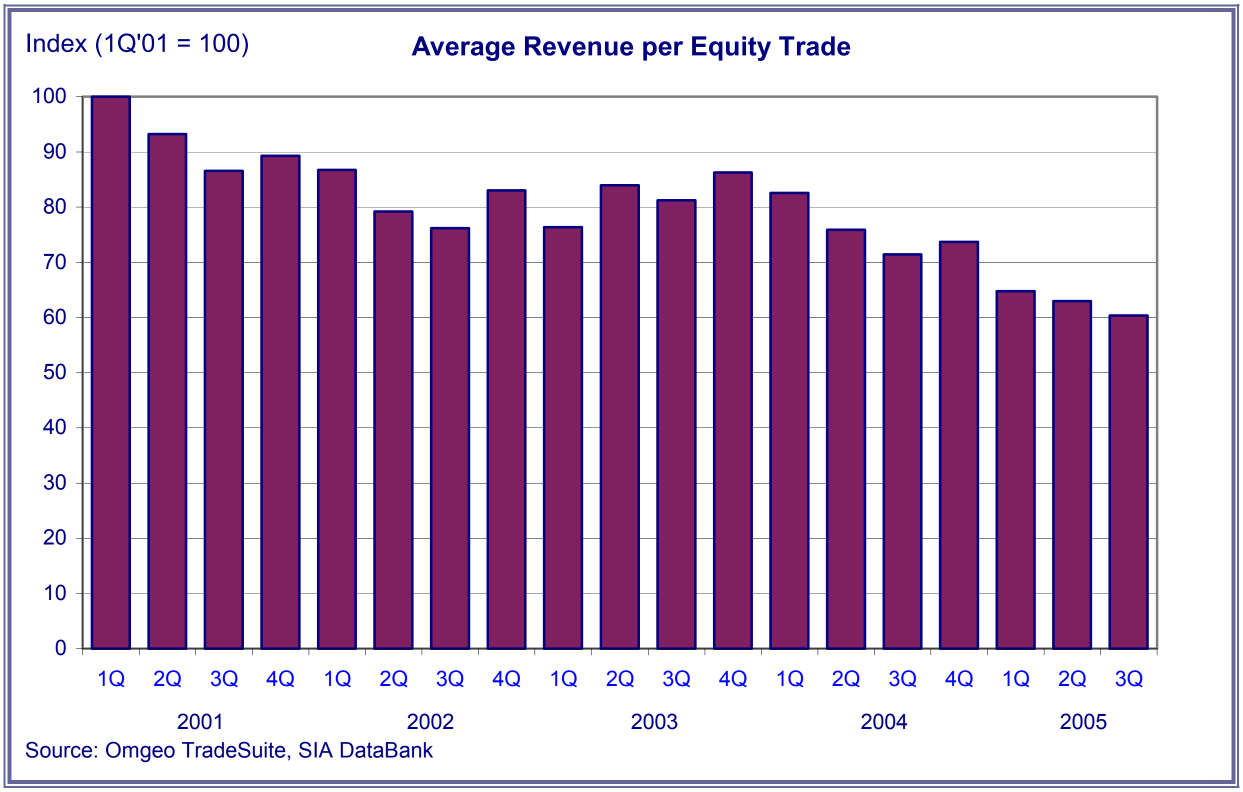
Debt trading revenues continued to decline from above average levels but at a slower rate than in the second quarter, with gains of $2.76 billion in 3Q'05, down 12.5% from 2Q'05 and down 45.8% from 3Q'04. But total trading revenues, including revenues derived from debt trading and all other trading activities, benefited from higher volatility, rising 26.9% to $6.41 billion in 3Q'05 from $5.05 billion in 2Q'05 and up 56.9% from prior-year levels.

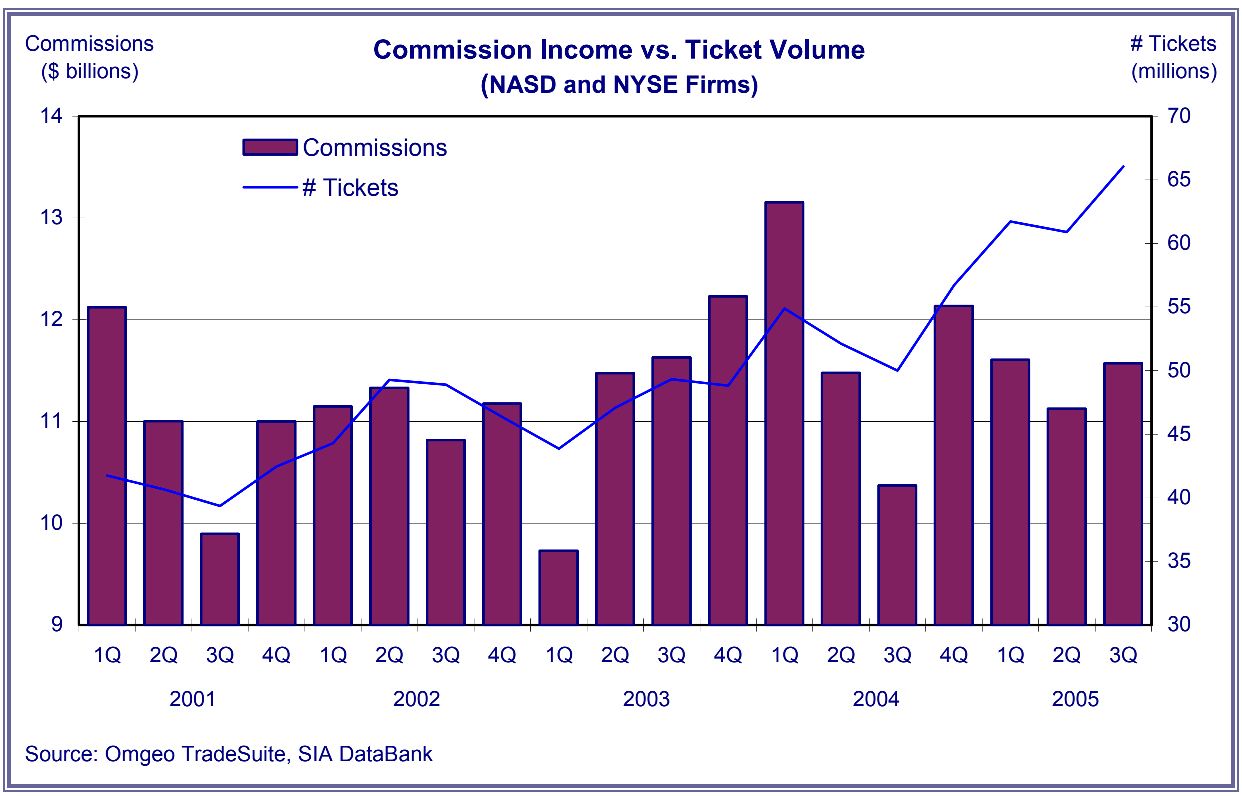
Commissions and Fee Revenues

In 2Q'05, revenues from commissions and fees posted single-digit percentage declines as the average revenue earned per trade continued to shrink. Record average daily ticket volumes in 3Q'05 helped reverse that decline, and growth of commissions and fee income resumed with a 4% increase from 2Q'05 and an 11.6% rise from levels in the same year-earlier period. Notably, the commission revenue mix is changing. Agency commission revenues are steadily declining, while program trading commissions and commissions on options trading are steadily increasing. Program trading alone now accounts for 29% of all NYSE trades.





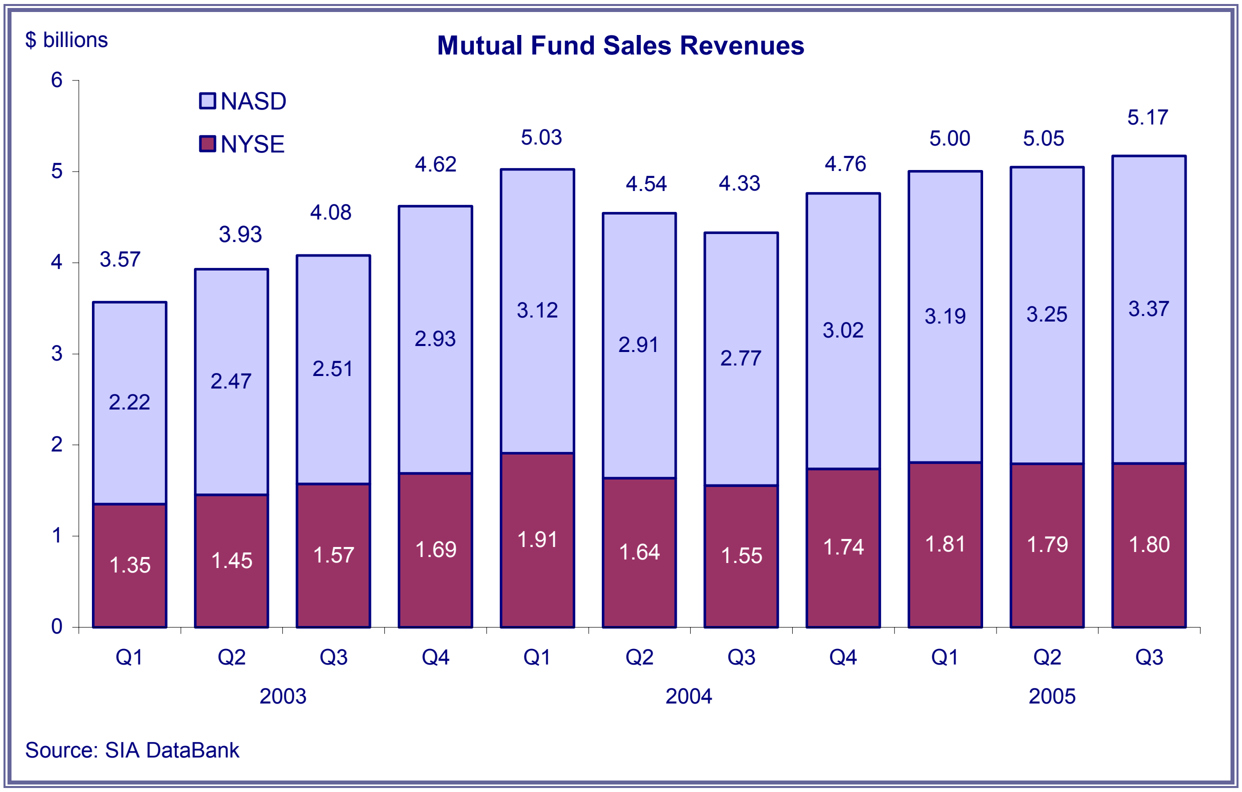




Mutual Fund Sales Revenues

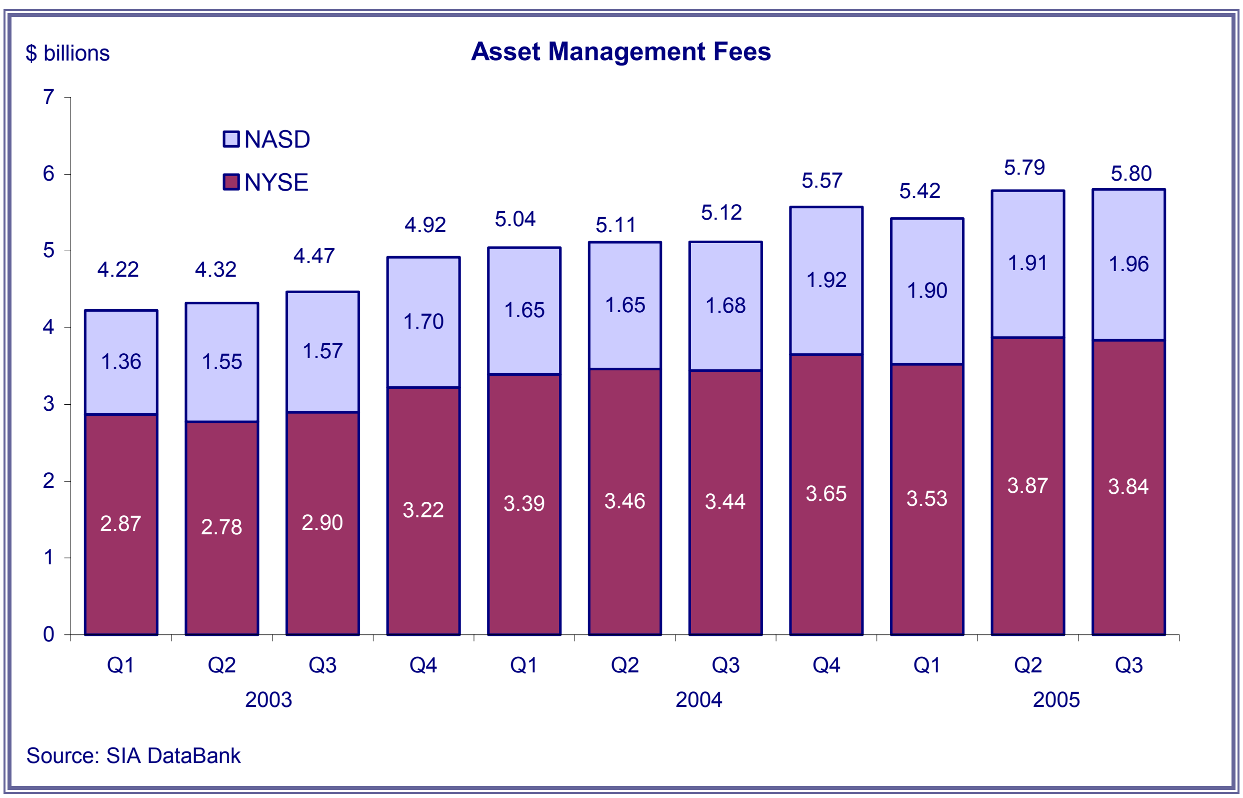
In the third quarter, $80.3 billion of net new cash flowed into mutual funds, $33.0 billion of which was invested in money market funds, as higher returns on short-term instruments made these funds more attractive relative to longer-term investments. However, inflows into equity, hybrid and bond funds, which command higher fees and revenues, managed to grow quarter-over-quarter by $5.6

billion, up 13.4% from 2Q'05 and 33.6% from prior-year levels. As a result, mutual fund sales revenue in 3Q'05 totaled $5.17 billion, up 2.4% from 2Q'05 and 19.5% from last year's levels.



