SIA RESEARCH

REPORTS

Volume V, No. 8 August 2, 2004

DIVIDEND TAX CUTS DEEMED EFFECTIVE

Frank A. Fernandez

RISK DISCLOSURE IN PUBLIC REPORTING

Kyle L Brandon

MONTHLY STATISTICAL REVIEW

Grace Toto

RESEARCH DEPARTMENT
Frank A. Fernandez, Senior Vice President, Chief Economist and Director, Research
Kyle L Brandon, Vice President and Director, Securities Research
Stephen L. Carlson, Vice President and Director, Surveys
Lenore Dittmar, Executive Assistant
Carmen Lopez, Research Assistant
Bella Mardakhaev, Research Assistant
Amy Sloane, Manager, Surveys
Grace Toto, Vice President and Director, Statistics

SECURITIES INDUSTRY ASSOCIATION • info@sia.com, http://www.sia.com
120 Broadway, 35th Floor, New York, NY 10271-0080 • 212-608-1500, fax 212-968-0703
1425 K Street, NW, Washington, DC 20005-3500 • 202-216-2000, fax 202-216-2119
Prepared by SIA Research Department •ISSN 1532-6667

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Summary

Even though the jury is still out on the long-term impact of the dividend tax cut that has been in place for only 13 months, some of the hoped-for benefits of this tax reform measure have already appeared. Dividend payments have increased in response to the largest cut in the dividend tax rate in U.S. history, as well as to the recent surge in corporate profitability that will reach record levels in 2004. Although dividend payout ratios and dividend yields have shown a more lagged response thus far, this is changing as investors' focus shifts. The benefits of the tax cut are sustained, providing long-term support for economic growth by encouraging savings and investment and reducing the cost of equity financing. The tax reform is also expected to contribute to efforts to improve transparency and corporate governance. Although no action is imminent, the prospect that the next Congress will at least consider hastening the "sunset" of this important measure may already be affecting corporate dividend actions. It would be unfortunate if the benefits of this reform were short-circuited, and a tax that has been long identified as producing some of the worst biases and distortions in our tax system is restored.

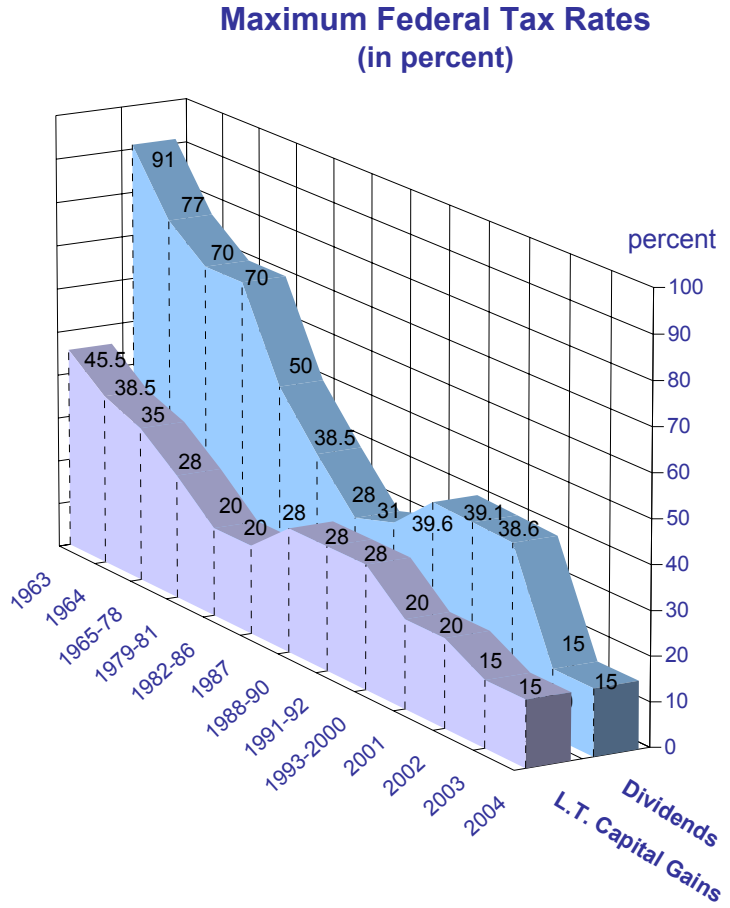
The Dividend Tax Cut

On May 28, 2003, the *Jobs and Growth Tax Relief and Reconciliation Act* (*JGTRRA*) was signed into law. This Act included a reduction in the maximum tax rate on dividends from 38.6%[1] to 15% in 2003-2008, while for taxpayers in the 10% and 15% ordinary income tax-rate brackets, the dividend tax rate will fall to 5% in 2003-2007 and to zero in 2008. This action reduced, but did not eliminate (as was originally proposed), one of the worst distortions in our tax system: the tax bias against equity financing in favor of retained earnings and debt financing, both of which are taxed more lightly. Debt receives the most favorable tax treatment. Interest payments are a deductible expense for corporations and hence reduce the amount of corporate profits subject to tax, while dividends are paid out of after-tax funds. Interest payments are taxed once, at most, at the individual level and, in the past, more lightly than dividends.

This bias in favor of debt financing distorts corporate decisions in that it encourages companies to become more highly leveraged. Greater leverage leaves companies more prone to failure when their revenues fall and/or market interest rates rise, as they are expected to do in the second half of this year and next. A corporation that relies more heavily on equity financing has more flexibility to meet fluctuations in the business cycle, reducing or raising dividends to reflect changes in net income. A heavily indebted company has much less adjustment capability in the face of market forces it cannot influence. Logically, one would expect higher bankruptcy rates and greater volatility in asset prices as a result. Historically, those expectations have been met in a sustained manner and should continue to be met as earnings growth slows and interest rates rise in the coming quarters.

[1] Under the previous tax law, there was no specific "dividend tax" applied to receipt of dividend income, unlike the separate calculation applied to capital gains and now applied to dividends. In the past, dividends, along with income from pensions, interest, alimony, salaries and wages, were added together and deductions were netted in the calculation of gross income on individual tax returns. The rate of 38.6 percent was the maximum statutory rate on individual income. When this is combined with the corporate tax rate, the effective tax rate on dividends was as high as 60.1%.

Under prior tax law, retained earnings were also taxed twice, but not as heavily as dividends, and, as a result, the most tax-effective way to return value to investors was via internal reinvestment, thus boosting company value, or through stock repurchases. The additional price appreciation raises shareholders' capital gains taxes by a commensurate amount when the shareholder decides to sell his or her shares. Last year's tax changes cut capital gains tax rates to the same levels as those for dividends,[2] which virtually eliminated this tax bias. While managers are now as likely to choose dividends as stock repurchases, investors still have reasons to prefer income subject to capital gains tax treatment. Investors determine when they sell their shares, potentially deferring these taxes almost indefinitely, while dividend payments are subject to tax in the year in which the payment was made.