Asset Management Fees

Weaker equity market performance has put a dent in asset management revenues that were almost flat in 3Q'05 relative to 2Q'05, increasing modestly by 0.3% to $5.8 billion, but up 13.4% from prior-year levels. Increased competition is fueling price cuts and constraining revenue growth.



Underwriting Revenues

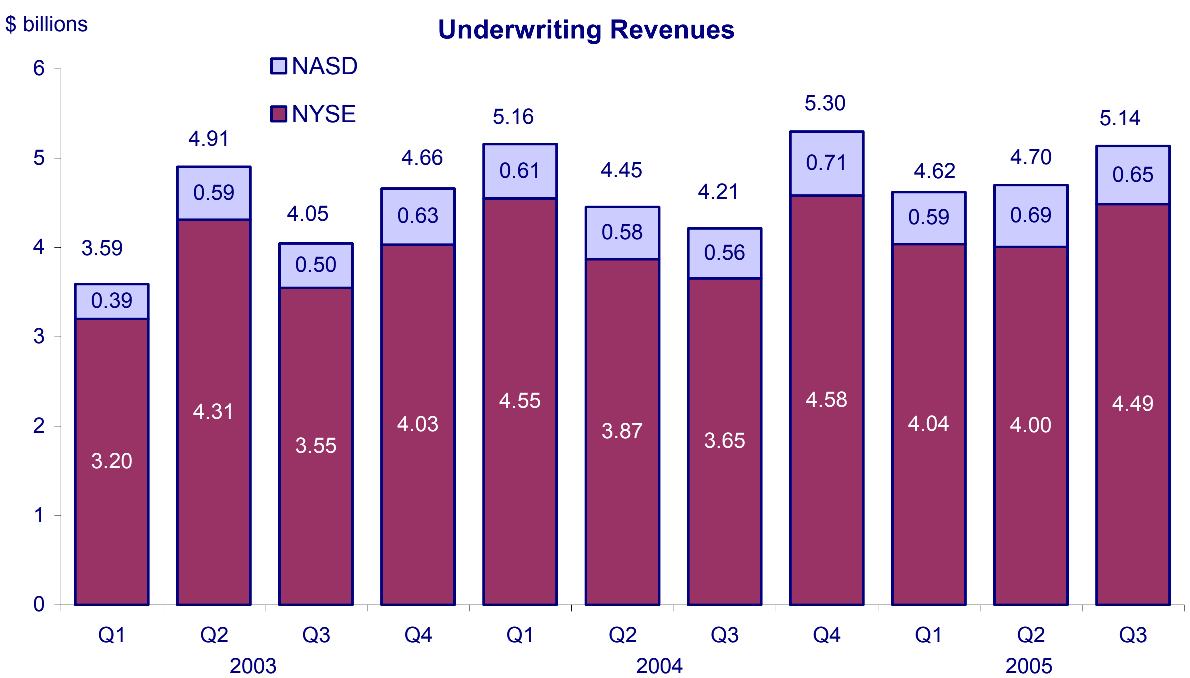
In 3Q'05, investment-banking revenues enjoyed solid growth led by higher equity underwriting revenues, which had decreased in the prior quarter. Total debt issuance activity was flat, while the value of secondary equity offerings surged, increasing by 81.3% over 2Q'05. In this environment, revenues from underwriting activities reached $5.14 billion, up 9.3% over 2Q'05 and 22.0% above prior-year levels.

Other Revenues Related to the Securities Business

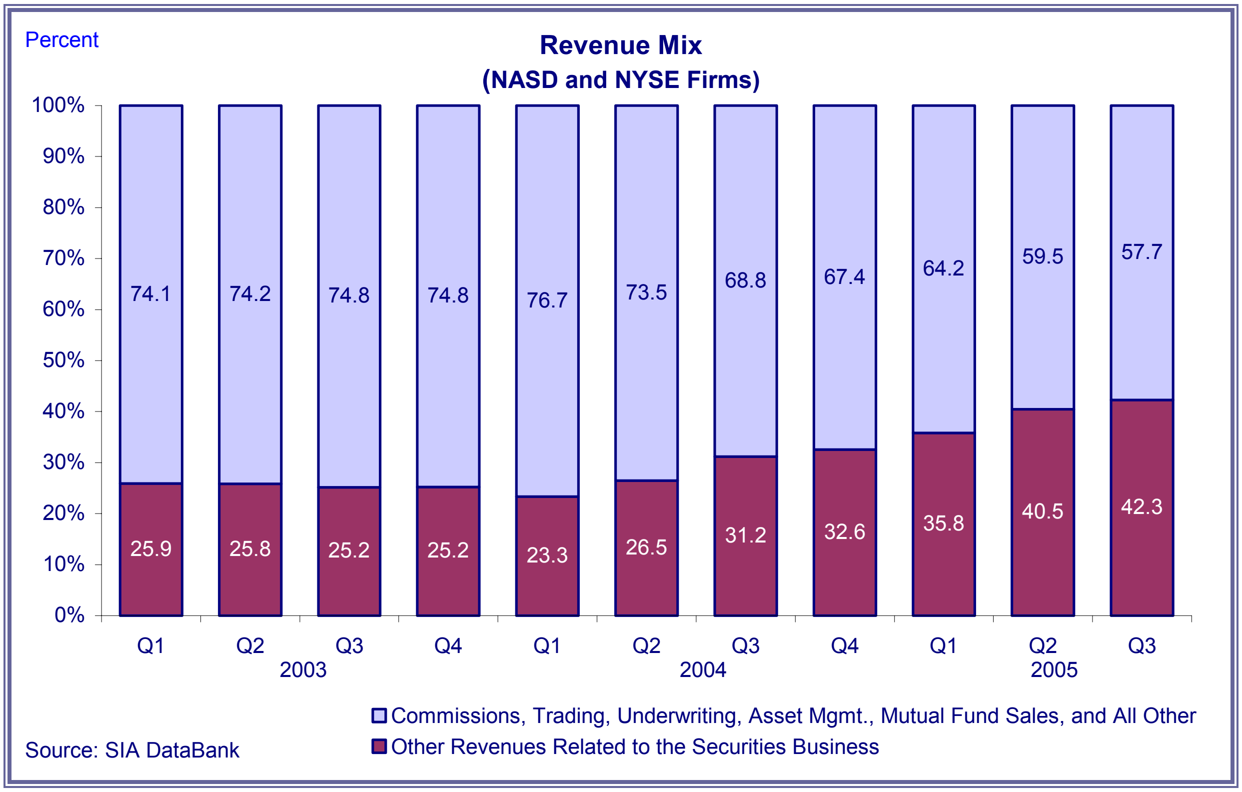
High margin business areas included in this revenue line such as corporate advisory services, financial structuring, mergers and acquisitions and prime brokerage services continued to post double-digit growth in the third quarter. Other revenues related to the securities business for all broker-dealers doing a public business were $35.74 billion in 3Q'05, up 16.7% from 2Q'05, 106.5% higher than in 3Q'04.

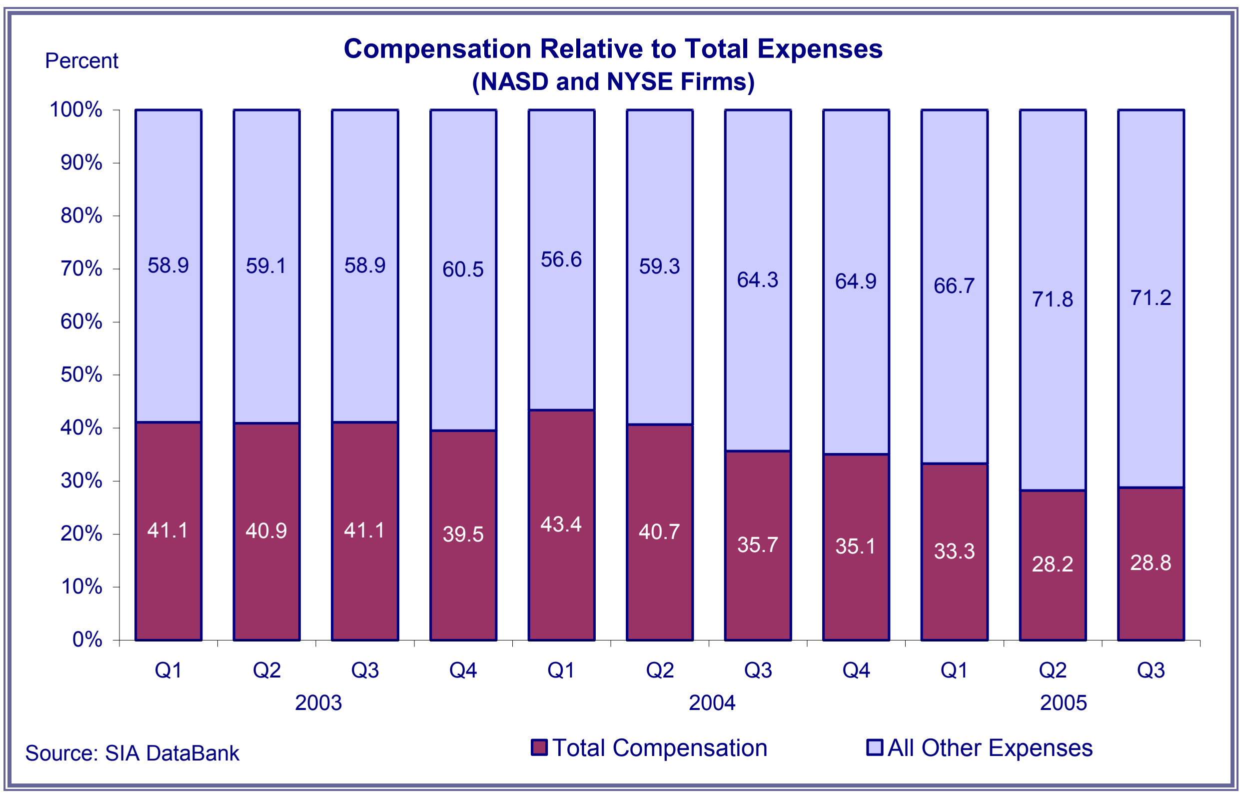
Expenses

Total expenses in the third quarter were $79.49 billion, up 10.8% from 2Q'05 and up 52.5% from 3Q'04, largely due to the impact of interest expenses driven by higher short-term rates. Compensation expenses reached $22.89 billion in 3Q'05, up 13.0% since 2Q'05 and 23.1% since 3Q'04, but mostly unchanged relative to total expenses.



Subtotal may not add to totals due to independent rounding.
Source: SIA DataBank





Isabelle Delalex
Vice President and Director, Industry Research

MODEL BEHAVIOR

An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. – Evan Esar

Forecasting (the art of saying what will happen, and then explaining why it didn't) is a generally thankless task: one can be either lucky or wrong. But ex-post analysis of predictions, particularly when they go badly wrong, is often very revealing, particularly of weaknesses in predictive models. Model behavior, or, more correctly, model misbehavior, offered this opportunity twice during January 2006, once at the beginning of the month and once at month's end. Below is a brief assessment of what went wrong and why.

Real GDP Growth in 4Q'05 Slows Sharply, Surprising Analysts

On January 27 the government released its "advance" estimate of U.S. real Gross Domestic Product (GDP) in 4Q'05.[1] It showed that growth in the American economy slowed sharply in the final quarter of last year, with real GDP increasing only 1.1% at an annual rate. This was the slowest pace in three years,[2] and followed ten consecutive quarters of growth in excess of 3%. It was also well below nearly all forecasts, which largely fell in a range between 2.5% and 3.0%,[3] prompting a broad range of surprised reactions,[4] with some labeling the release wrong or misleading.[5] Treasury Secretary John Snow said that he would "not read too much into" numbers that "are somewhat anomalous, reflecting some special factors."[6] Others called the release "the most perplexing report in memory…in both its overall appearance and underlying detail," and "the confusing and conflicting contradictions with other data make it difficult to be confident in any inferences about the outlook."[7]

First, it should be remembered that the "advance" estimate is only the first, least accurate and subject to the largest revisions of three releases of quarterly GDP. When the second or "preliminary" estimate is released on February 28, as well as the "final" estimate a month later, substantial revisions are expected as more detailed and more comprehensive data becomes available, since only two months of data were available for a number of components of GDP in the "advance" estimate.[8] From 1983 to 2002, the average revision between the "preliminary"

1 Bureau of Economic Analysis, U.S. Department of Commerce, News Release, Gross Domestic Product: Fourth Quarter 2005 (Advance), January 27, 2006 (www.bea.gov).

2 In 4Q'02, real GDP increased 0.2 percent.

3 The Bloomberg News survey of 72 estimates of 4Q'05 real GDP taken between December 23, 2005 and January 9, 2006 had a median estimate of 2.8%, with estimates ranging from 1.9% to 3.4%.

4 "Economists React," The Wall Street Journal Online, January 27, 2006 (http://online.wsj.com/public/article_print/SB113837018118358204.html). For example, "The consensus was a bit optimistic but this is a big surprise. The softness against our 2.6% forecast is explained by two components, fixed investment and government consumption. The former rose only 3.0%, with equipment and software up only 3.5%. This is baffling, given the 19.5% annualized leap in the value of capital goods production and the 14.9% rise in shipments of core nondefense capital goods. We expect big upward revisions." – Ian Shepherdson, High Frequency Economics.