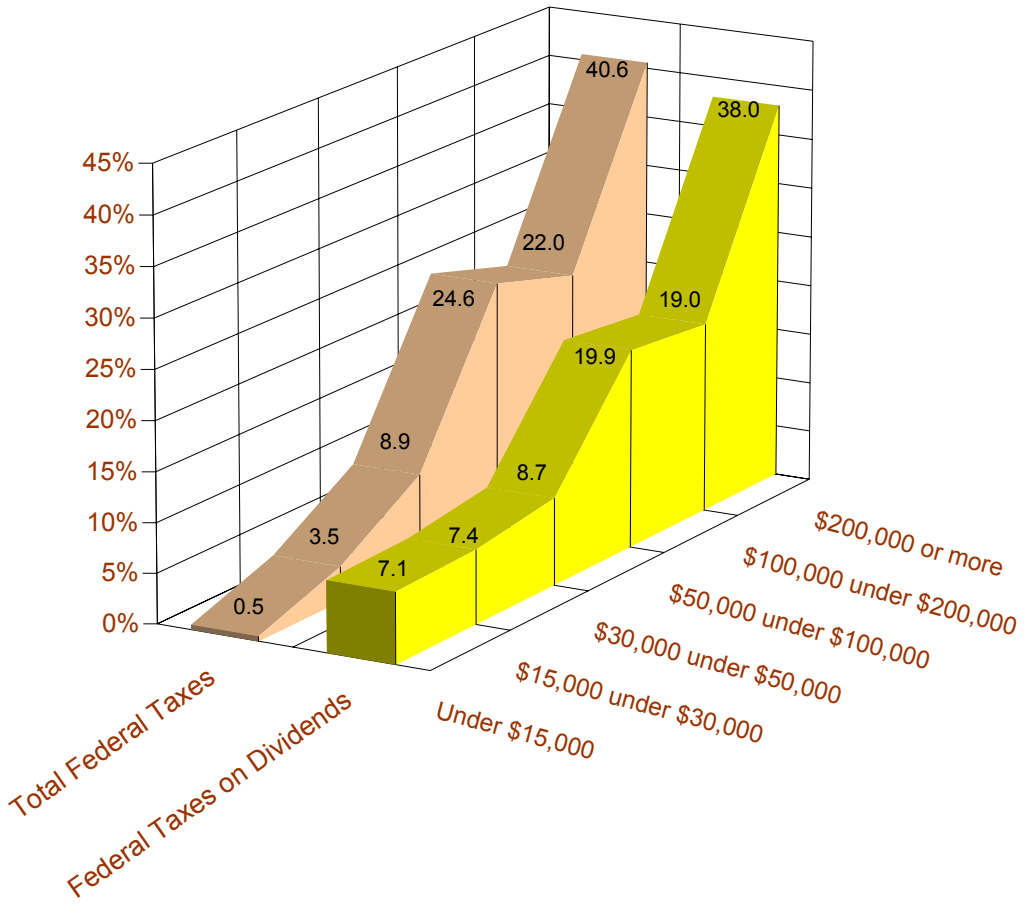
Source: SIA

[2] Under the prior law, shareholders paid tax when they realized an appreciation in stock value that arose from retained corporate earnings, rather than earnings paid out as dividends, and reinvested in the corporation at a maximum tax rate of 20%. The statutory tax rate on long-term capital gains held more than five years was 18%, but taxes were deferred until the asset was sold, thereby lowering the effective tax rate on capital gains. These rates were cut to 15% under the *JGTRRA*. Taxpayers who held assets until death received a step-up of basis, and a further reduction in their effective tax rate. The total effective tax rate on income received in this way was about 40.9% under the prior law, taking into account the preferential tax rate on capital gains realizations and the benefits of tax deferral. See Council of Economic Advisers, "Eliminating the Double Tax on Corporate Income," January 7, 2003, p.3.

The Behavioral Response

It is important to recognize that paying dividends represents a choice among alternatives, and the alternatives have different costs and benefits, with the relative tax treatment being only one factor weighed in the decision of how to divide a company's earnings among dividends, stock buybacks and retained earnings. For example, managers holding sizable stakes in their companies were more likely to initiate or raise dividends following the tax cut, but holdings of managerial stock options are negatively related to initiation or increases in dividends both before and after the tax cut.[3] Similarly, investors' responses to changes in tax rates and corporate dividend policies vary widely and seem to be significantly related to age and income levels. However, the tax treatment of alternative investments is only one of many pieces of available information considered in making investment decisions.

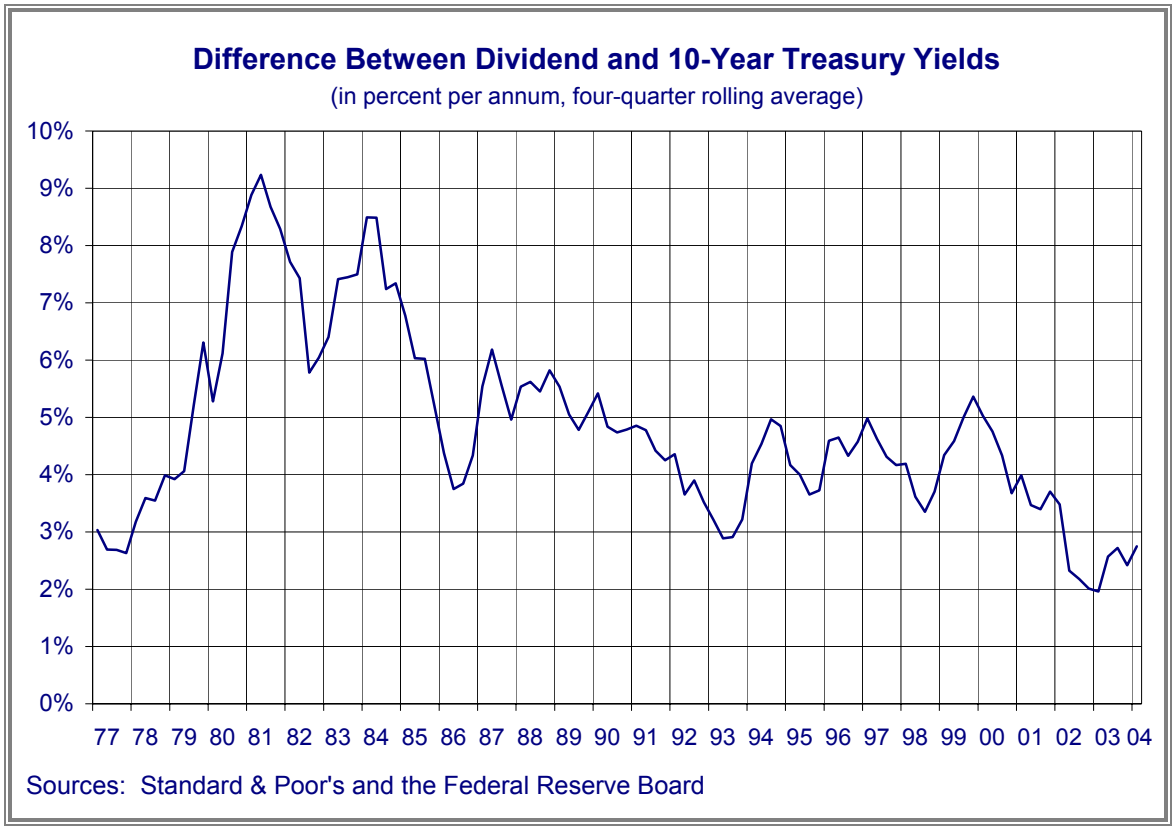
Percentage of Federal Taxes Paid in Total and on Dividends Received, by Individuals, in 2002
(by income level)



Source: Internal Revenue Service Statistics of Income Report, Tax Year 2002 Preliminary Data

[3] Jouahn Nam, Jun Wang, and Ge Zhang, "The Impact of Dividend Tax Cut and Managerial Stock Holdings on Corporate Dividend Policy," unpublished monograph, February 28, 2004.

To most observers, dividends "are back in vogue. After the bear market and corporate mishaps of the past few years, investors have begun to pay more attention to the health of companies' bottom lines instead of focusing solely on growth opportunities and future capital gains." [4] Payouts from companies are finally looking attractive to stock investors,[5] particularly those companies whose dividend yield has risen relative to the yield on benchmark fixed income instruments. The financial media and shareholders have been increasing pressure on U.S. corporations to initiate dividends or pay higher ones[6], pressure which has increased as tax biases against dividends were reduced in the past year. The initial corporate response has been positive and in line with earlier expectations. In January 2003, we expected the "benefits from the dividend proposal…to be negligible in the near term…it is unlikely to alter consumer or investor behavior markedly before taxpayers begin to file in 2004, and the full benefits of the dividend tax break [are] unlikely to be seen until the end of the second year."[7] If this tax cut persists, it is likely to encourage equity issuance, as well as equity ownership, particularly of dividend-paying stocks.



What data are available are encouraging, in that it appears that the dividend tax cut has spurred dividend growth. Prior to *JGTRRA*, dividend payments had been declining steadily for more than two decades but increased sharply since the tax was proposed and subsequently applied retroactively to the beginning of 2003[8]. Taxable dividend payments received by individuals[9] fell

[4] O. Emre Ergungor, "Dividends," Economic Commentary, Federal Reserve Bank of Cleveland, April 1, 2004.

[5] Tom Petruno, "Dividends Starting to Get More Respect," *The Los Angeles Times*, June 1, 2004.

[6] Op.cit. 3.

[7] Frank A. Fernandez, "Defending the Dividend," *SIA Research Reports*, Vol. IV, No. 1 (1/31/03), p. 10.

[8] President Bush proposed the elimination of the double taxation of dividends on January 7, 2003.

[9] More than half of all U.S. households are now estimated to hold stock (and receive dividends) in pension and retirement accounts (IRAs, 401(k)s, etc.) that are "tax favored" and hence are not affected by the 2003 tax reduction.

$27.5 billion, or 18.7%, in 2001 and by a further $17.3 billion, or 14.9%, to $98.8 billion in 2002. Although no comparable data are available for last year, it is estimated that dividend payments have risen at least 20% since the start of 2003.