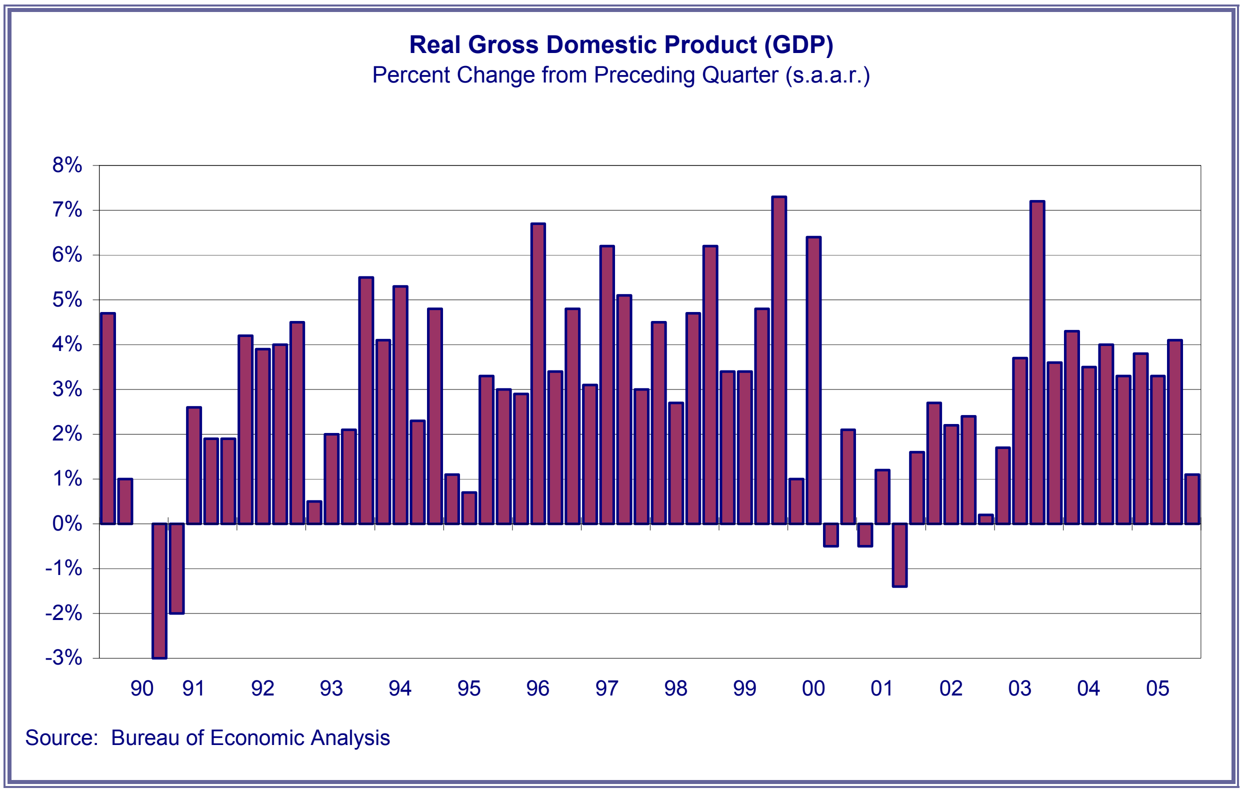
5 "Economic Report GDP Data Misleading, or Wrong: Economists Say," MarketWatch, January 27, 2006.

6 Secretary Snow Comments on Advance Estimates of Fourth Quarter 2005 GDP, U.S. Department of the Treasury, News, January 27, 2006 (http://www.treasury.gov/news/index1.html).

7 David Resler and Gerald Zukowski, Nomura Securities International, op. cit. 3.

8 Three months data was available for: consumer goods (but not services); shipments of capital goods other than aircraft; motor vehicle sales and inventories; manufacturing durables inventories; and, federal government outlays. Only two months data was available for most other indicators.

estimate and the "latest" (which reflects both annual and comprehensive revisions) is 1.2 percentage points of GDP,[9] or just a bit more than what was reported for overall 4Q'05 growth last week. The recently released and unexpected rise in December home sales was not assumed in the report,[10] and upward revisions are also expected in inventory accumulations and durable goods orders. However, even when the anticipated revisions arrive, the picture should be largely unchanged: growth in the U.S. economy slowed in the final three months of last year. The revisions will change the degree of the decline, indicating a more gradual slowdown, but not the direction.



The slowdown in 4Q'05 largely reflects a deceleration in consumer spending, a fall in government spending and slower growth both of business investment in equipment and software and of residential housing, which was only partially offset by an upturn in inventory accumulations. While volatility in the first two of these components is unlikely to be repeated in early 2006, the slowdown in business and housing investment could prove to be more persistent. Consumer spending increased only 1.1% in 4Q'05, compared with 4.1% in the preceding quarter. An annualized decline of 17.5% in durable goods purchases accounted for almost all the weakness in consumer spending, as growth of non-durable goods purchases accelerated to 5.1% from growth of 3.5% in 3Q'05, while service expenditures increased 3.2%, compared to a 3.3% rise in the prior quarter. The fall in durable goods purchases, in turn, solely reflects a fall in motor vehicle purchases, which subtracted 0.58 percentage point from 4Q'05 growth, after contributing 0.56 percentage point in 3Q'05.

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[9] The average without regard to sign is 1.2 percentage points of GDP. The standard deviation of the average without regard to sign is 0.9 percentage point. See Comparisons of Revisions to GDP, op. cit. 1, p. 5.

[10] New homes sales in December rose 2.9% to a 1.269 million annual rate from 1.233 million in November. The median forecast in a survey of economists prior to the BEA release on January 27 was for a decline to a 1.225 million annual rate.

Similarly, the 7.0% fall in federal government spending in 4Q'05, which followed a 7.4% rise in 3Q'05, was solely due to a sharp decline of 13.1% in defense spending after a 10.0% rise in the prior quarter.[11] If these swings in automotive output and Federal defense spending are excluded, "real GDP rose at an approximately 2.5% annual rate in 4Q'05, after increasing at a 3.2% pace on that basis in Q3'05."[12] This absence of a broad-based slowdown suggests that the economy did indeed possess "decent underlying momentum heading into this year," and forecasts of a "soft landing" (as opposed to a recession or "hard landing") still appear reasonable. Much depends on the housing sector. The anticipated gradual slowdown in the real estate sector emerged late last year as rising interest rates, with appropriate lags, took their toll on activity. Residential housing increased 3.5% after an increase of 7.3% in 3Q'05, while non-residential structures increased 0.7%, following a 2.2% rise in the prior quarter.

What troubled forecasters most, apart from the wide swings in defense spending that are not likely to be repeated, was a smaller-than-expected accumulation of inventories and slower-than-anticipated growth in business investment other than in commercial structures. The real change in private inventories added 1.45 percentage points ($25.7 billion) to real GDP in 4Q'05, after subtracting 0.43 percentage point ($13.3 billion) in 3Q'05. A much larger inventory accumulation had been forecast, and upward revisions when December data is included could still lift that number more in line with private expectations.

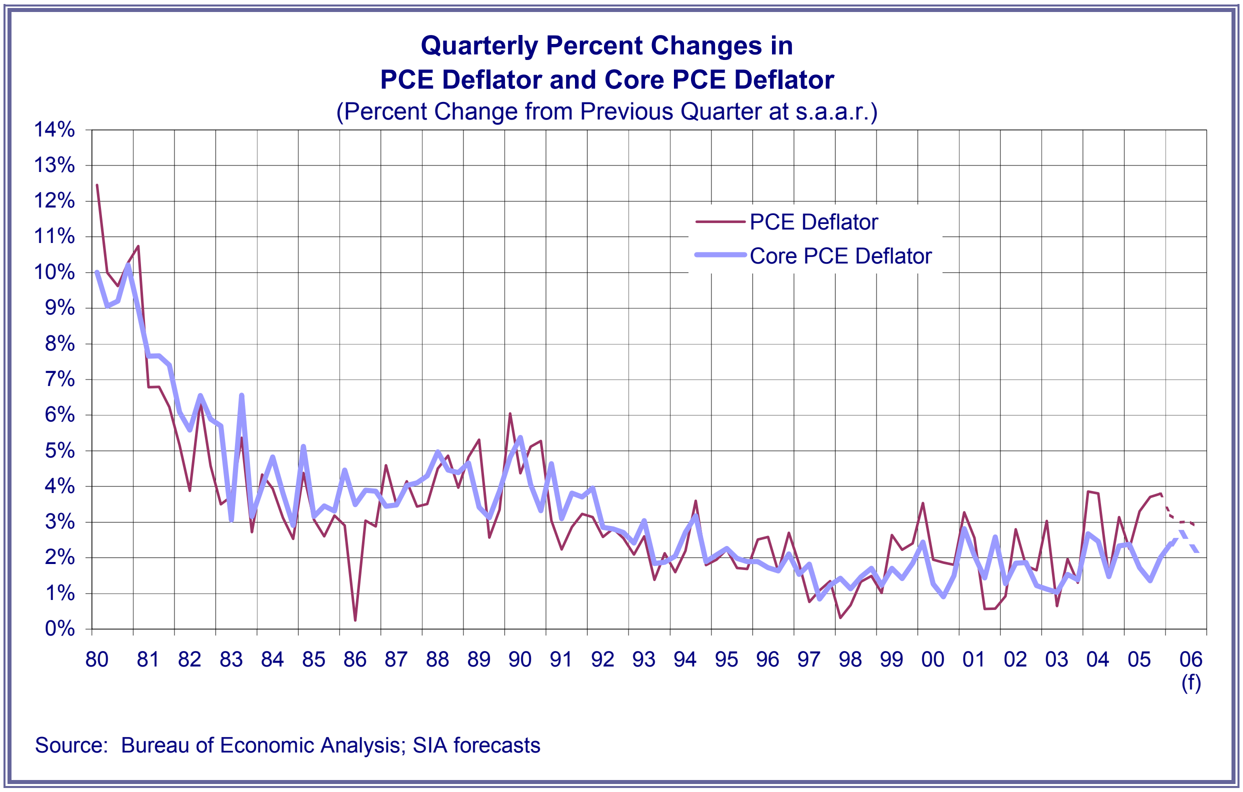
However, more challenging to hopes for a "soft landing" was the decline in the growth of business investment in equipment and software to an annualized rate of 3.5% in 4Q'05, compared with an increase of 10.6% in the preceding quarter. Most forecasters expect that stronger growth in business investment in 2006 will provide an offset to slowing consumer expenditures, but growth in this component in 4Q'05 was less than half the consensus forecast, calling that assumption into question. Nonetheless, the consensus forecast is for growth in real GDP to rebound to 3.8% in 1Q'06, before trending lower across the remainder of the year and averaging 3.4% for 2006, compared to 3.5% in 2005.

The markets also managed to shrug off the surprisingly weak GDP report, concentrating instead on some stronger-than-expected corporate earnings reports, as stock prices initially fell on the release, but rallied before the end of the session. Similarly, bond prices rose at first on expectations that slower growth might eliminate the need for further interest rate increases, before falling back to finish lower on the day.

The next test for forecasters is the January 31 meeting of the Federal Open Market Committee (FOMC), the last meeting Alan Greenspan will chair. There is virtual unanimity that the meeting will close with the 14th consecutive quarter-point increase in the Federal Funds rate to 4.5%. Forecasters and market participants appear to be equally divided as to whether the following meeting, when Ben Bernanke takes the helm on March 28, will produce another and final quarter-point hike, or whether data in the interim will continue to show slowing growth and relatively stable inflation making a move to 4.75% – a "rate hike too far" – and bring a halt to the current tightening cycle.

[11] In October 2005, the Department of Defense (DOD) made a lump-sum contribution to the Uniformed Services Retiree Health Care Fund to fund post-retirement health benefits of current military personnel for the entire fiscal year. This lump-sum contribution offset the decline in other DOD outlays in 4Q'05. However, BEA adjusts the timing of DOD outlays to show the accrual over the year of these one-time payments.

[12] *U.S. Economic Perspectives*, UBS Investment Research, Global Economic Strategy and Research, January 27, 2006, p. 1.



While the March decision will remain "data-dependent," at the moment the data suggests two quarter-point rate increases, rather than one, are in the cards. The price index for gross domestic purchases increased 3.3% in 4Q'05, which was less than the 4.2% increase in the preceding quarter. However, excluding food and energy prices, the core rate for this price index increased 2.9%, compared to 2.5% in 3Q'05. The more closely watched core personal consumption expenditures (PCE) deflator (PCE excluding food and fuel) also showed an uptick, rising to 2.8% in 4Q'05 from 2.6% in 3Q'05. Core inflation is above the "unofficial" inflation target range of 1.5% to 2.0% that is expected to become more explicit under Mr. Bernanke's leadership, and is still rising. As long as core inflation is rising, forecasting a halt to interest rate increases looks premature. In the meantime, unlucky forecasters should recall the maxim that "he who lives by the crystal ball soon learns to eat ground glass,"[13] but that it is still "far better to foresee even without certainty than not to foresee at all."[14]

FOCUS Data and 10Qs Diverge – Profits for NYSE-Reporting Securities Firms in 3Q'05 Come in Well Below Estimates

All registered broker-dealers doing a public business in the U.S. are required to file Financial and Operational Combined Uniform Single (FOCUS) Reports with the U.S. Securities and Exchange Commission (SEC) and with their chosen self-regulatory organizations (SROs). This data is aggregated by the two principal SROs, the regulatory arms of the New York Stock Exchange (NYSE) and the NASD,[15] and then combined, maintained and published by SIA

[13] Edgar R. Fiedler, "The Three Rs of Economic Forecasting – Irrational, Irrelevant and Irreverent," June 1977.

[14] Henri Poincare, *The Foundations of Science* (Science Press 1946), p. 129.