The number of companies that have initiated or increased dividends has grown since the middle of last year, the date that the dividend tax cut became effective. Of the approximately 7,000 publicly owned companies that report dividends to Standard & Poor's Dividend Record, 895 reported dividend increases during the first half of 2004, a 13.6% increase compared to the same period in 2003, and a 19.8% increase from the same period of 2002. This is in addition to an increase in the number of companies that have initiated dividends and a decline in the number that halted or reduced dividends. Another study, using a smaller sample, found that 12.7% of 807 firms paid dividends for the first time in 2003, compared with, on average, only 2.8% of non-dividend paying firms that initiated dividends during the prior 10-year period. For dividend-paying firms, 41% increased dividends in 2003, compared to an average of 35% in earlier years.[10]

A much broader study released by the National Bureau of Economic Research (NBER)[11] in June examined securities data over the last 25 years for firms listed on the New York Stock Exchange, American Stock Exchange and Nasdaq and produced some strong support for the efficacy of the dividend tax cut. The authors found that the percentage of firms that paid regular (as opposed to special or one-time) dividends declined from 60% in 1980 to 20% in the final quarter of 2002, before rebounding to nearly 25% in 2003. "Of the 3,813 firms in the sample, 113 began paying regular dividends in 2003 – a large increase from the average of 22 new dividend payers in prior years."[12] The increase in dividend initiations and dividend increases (and the decline in dividend terminations and reductions) occurred across firms of all sizes and all industries. More importantly, the results suggest that the growth in dividends in response to the tax cut are likely to continue and are significant and robust even when the authors controlled for levels and lags of profits, assets and cash holdings, and firm age. The number of large distributions increased (20% or more) and special or one-time distributions, which were assessed separately, also rose substantially.

The authors also found that "the large increases in regular dividend payments following the 2003 tax reform is unprecedented in the recent history of the U.S. corporate sector"[13] and to emphasize the point, they compared the recent experience to the dividend responses following the *Tax Reform Act of 1986*. The 1986 reform reduced the top individual tax rate on dividends from 50% to 28%, but it was not followed by an increase in the number of dividend payers nor in the amounts paid.

Standard and Poor's also thinks that the trend of higher dividend payments is likely to continue and that companies are poised to pay a record level of dividends this year.[14] We concur. Dur-

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During 2002, only 31.4 million households received taxable dividend payments, representing only 24.1% of the total number of individual income tax returns filed.

[10] Op.cit. 3.

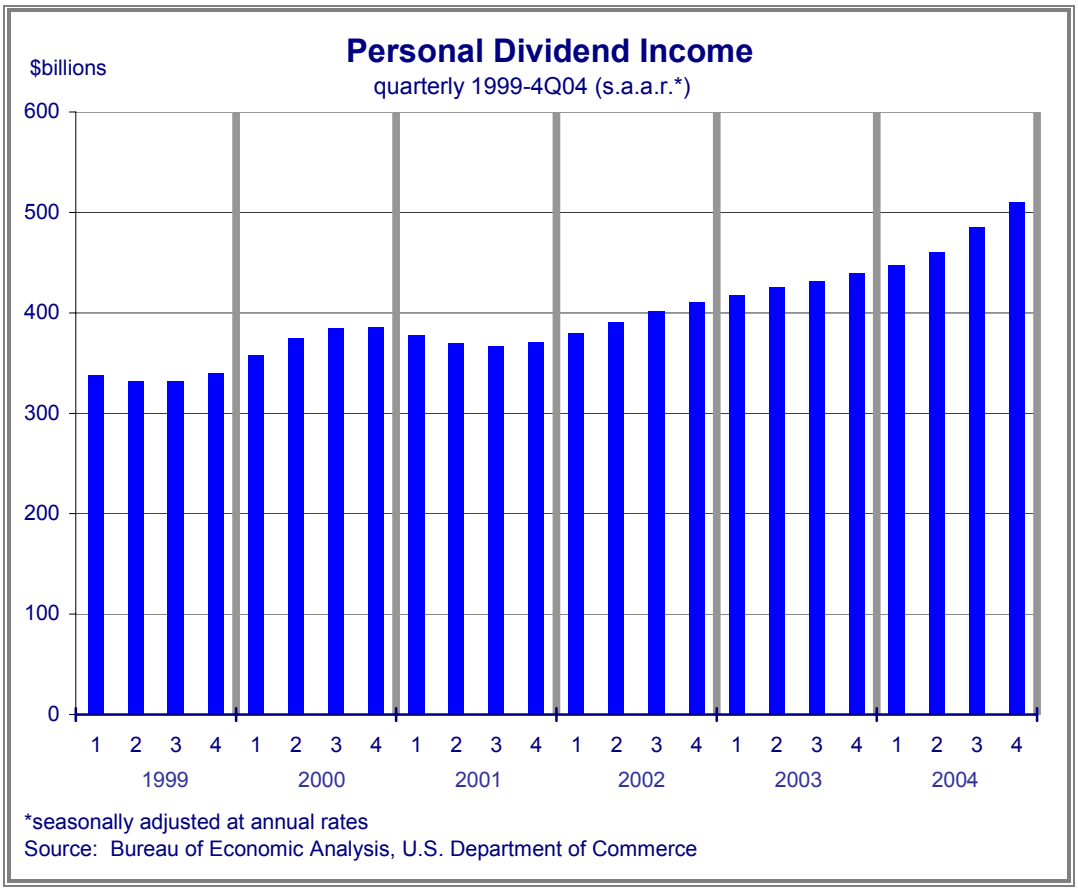
[11] Raj Chetty and Emmanuel Saez, "Do Dividend Payments Respond to Taxes? Preliminary Evidence from the 2003 Dividend Tax Cut," NBER Working Paper No. 10572, June 2004, http://papers.nber.org/papers/w10572.