[15] During 3Q'05, there were 5,184 broker-dealers doing a public business in the U.S., 219 NYSE-reporting firms and 4,965 NASD-reporting firms.

Research. We also use this data to provide forecasts of industry performance, in particular, securities industry revenues, profits and compensation, to New York State and New York City budget officials, since securities industry personnel's income taxes and spending remain principal drivers of fiscal performance and overall economic activity in this region of the country.

While FOCUS data provides comprehensive income statements and capital account data on a consistent basis, this data arrives with substantial lags. To meet the more urgent needs of budget planners, SIA Research also aggregates the financial data of publicly traded financial institutions reported on 10Qs to the SEC and uses this quite distinct reporting base to estimate FOCUS data, since 10Qs are provided much more rapidly, *e.g.*, within three to four weeks after each quarter's end. For firms that engage solely or principally in traditional securities operations (brokerage, investment banking, asset management, etc.) this process is relatively simple, since data in 10Qs and FOCUS reports are somewhat similar. However, for financial services firms that also engage in non-securities businesses (commercial banking and insurance) and file 10Qs at the holding company level, the process is more complicated, requiring extraction of only the activities of the broker-dealer affiliates from the broader report filed by individual firms. While the scope of the two reports is quite distinct, in the past, this estimation method worked reasonably well.

However, while we were "spot on" in estimating NASD-reporting firms 3Q'05 results,[16] our forecast was off significantly, by $3 billion of pre-tax net income, for NYSE-reporting firms. Based on 10Qs, we had estimated that FOCUS pre-tax net income for NYSE-reporting firms would be $5.8 billion for 3Q'05, but the reported FOCUS number turned out to be only $2.8 billion. While still a solid performance (see the accompanying report on 3Q'05 results) it was hardly the result that would be expected given the record earnings reported in 3Q'05 by a substantial number of these firms in their 10Qs. We have been trying to understand the reasons why this large difference occurred since the NYSE data was released in early January, a full six weeks after the NASD results were posted.

To find out why these two data series diverged so significantly in 3Q'05, we turned to employees of SIA-member firms who have a hand in preparing these reports as well as to a number of equity analysts who cover financial services firms in general, and broker-dealers in particular. In this way, we hoped to be able to amend the forecasting model we maintain. While we still do not have definitive answers, what follows are some of the explanations offered.

Several relatively faster-growing product and service lines are included in the 10Qs, but not in the FOCUS reports, since revenues from these activities are reported in non-broker dealer affiliates under Bank Holding Company or Financial Holding Company structures rather than in the broker-dealer itself. The four principal differences appear to be:

(1) ***Commercial banking operations of investment banks*** – As short-term interest rates continued to rise across 3Q'05, net interest margins on these operations expanded. Also, as short-term interest rates rose, the yield on short-term deposits in these commercial banking affiliates increased, as did their relative attractiveness vis-à-vis

[16] We had forecast 3Q'05 pre-tax net income (profits) for NASD-reporting firms would be $2.3 billion. The actual result was $2.22 billion.

stock market investments, which showed lackluster performance. Bank deposits rose as a percent of total customer assets at the expense of securities products.

(2) ***Derivative Products*** – Over-the-counter derivative products transactions, including, notably, the rapidly growing credit derivatives business, are not executed in broker-dealer (B/D) affiliates, but rather in non-broker affiliates. It has also been suggested, though not confirmed, that while the revenue realized on structuring and placing profitable derivatives transactions is recorded at non-broker-dealer affiliates, the losses (if any) incurred for hedging those transactions, along with the costs of borrowing the securities needed to create some of these hedges may be included in B/D accounts;

(3) ***Non-U.S. Operations*** – Since the FOCUS data reports only the domestic operations of U.S. B/Ds, revenues earned outside the U.S. are included in the broader, global revenues at the holding company level (public company reports). During 3Q'05, foreign operations grew much faster than their U.S. domestic counterparts. For example, growth of non-U.S. investment banking and corporate financial advisory revenues, particularly European mergers and acquisitions, exceeded growth of comparable revenue streams from domestic U.S. operations.

(4) ***Principal Investing*** – Private equity, for example, may be reported in non-B/D affiliates, in the U.S. or abroad, and are therefore included in the global holding company accounts, but not in FOCUS reports.

Additional factors likely contributed to the model's failure. One is the change in the size of the population, *e.g.,* the number and composition of NYSE-reporting firms. In 3Q'05, there were 219 NYSE member firms included in the aggregate figures, down from 225 firms in 2Q'05 and 232 firms in 3Q'04. Changes in the number of reporting firms from quarter-to-quarter are net figures, reflecting both entering and exiting firms. When we examined which firms these were and the impact their exclusion and inclusion had on the totals we found this factor was not as significant in explaining the model's failure as those listed above.

Other factors that may have had a more significant impact are differences in the timing of the recognition of revenues between the two reporting bases, as well as leads and lags in receipt of certain investment banking revenues. We also examined the impact of changes in regulatory standards and practices, but concluded they did not likely contribute significantly to the model's failure.

While clearly we have not yet answered these questions sufficiently well to be able to rebuild our forecasting model for securities industry financial results, we believe this is a start. We hope it will provide a basis for discussion and lead to a better understanding of some of the structural changes the industry is undergoing and how those changes affect financial reporting. In the meantime, we will continue to work on this one, for as the old saying goes, "A good forecaster is not smarter than everyone else, he merely has his ignorance better organized."[17]

Frank A. Fernandez
Senior Vice President, Chief Economist and Director of Research

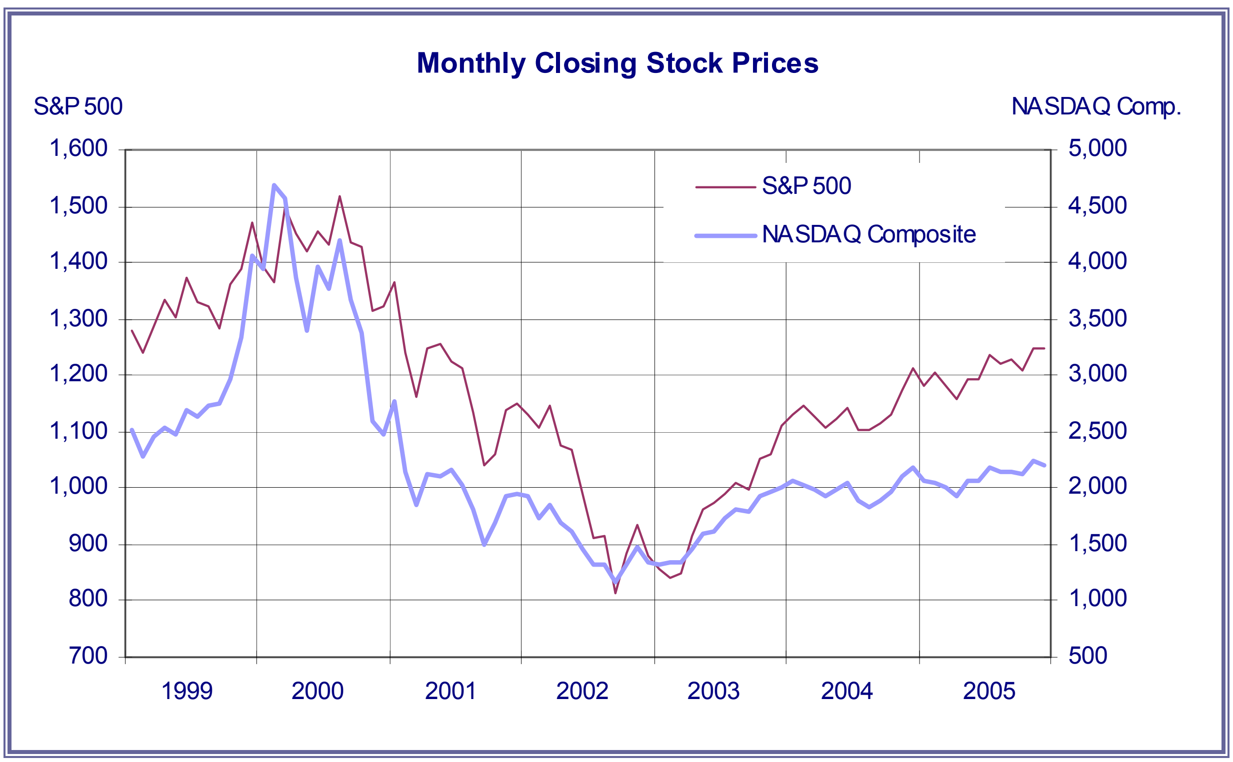
[17] Anonymous.

MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices – A fourth-quarter rally, which began in late October and pushed the S&P 500 index to a 4½-year high in mid-December, ran out of steam by year-end as oil prices climbed to $61 a barrel and the Treasury yield curve inverted for the first time in five years. As a result, the major U.S. equity indices posted slim losses in December, trimming their fourth quarter advances. During 4Q'05, the Dow Jones Industrial Average, S&P 500 and NASDAQ Composite Index rose 1.4%, 1.6%, and 2.5%, respectively, after languishing through mid-year and posting modest gains in 3Q'05.

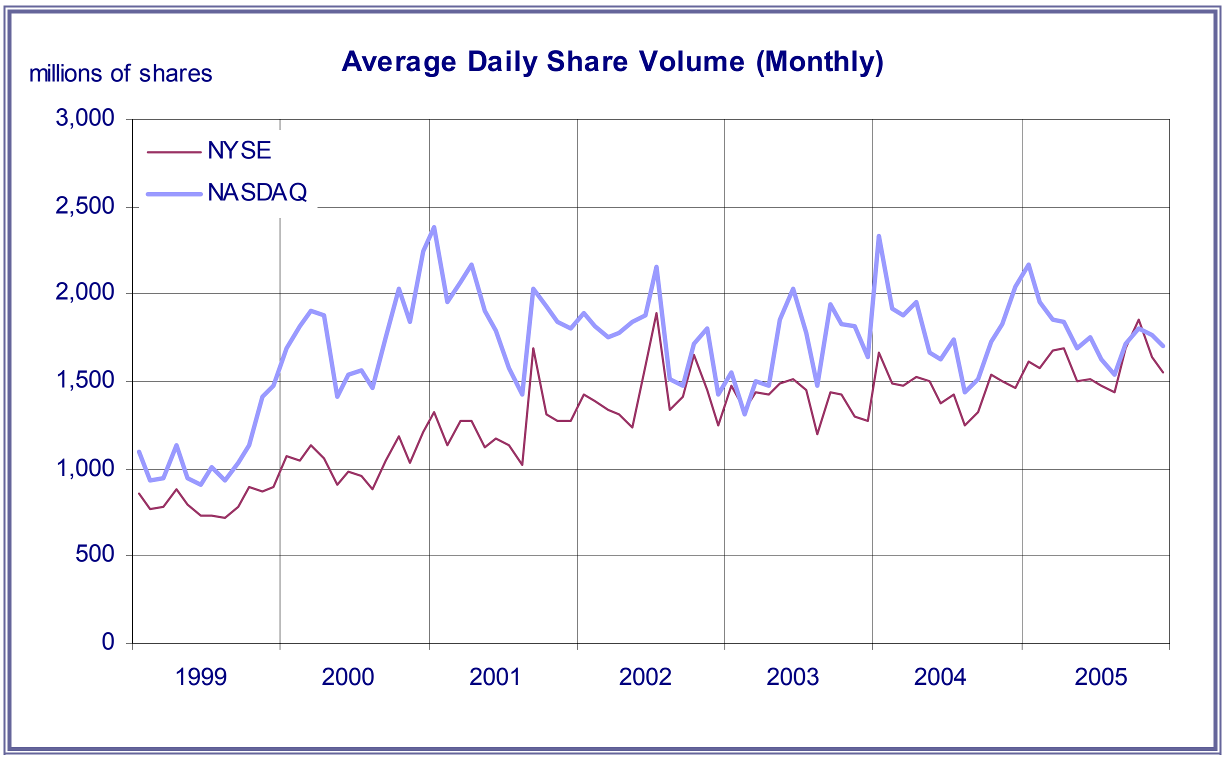
The decline in U.S. stock prices during the final trading day of the year erased the Dow's 2005 advance. The DJIA lost 0.6% for the year, its first annual loss since the end of the bear market in 2002. Other major market indices finished in positive territory for the third consecutive year, but turned in their most sluggish performances since 2002. The tech-heavy NASDAQ Composite finished the year up 1.4%, the S&P 500 advanced 3.0%, and the more comprehensive DJ Wilshire 5000 Index rose 4.6%. Foreign stock markets fared much better, and many global benchmark indices registered double digit increases in 2005. London's FTSE 100 Index rose 16.7%, France's CAC-40 gained 23.4%, Germany's DAX rose 27.1%, and Japan's Nikkei 225 soared 40.2%.



Most investment strategists predict that stock prices will increase by roughly 7% in 2006 given prospects for still strong, albeit slowing, growth in corporate profits and the underlying economy, current valuations, and an expected end to the current interest rate tightening cycle.

Secondary Market Activity

Equity Share Volume – After slumping in the late spring and summer, trading activity on the New York Stock Exchange (NYSE) and the NASDAQ showed a significant pickup during September and October, before moderating somewhat in the final two months of the year. October 2005 proved to be the second best month ever for the NYSE (only 2.1% below the record set in July 2002) and, as a result, average daily share volume on the NYSE in 4Q'05 climbed to 1.68 billion, up 9.7% relative to 3Q'05 and 12.1% relative to the same year-earlier period. For 2005 as a whole, average daily share volume on the NYSE reached a record 1.60 billion, exceeding the previous record in 2004 by 10.0%.



On NASDAQ, average daily share volume in 4Q'05 rose to 1.76 billion, up 8.2% relative to 3Q'05, but 6.1% below the same year-earlier period, and still well below the record volumes seen in early 2001. For 2005 as a whole, NASDAQ average daily share volume was 1.78 billion, 1.3% below 2004 levels and still 6.4% short of 2001's record 1.90 billion.

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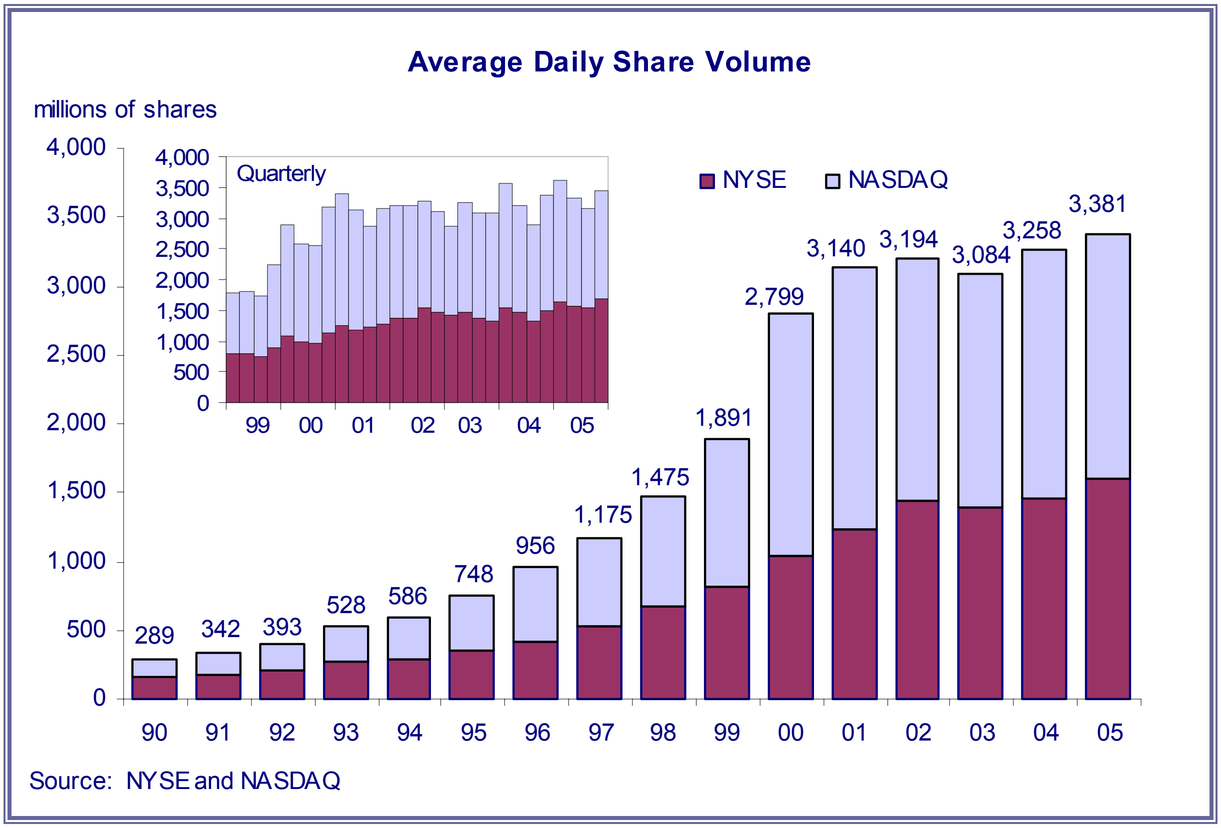
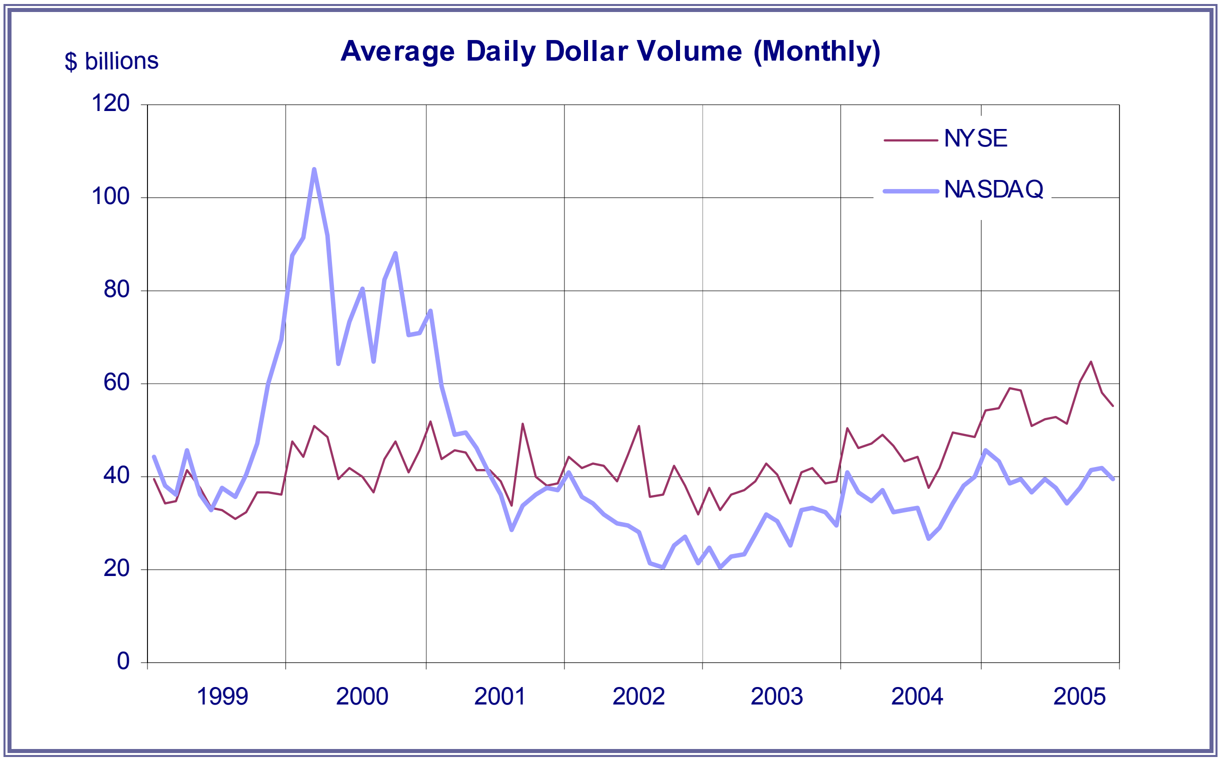
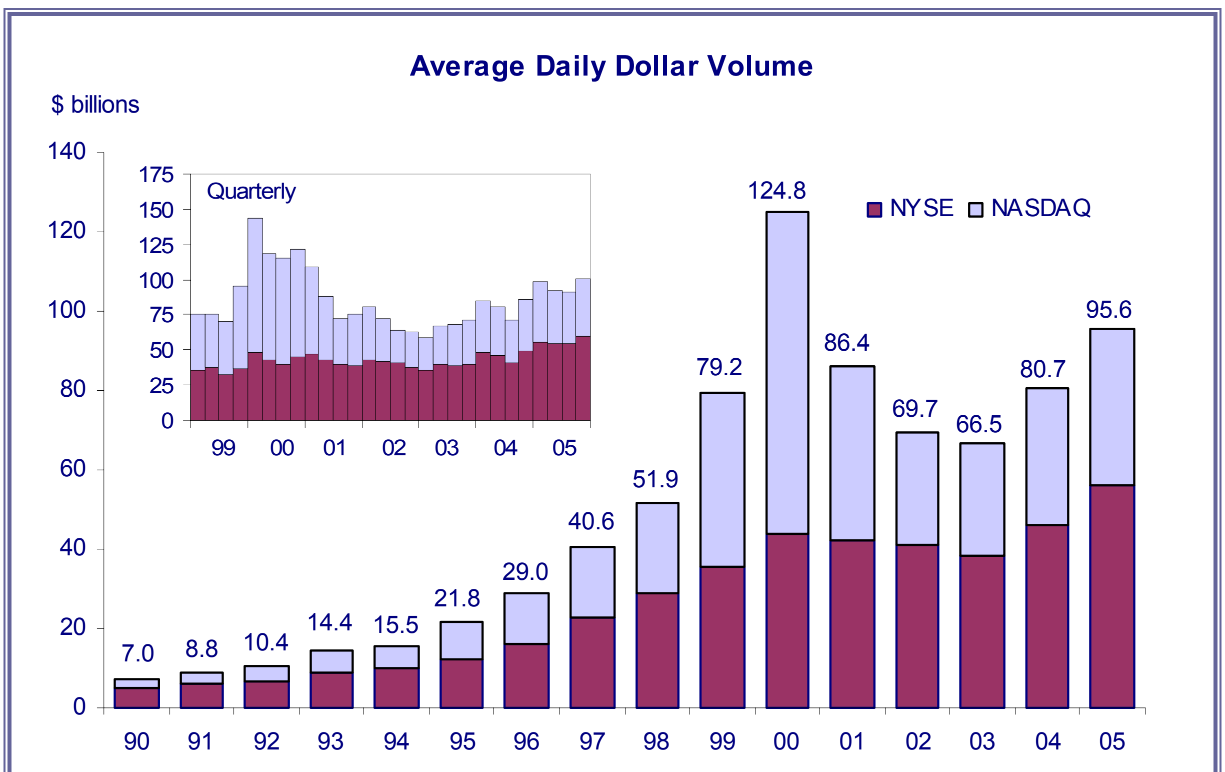


Equity Dollar Volume – A combination of increased trading activity and rising share prices helped lift the total value of shares traded in 4Q'05. Average daily dollar volume on the NYSE reached a monthly record of $64.6 billion in October before falling back to more normal levels in November and December. During 4Q'05, average daily dollar volume on the NYSE reached $59.3 billion, up 8.1% from 3Q'05 and 21.2% higher than the same year-earlier period, setting a new quarterly record. Similarly, for 2005 as a whole, average daily dollar volume set a record, reaching $56.1 billion, 21.6% higher than the previous record set in 2004.

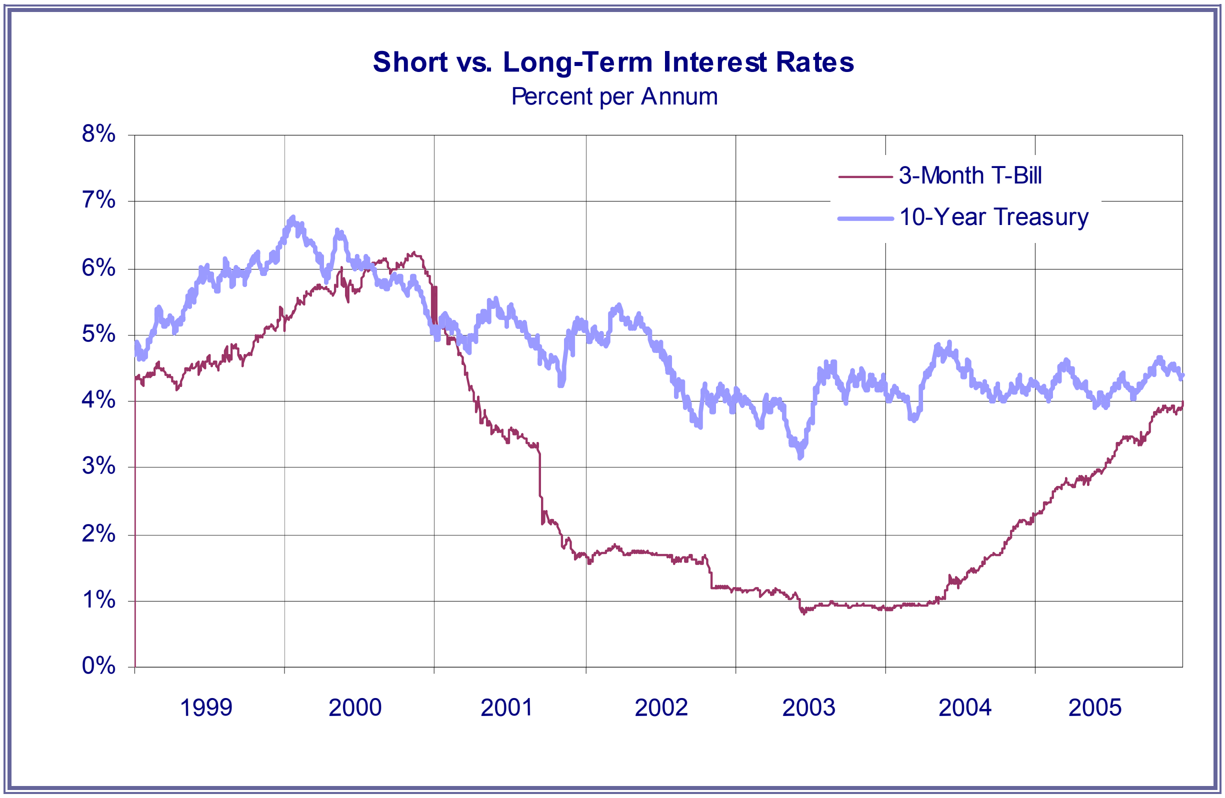
After slipping to a 2005 monthly low in August, the average daily value of shares traded on NASDAQ rose solidly in each of the next three months, before falling back slightly in December. During 4Q'05, average daily dollar volume on NASDAQ reached $41.0 billion, up 12.8% over 3Q'05 and 9.4% higher than in 4Q'04. For 2005 as a whole, average daily dollar volume reached $39.5 billion, up 14.2% from 2004 levels, but still only half the record of $80.9 billion reached in 2000.