[12] Carlos Losada, "Lower Tax Rates Spurred Dividend Growth," NBER Digest, July 2004.

[13] Op.cit. 11, p.4.

[14] In May, S&P forecast that the companies in its 500 stock index were expected to pay out a record $183 billion in dividends this year, encouraged by both improved profits and lower dividend tax rates. This continues a trend that began last year after the tax rate cut helped boost S&P 500 companies' dividend payouts to a then-record payout

ing 1Q 2004, personal dividend income reached $447.6 billion at seasonally adjusted annual rates (s.a.a.r.), 7.1% above the same period of 2003 and 1.8% higher than in the final quarter of 2003. While data for the quarter just ended are still incomplete, it would appear that dividend income should rise above $460 billion s.a.a.r., an 8.2% increase over 2Q 2003, before accelerating further in the second half of this year, with an annual average increase of more than 10% expected for 2004.

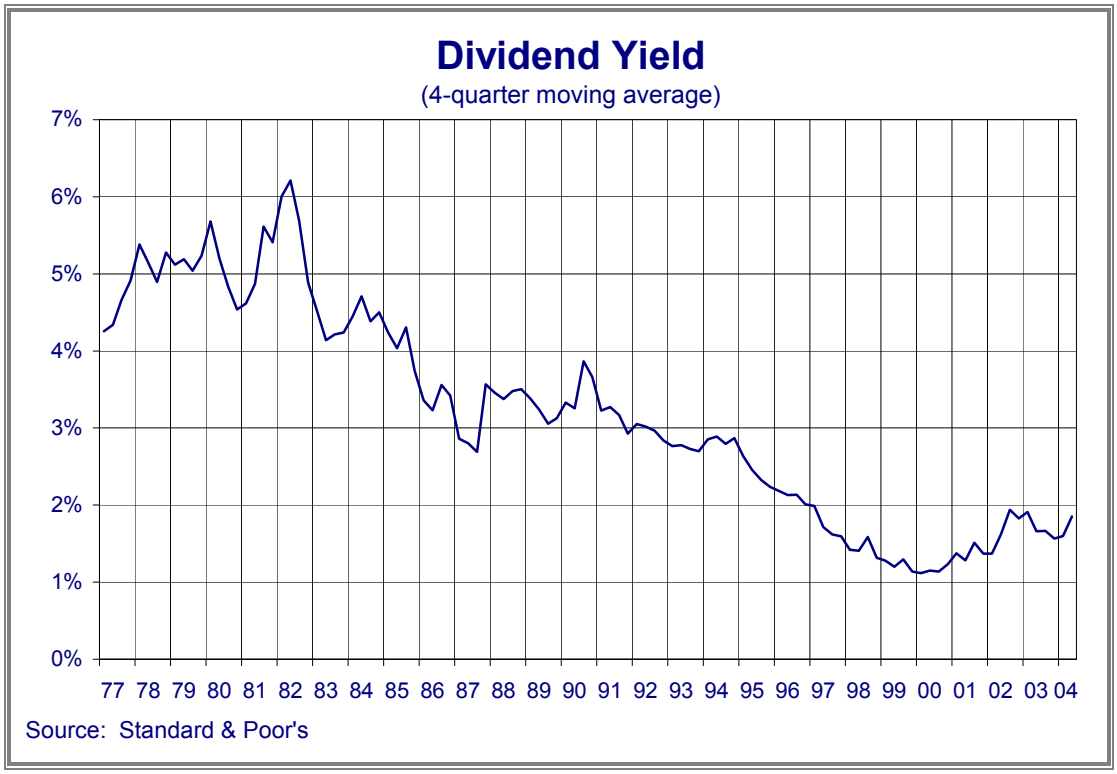


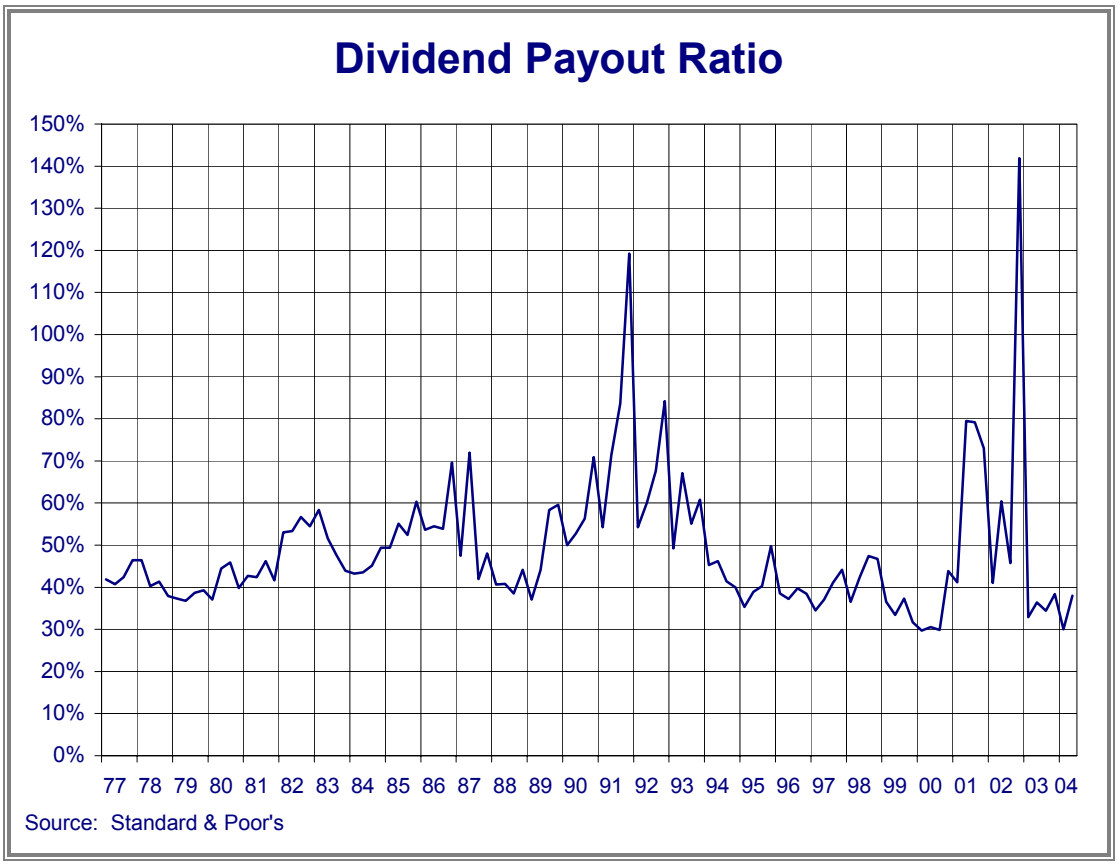
While this is a promising initial response, the growth of dividend payments has been less than the growth of corporate profits in the past four quarters, which have been increasing at annualized rates of more than 20% over this same period. Although the total payout by companies has been increasing, it has been principally through share repurchases and less through dividends, as it has been for the past five years[15]. As an increased share of profits has been directed towards share buybacks, both the dividend yield and the dividend payout ratio (dividends as a percentage of operating earnings) have declined. The pattern observed in recent years belies the argument that share repurchase plans have principally been a means to return capital to

of $161 billion in 2003. As of now, more than 75% of the S&P 500 pay dividends, the highest percentage since 1999.