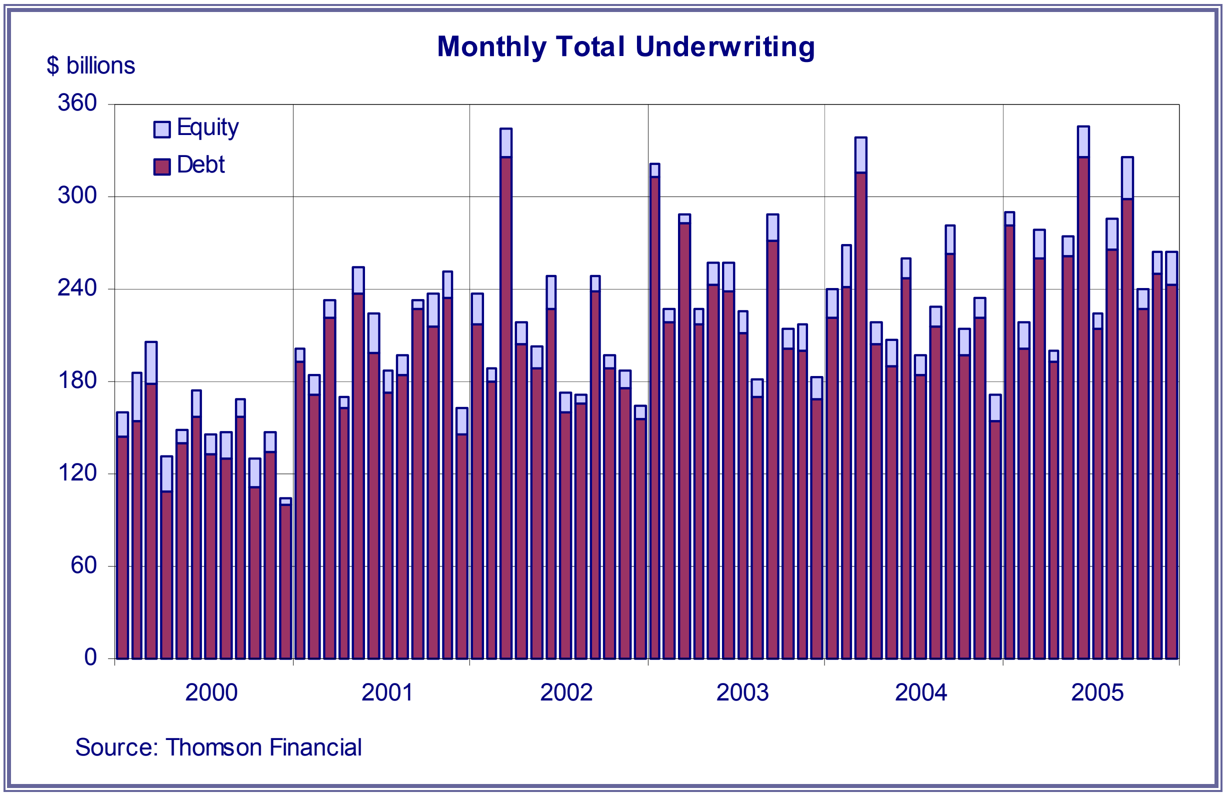
Source: NYSE and NASDAQ

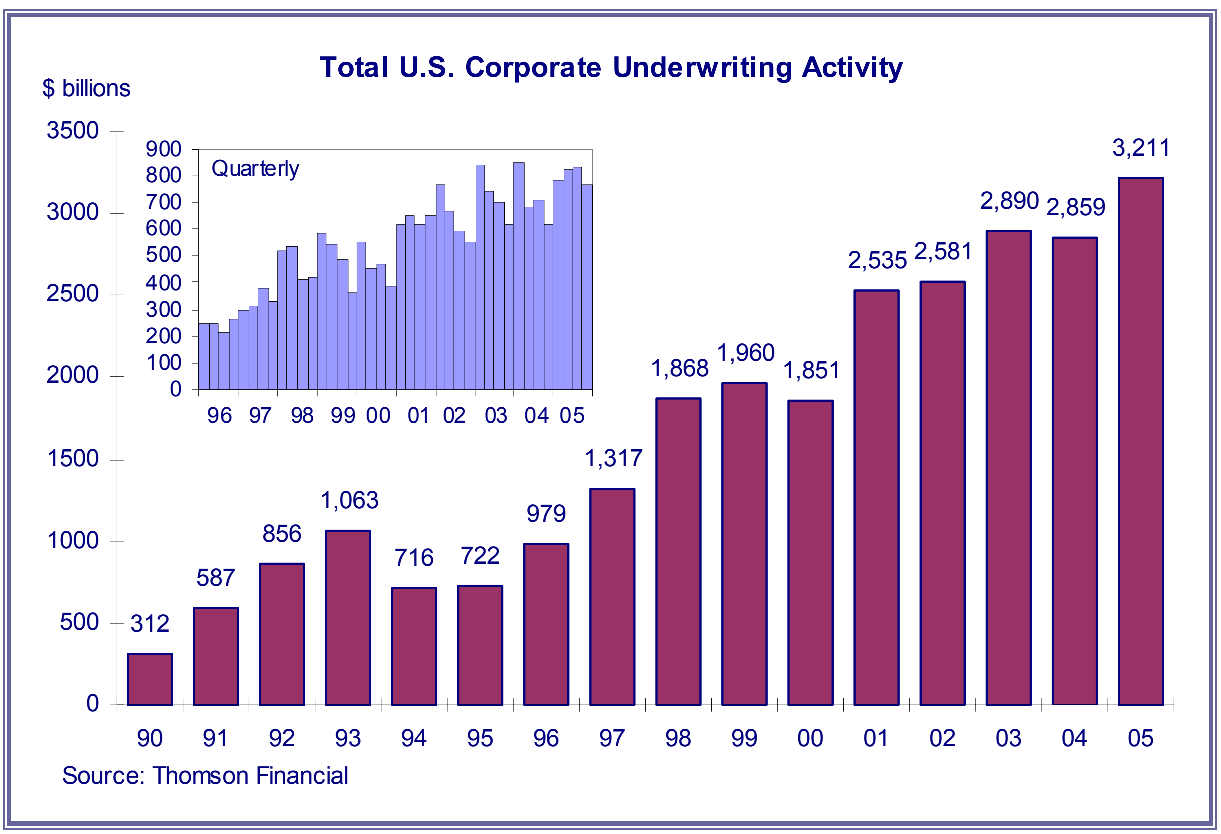
Interest Rates – The bond market ended 2005 on a sour note, as the yield on the 10-year Treasury note fell below the yield on the two-year note in the final week of trading, causing a slight yield curve inversion. Eight interest rate hikes by the Federal Reserve in 2005 pushed the federal funds rate from 2.25% per annum (p.a.) at the end of 2004 to 4.25% p.a. at the end of 2005. In response, the annualized yield on three-month T-bills rose to 3.99% by year-end 2005, from 2.18% at the start of the year. Meanwhile, the yield on the longer-term 10-year Treasury note, which usually moves in tandem with short-term yields during a Fed tightening cycle, rose a mere 15 basis points to 4.39% p.a. at year-end 2004 from 4.24% p.a. at the beginning of the year.



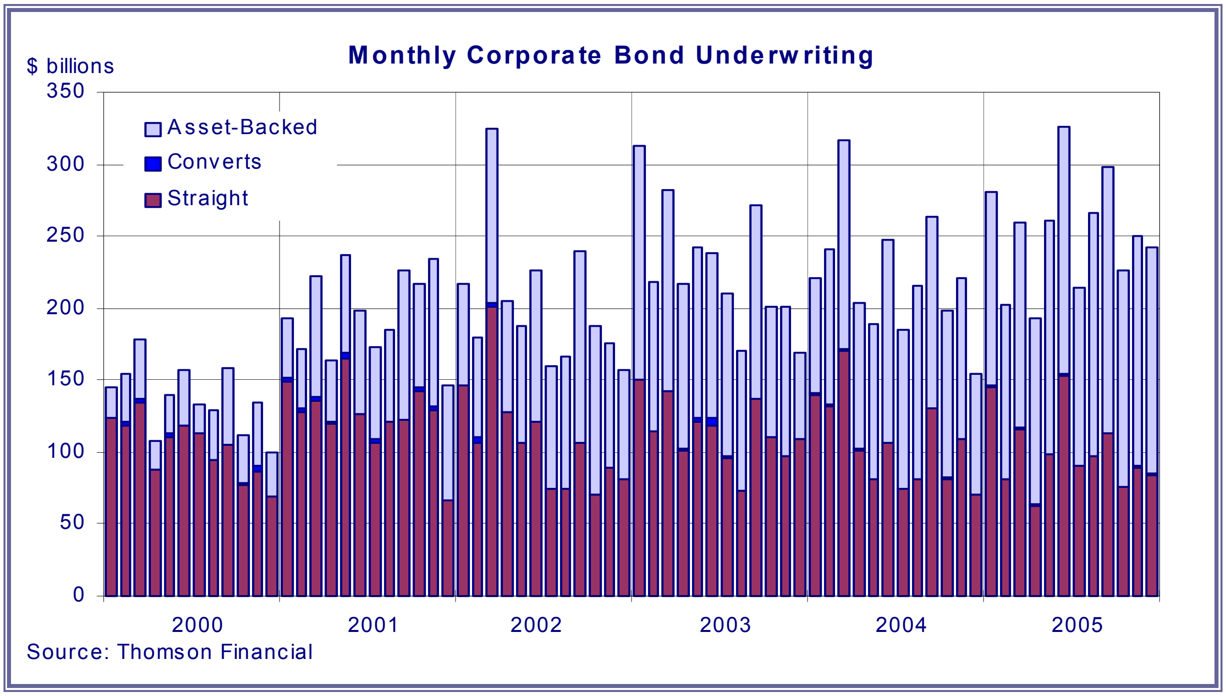
U.S. Underwriting Activity

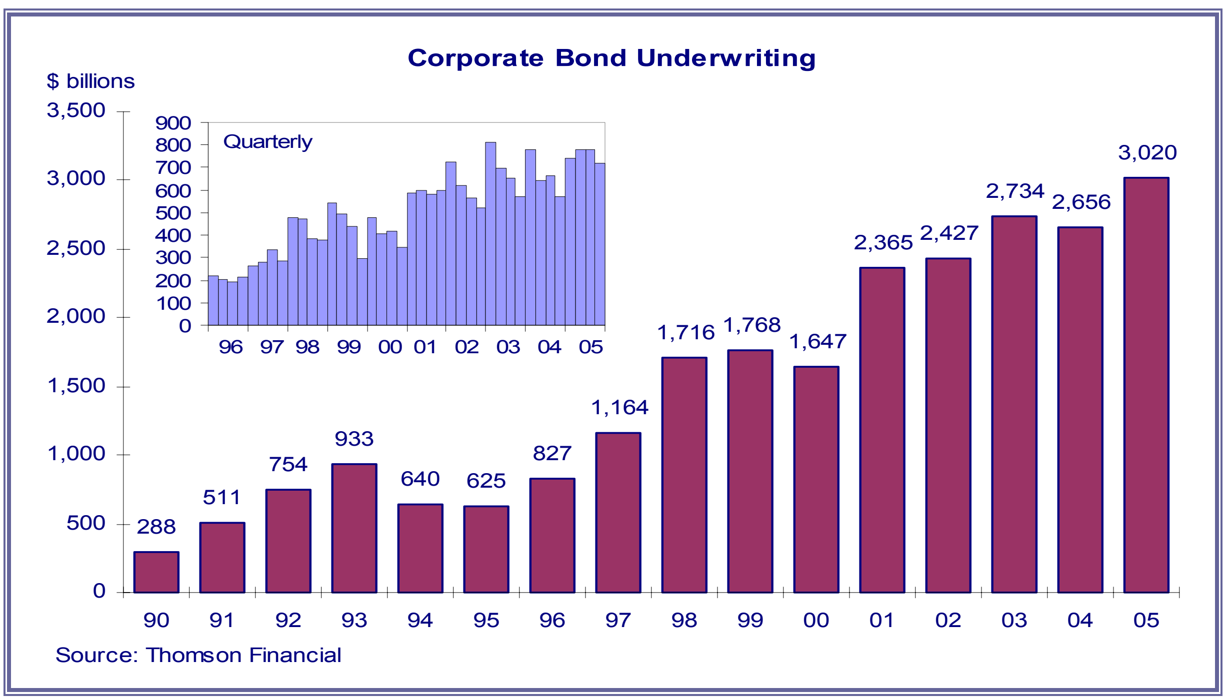
Total Underwriting Activity – Overall debt and equity underwriting in the U.S. totaled a record $3.21 trillion in 2005, a 12.3% increase over 2004 and 11.1% higher than the previous record of $2.89 trillion set in 2003. During 4Q'05, domestic underwriting activity dropped to $768.8 billion, down 8.0% from exceptionally strong 3Q'05 results, but still 24.0% higher than in the same year-earlier quarter. During the last five years (2001-2005), industry underwriting raised $14.1 trillion for U.S. businesses, an amount that nearly matches the $14.2 trillion raised during the prior thirty-year period (1971-2000).


Monthly Total Underwriting
$ billions
360
300
240
180
120
60
0
Equity
Debt
2000
2001
2002
2003
2004
2005
Source: Thomson Financial

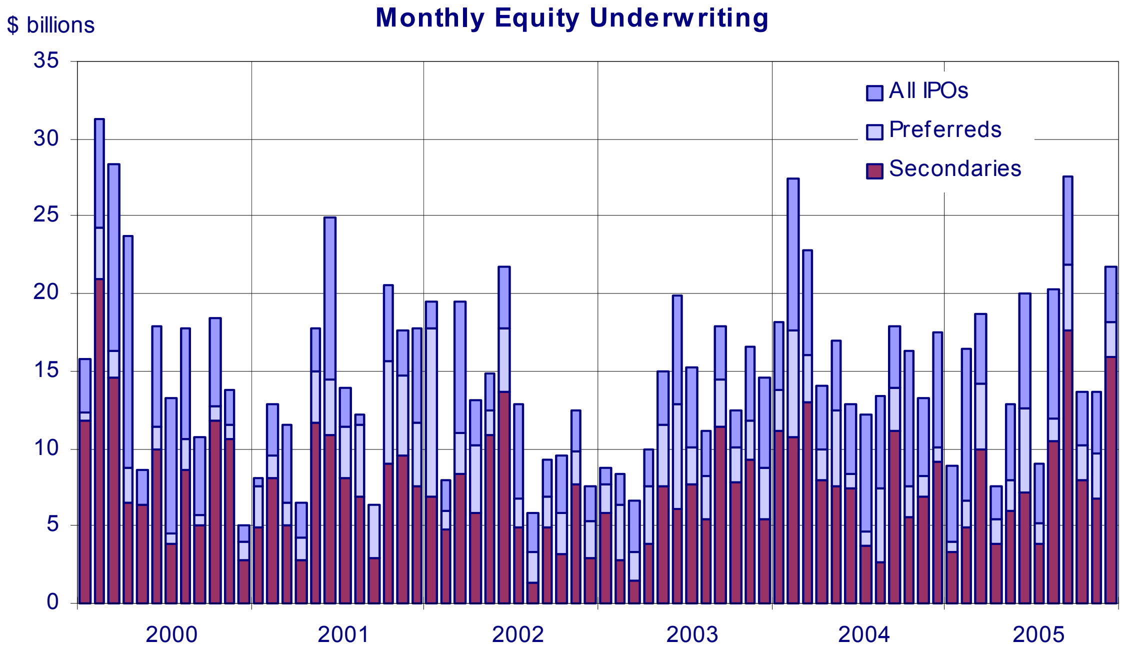

Total U.S. Corporate Underwriting Activity
$ billions
3500
3000
2500
2000
1500
1000
500
0
Quarterly
900
800
700
600
500
400
300
200
100
0
96 97 98 99 00 01 02 03 04 05
312
587
856
1,063
716
722
979
1,317
1,868
1,960
1,851
2,535
2,581
2,890
2,859
3,211
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05
Source: Thomson Financial

Corporate Bond Underwriting – Total corporate debt issuance reached a record $3.02 trillion in 2005, 13.7% higher than in 2004 and 10.5% above the previous record of $2.73 trillion set in 2003. The increase was attributable to a sharp 31.8% rise in placements of asset-backed securities (ABS), which rose to $1.81 trillion, and more than offset a 5.7% falloff in straight corporate debt issuance, which declined for the second straight year, falling sequentially in each quarter of 2005. By 4Q'05, issuance of straight corporate debt was 17.5% below the immediately preceding quarter and 4.7% below the same year-earlier period. ABS issuance, on the other hand, remained relatively strong throughout the year and volume during 4Q'05 was 50.8% higher than in the same year-earlier period.

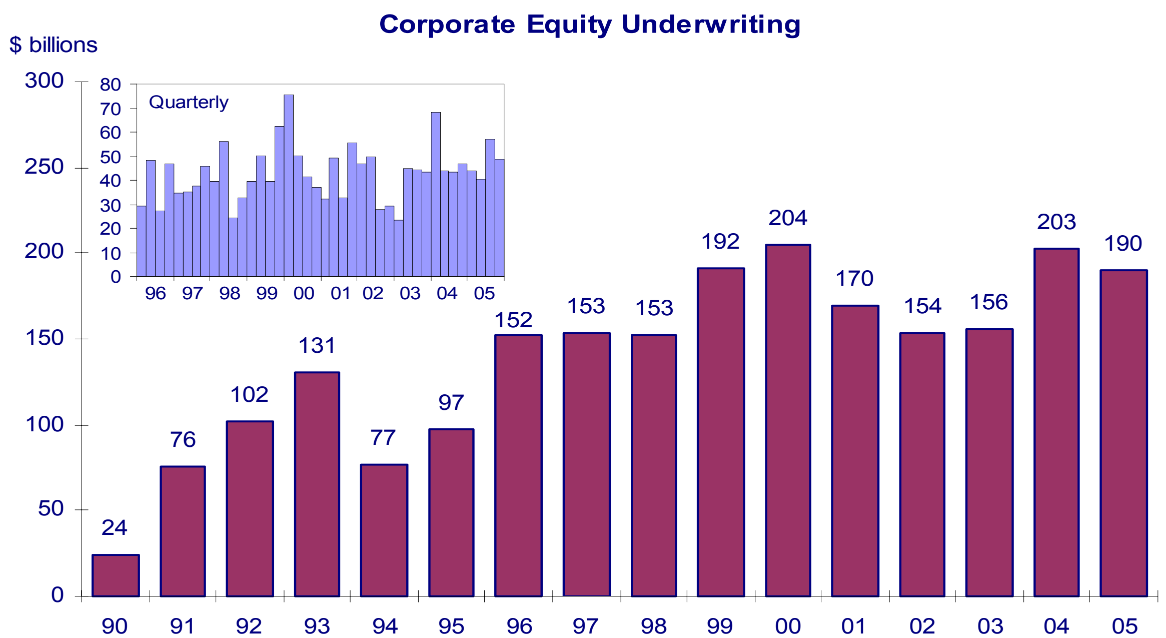




Equity Underwriting – Activity in the equity underwriting market in the U.S. slowed in 2005 after reaching its second-best annual level ever in 2004. New issuance of common and preferred stock totaled $190.4 billion in 2005, 6.1% below 2004's results and 6.9% below the record $204.5 billion set in 2000. After climbing to $56.9 billion in 3Q'05, equity issuance fell back to $49.0 billion in 4Q'05, despite a surprisingly solid showing in December. While 4Q'05 results represented a 13.9% decline from 3Q'05's exceptionally strong level, it was 4.4% above results recorded in the comparable year-earlier period.

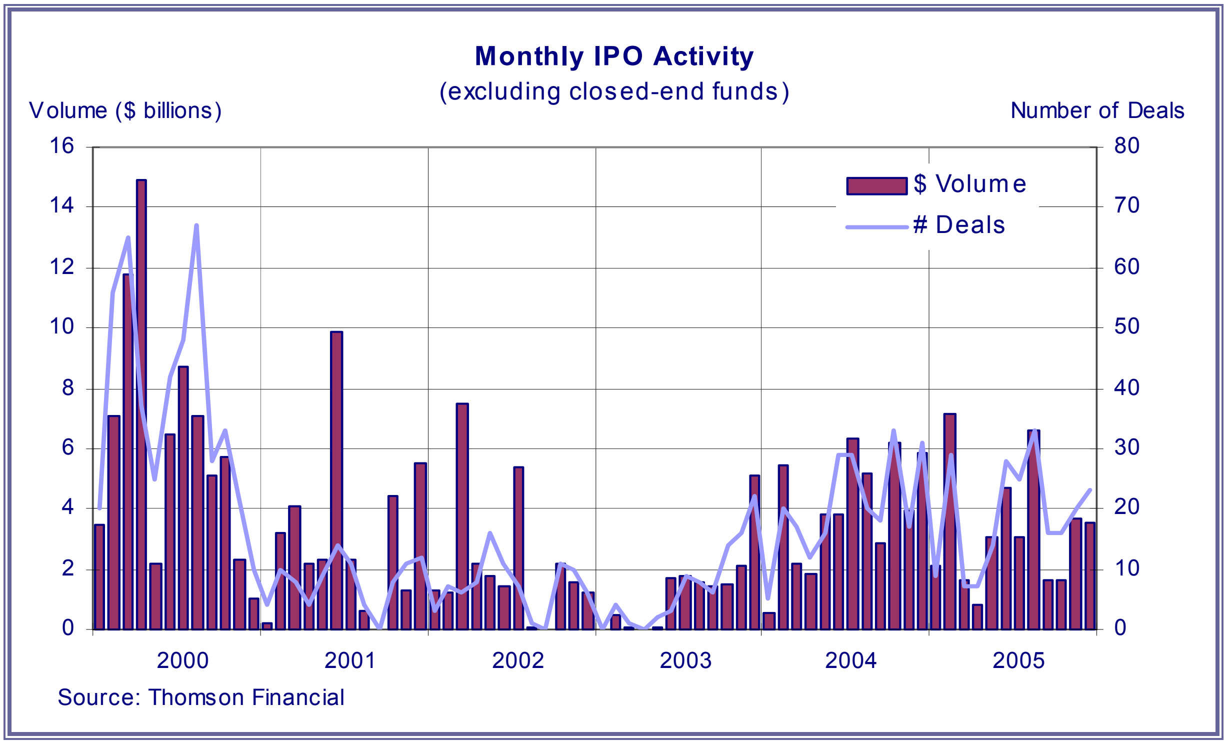


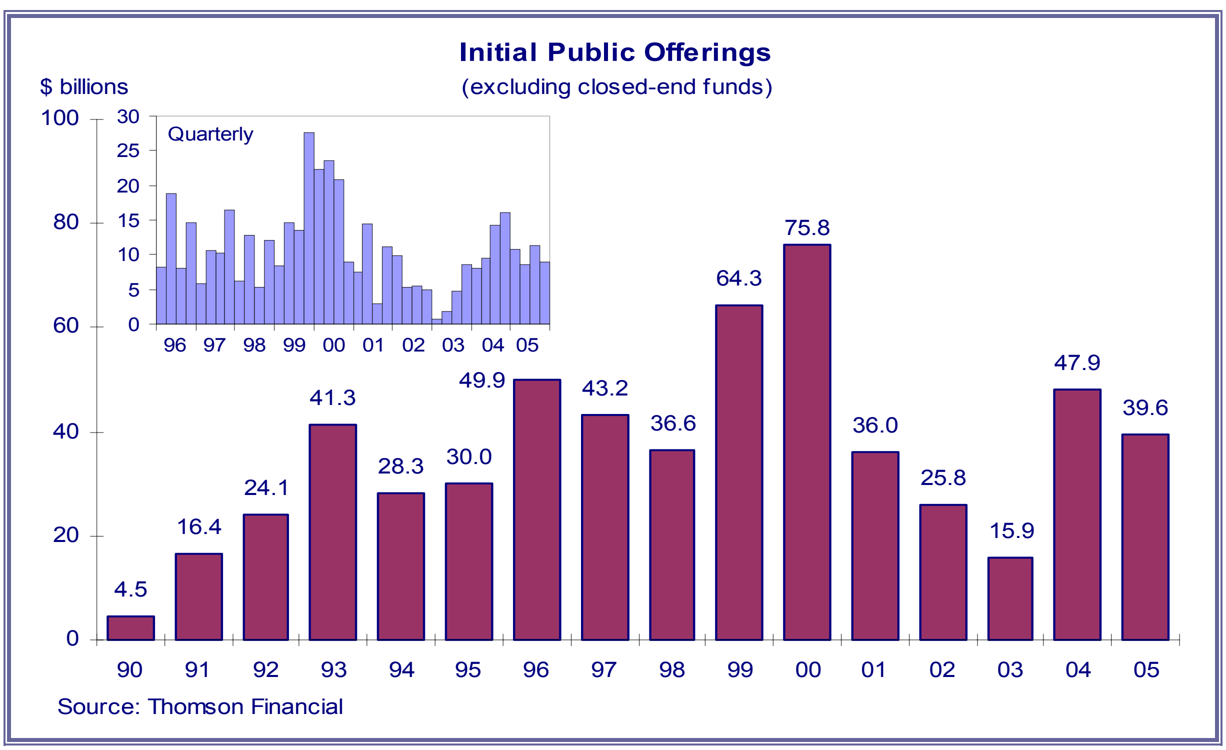
Source: Thomson Financial



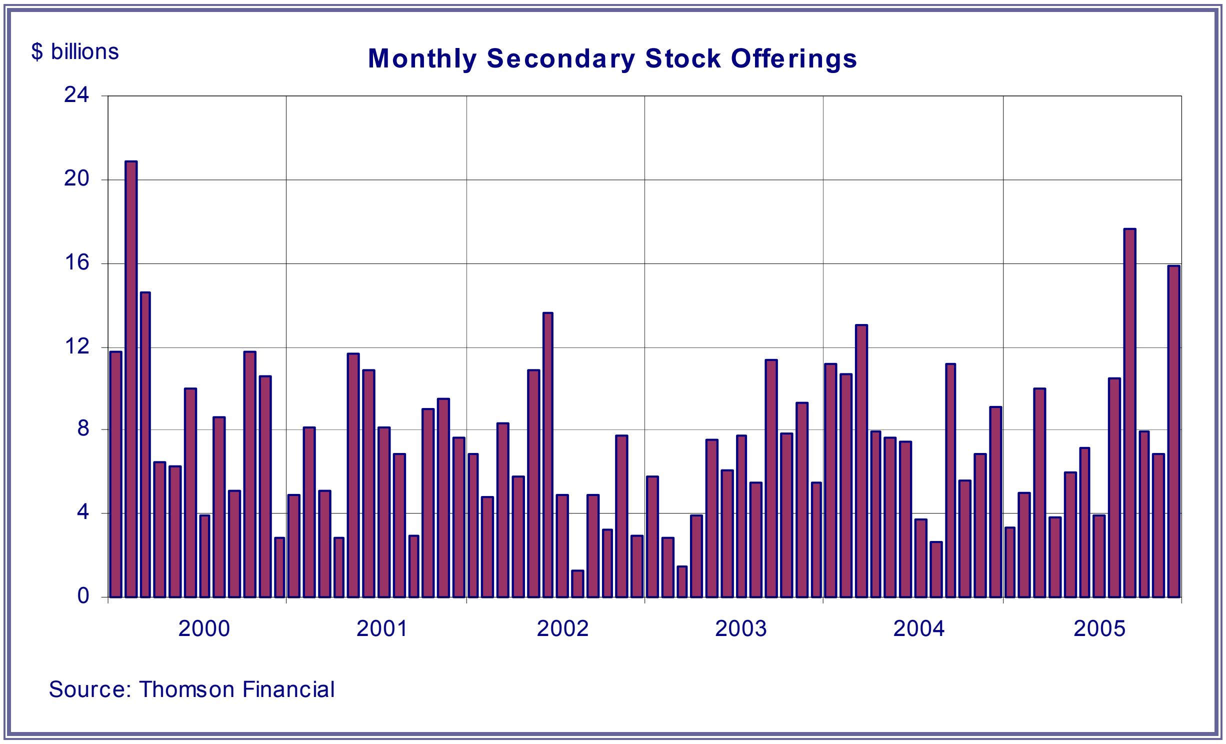
Source: Thomson Financial

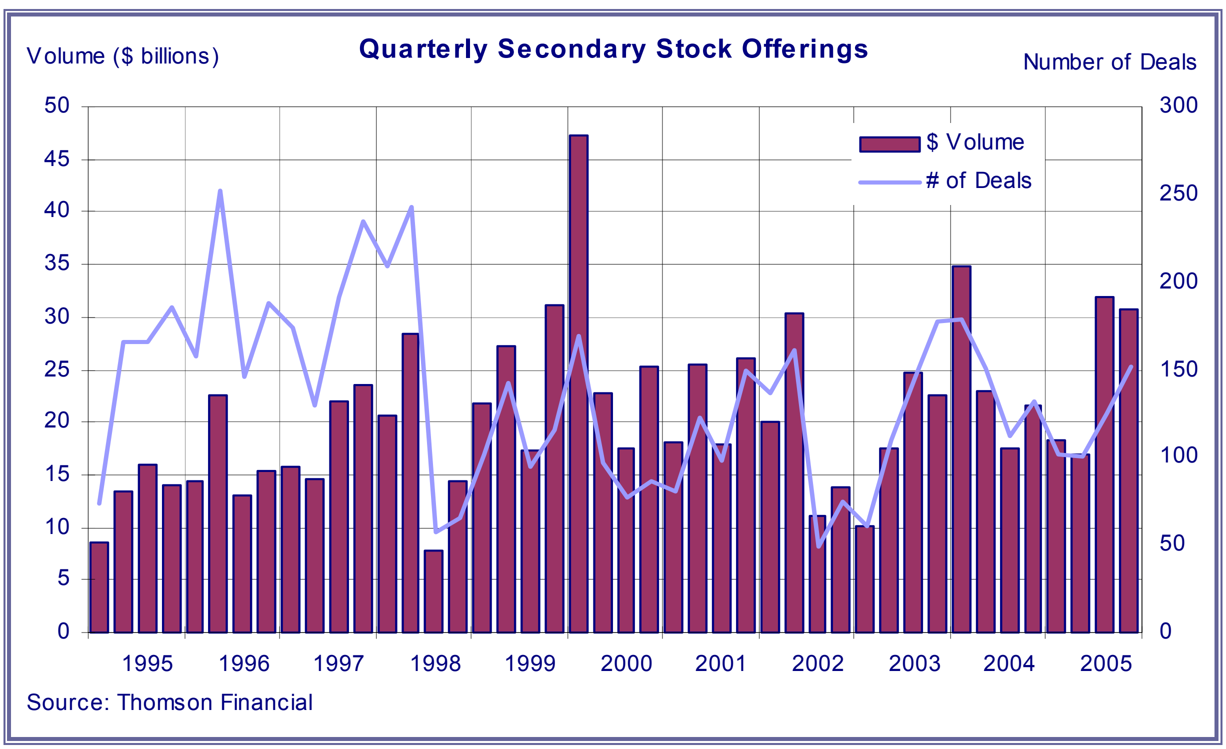
The amount of equity raised in the U.S. market for new, start-up, and small businesses through the sale of initial public offerings (IPOs) fell 17.5% in 2005 to $39.6 billion. This drop followed a rebound to $47.9 billion in 2004 after a three-year downturn that brought "true" IPO volume to a 13-year low of $15.9 billion in 2003. Activity slowed during 4Q'05 to $8.9 billion, off 21.5% from 3Q'05 levels and 44.5% below 4Q'04's heightened level of $16.0 billion.





Secondary or follow-on common stock issuance rose 1.2% in 2005 to $97.8 billion from $96.7 billion in 2004. Heavy issuance in December lifted the fourth quarter total to $30.7 billion. While that represented a 4.1% drop from 3Q'05 levels, it was well ahead of the pace seen in the first half of the year, and 42.2% above year-earlier results.





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
2005	1,205.4	6.3	1,808.6	3,020.3	160.5	29.9	190.4	62.6	39.6	97.8	3,210.7
<u>2004</u>											
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
<u>2005</u>											
Jan	145.6	0.2	135.5	281.3	8.2	0.7	8.9	4.9	2.1	3.3	290.2
Feb	80.5	0.0	121.2	201.7	14.8	1.7	16.4	9.8	7.1	5.0	218.2
Mar	116.0	0.5	142.8	259.3	14.4	4.3	18.7	4.4	1.6	10.0	278.0
Apr	62.5	0.8	129.3	192.5	6.0	1.6	7.6	2.2	0.8	3.8	200.2
May	98.9	0.0	162.5	261.4	10.8	2.0	12.8	4.9	3.0	6.0	274.2
June	152.5	2.0	171.4	325.9	14.5	5.5	20.0	7.3	4.7	7.1	345.9
July	90.9	0.0	123.8	214.7	7.8	1.3	9.1	3.9	3.1	3.9	223.8
Aug	97.3	0.0	168.3	265.6	18.8	1.4	20.2	8.3	6.6	10.5	285.8
Sept	112.8	0.0	185.2	298.0	23.4	4.2	27.6	5.8	1.6	17.6	325.7
Oct	75.9	0.0	150.8	226.7	11.4	2.2	13.7	3.5	1.7	7.9	240.4
Nov	88.9	1.6	159.7	250.3	10.8	2.8	13.6	4.0	3.7	6.8	263.9
Dec	83.5	1.2	158.0	242.8	19.5	2.2	21.7	3.6	3.6	15.9	264.5
2004	1,278.4	5.5	1,372.3	2,656.2	169.6	33.2	202.7	72.8	47.9	96.7	2,859.0
2005	1,205.4	6.3	1,808.6	3,020.3	160.5	29.9	190.4	62.6	39.6	97.8	3,210.7
% Change	-5.7%	15.0%	31.8%	13.7%	-5.4%	-9.9%	-6.1%	-14.0%	-17.5%	1.2%	12.3%

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
2005	20.5	240.9	261.4	55.9	89.1	145.0	406.4	3.15	4.29	1.15
2004										
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
2005										
Jan	1.0	11.7	12.7	3.6	6.6	10.2	22.8	2.33	4.22	1.89
Feb	1.5	15.6	17.1	4.5	9.2	13.6	30.7	2.54	4.17	1.63
Mar	1.2	24.1	25.3	7.2	12.5	19.7	45.0	2.74	4.50	1.76
Apr	1.9	16.4	18.2	5.1	7.9	13.0	31.3	2.76	4.34	1.58
May	1.3	20.8	22.1	4.1	9.5	13.6	35.7	2.84	4.14	1.30
June	2.4	25.2	27.6	7.1	9.4	16.5	44.1	2.97	4.00	1.03
July	1.5	21.8	23.3	3.8	6.8	10.5	33.8	3.22	4.18	0.96
Aug	1.3	21.7	23.0	4.3	6.8	11.1	34.1	3.44	4.26	0.82
Sept	2.5	17.2	19.7	4.9	6.7	11.7	31.4	3.42	4.20	0.78
Oct	2.9	18.8	21.7	2.4	3.4	5.8	27.4	3.71	4.46	0.75
Nov	2.3	26.1	28.4	5.1	5.1	10.3	38.7	3.88	4.54	0.66
Dec	0.8	21.5	22.3	3.8	5.2	9.0	31.3	3.89	4.47	0.58
2004	17.2	209.8	227.1	51.5	77.7	129.2	356.3	1.37	4.27	2.90
2005	20.5	240.9	261.4	55.9	89.1	145.0	406.4	3.15	4.29	1.15
% Change	18.9%	14.8%	15.1%	8.5%	14.7%	12.2%	14.1%	129.3%	0.4%	-60.6%

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
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
2005	10,717.50	1,248.29	7,753.95	2,205.32	1,602.2	63.5	1,778.5	56.1	39.5
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
Aug	10,481.60	1,220.33	7,496.09	2,152.09	1,441.4	61.9	1,538.9	51.3	34.1
Sept	10,568.70	1,228.81	7,632.98	2,151.69	1,683.0	70.5	1,716.5	60.6	37.5
Oct	10,440.07	1,207.01	7,433.12	2,120.30	1,846.7	72.7	1,796.3	64.6	41.7
Nov	10,805.87	1,249.48	7,645.28	2,232.82	1,641.7	64.6	1,768.3	58.3	41.9
Dec	10,717.50	1,248.29	7,753.95	2,205.32	1,553.5	69.6	1,704.4	55.2	39.6
2004	10,783.01	1,211.92	7,250.06	2,175.44	1,456.7	66.0	1,801.3	46.1	34.6
2005	10,717.50	1,248.29	7,753.95	2,205.32	1,602.2	63.5	1,778.5	56.1	39.5
% Change	-0.6%	3.0%	7.0%	1.4%	10.0%	-3.7%	-1.3%	21.6%	14.2%

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
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1
2004	4,384.1	519.3	1,290.3	1,913.2	8,106.9
2005	4,937.3	567.2	1,357.3	2,043.7	8,905.5
<u>2004</u>					
Jan	3,804.2	440.7	1,256.6	2,032.1	7,533.7
Feb	3,893.5	452.7	1,267.2	2,015.2	7,628.6
Mar	3,885.1	455.7	1,277.7	2,006.8	7,625.4
Apr	3,811.3	452.5	1,245.7	1,964.2	7,473.7
May	3,855.0	457.1	1,223.3	1,974.6	7,510.0
June	3,948.0	467.0	1,220.9	1,954.3	7,590.3
July	3,798.5	461.6	1,231.7	1,950.7	7,442.6
Aug	3,805.8	469.1	1,255.5	1,941.5	7,471.9
Sept	3,918.4	478.3	1,266.1	1,904.2	7,567.0
Oct	3,995.6	486.9	1,280.1	1,892.0	7,654.6
Nov	4,223.9	504.1	1,278.7	1,920.9	7,927.5
Dec	4,384.1	519.3	1,290.4	1,913.2	8,106.9
<u>2005</u>					
Jan	4,289.2	516.7	1,302.0	1,892.9	8,000.8
Feb	4,416.8	529.9	1,304.6	1,875.6	8,126.9
Mar	4,348.8	526.4	1,294.1	1,875.8	8,045.0
Apr	4,247.1	523.7	1,305.7	1,842.7	7,919.2
May	4,406.6	535.9	1,321.9	1,859.3	8,123.7
June	4,471.2	544.9	1,334.8	1,866.3	8,217.2
July	4,669.8	555.7	1,337.9	1,883.6	8,447.0
Aug	4,679.0	558.6	1,359.6	1,922.9	8,520.1
Sept	4,759.5	561.6	1,355.2	1,912.5	8,588.9
Oct	4,664.7	552.1	1,344.4	1,936.5	8,497.7
Nov	4,863.6	562.7	1,349.2	1,991.1	8,766.6
Dec	4,937.3	567.2	1,357.3	2,043.7	8,905.5
2004	4,384.1	519.3	1,290.4	1,913.2	8,106.9
2005	4,937.3	567.2	1,357.3	2,043.7	8,905.5
% Change	12.6%	9.2%	5.2%	6.8%	9.9%

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	8.6	140.3	-46.7	74.5	121.2
2003	152.3	32.6	31.0	-258.5	-42.6	215.8
2004	177.7	42.6	-10.6	-156.8	52.9	209.7
2005	135.1	25.9	30.3	63.7	255.0	191.2
<u>2004</u>						
Jan	43.0	5.4	-0.3	-19.5	28.7	48.2
Feb	26.2	5.0	1.5	-20.9	11.8	32.7
Mar	15.6	4.8	7.5	-9.0	18.8	27.8
Apr	23.0	4.6	-7.8	-44.1	-24.3	19.8
May	0.4	2.3	-16.2	8.6	-4.9	-13.5
June	10.0	2.4	-7.5	-21.0	-16.1	4.9
July	9.4	3.0	-1.2	-2.1	9.1	11.2
Aug	1.2	2.6	4.2	-10.3	-2.4	8.0
Sept	10.3	3.0	2.9	-42.4	-26.3	16.2
Oct	7.1	3.5	3.5	-14.1	0.1	14.2
Nov	21.4	4.2	1.8	26.5	53.9	27.4
Dec	10.3	2.0	0.8	-8.1	4.9	13.0
<u>2005</u>						
Jan	10.0	5.3	4.6	-27.5	-7.6	19.9
Feb	22.2	4.4	2.6	-18.9	10.2	29.2
Mar	15.1	3.9	-1.3	-2.3	15.5	17.8
Apr	8.6	2.6	1.2	-35.4	-23.0	12.4
May	11.2	2.3	3.5	13.8	30.8	17.0
June	6.2	2.1	4.1	3.0	15.3	12.3
July	10.0	1.5	7.3	13.9	32.6	18.7
Aug	6.4	1.8	7.3	32.5	48.0	15.5
Sept	7.9	1.3	3.8	-13.4	-0.3	13.1
Oct	6.5	0.9	0.2	21.2	28.7	7.6
Nov	21.0	0.5	-0.3	30.3	51.5	21.2
Dec	10.1	-0.7	-2.7	46.6	53.2	6.7
2004	177.9	42.7	-10.8	-156.4	53.4	209.8
2005	135.1	25.9	30.3	63.7	255.0	191.2
% Change	-24.0%	-39.4%	NM	NM	377.4%	-8.8%

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

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