[15] "In 1999, over 34% of publicly traded companies engaged in share repurchases, up from 28% in 1992. More striking is the fact that by 1999, almost 20% of earnings were paid out by share repurchases, nearly triple that of 1992." Statement by Pam Olson, Assistant Secretary for Tax Policy, U.S. Department of the Treasury, January 23, 2003. Both percentages continued to rise between 2000 and mid-2004. A recent report by Merrill Lynch, which charted the 20 largest companies in the S&P 500, found that "between 2000 and 2002 there were $172 billion of shares repurchased and $147 billion paid in dividends. This was the first time in history that repurchases outpaced dividend payments." Merrill Lynch Global Securities Research & Economics Group, "Dividend Tax Cut," January 8, 2004. Similar results were obtained in a study by G. Grullion and R. Michaely, "Dividends, Share Repurchases, and the Substitiution Hypotheseis," *Journal of Finance*, 57, 2002, pp. 1649-1684.

shareholders. More often than not buybacks are primarily used to offset the impact of stock option compensation rather than a means for capital distribution.





Reducing the tax bias against dividends, it is hoped, will contribute to an improvement in corporate governance. Dividend payments constrain the discretionary behavior of managers. Reducing the amount of cash at the discretion of management may reduce opportunities for corporate governance failures and lead management to undertake only the most productive investments and those that increase shareholder value. In addition, reducing the tax biases may encourage managers to engage in transactions and activities based on their economic value rather than solely for the purpose of reducing tax liabilities. Often referred to as the "discipline of the dividend," payment of dividends forces managers to put less focus on short-term share price movements and more attention to sustainable profitability. A firm cannot pay dividends for any length of time unless it has a continuing stream of earnings to support such payments. Dividend payments also provide a "signaling function," providing management with a channel to inform investors about expectations of the firm's future cash flows and profitability.

Behavior, however, changes only gradually over time, and this is particularly true of a long-term tax measure such as the cut in the dividend tax rate. It is only now, as we enter the second year of the operation of the *JGTRRA*, and the fiscal stimulus provided by most other tax measures of the plan fade, that dividend growth should begin to accelerate. Investors appear to be developing a renewed focus on fundamental returns on capital, as opposed to growth, to the relative benefit of dividend paying stocks. This in turn is expected to temper the discretionary use of earnings in the coming year as earnings growth slows. Increased dividends offer the best way for shareholders to improve their return on capital in the coming, slower economic growth environment.

Corporate Buying and Selling of Stock

	2003 Year-to Date*	2004 Year-to-Date*
New Cash Takeovers	$ 33.3	$101.4
New Stock Buyback	$ 81.6	$150.7
Corporate Buying	$114.9	$252.1
New Offerings	$106.8	$139.9
Insider Selling	$ 47.9	$ 68.8
Corporate Selling	$154.7	$208.7

* January – July 22, in $ billions

Also expected to aid this trend are: the removal of a substantial portion of the overhang of stock options issued as compensation following large buybacks in the past few years; new corporate governance and accounting standards, which promise to constrain executive compensation, particularly stock option compensation; and, a shift in shareholder attention, which has become more focused on the level and direction of dividend payouts. If these assumptions prove valid, dividend payout ratios and dividend yields would be expected to continue to rise, and over the long term, return to levels more in line with long run historical averages, to the general benefit of the economy as a whole.

The arrival of some of these expected benefits might, perversely, be accelerated by the possibility that the "life" of dividend tax cuts might be cut short. Pressure is expected to rise on the next Congress to act to curb the sharp expansion of the federal deficit, and one likely target would be to reverse the dividend tax cut well before its scheduled "sunset" at end-2008. Microsoft's announcement on July 21 of the largest one-time corporate dividend in history may be an

example of such a preemptive response to the risk of a change in tax policy. Microsoft announced that: on December 3, 2004, it would pay a $32 billion dividend, equal to roughly $3 per share; it would double its annual dividend to 32 cents per share (a total of about $3.5 billion); and, it would buy back $30 billion of its shares over the next four years. By timing the elimination of most of its huge cash hoard to occur prior to end-2004, Microsoft officials are less "exposed" to the risk of a less favorable tax environment in 2005 and beyond. Other firms are expected to follow suit in the months ahead.

The non-financial corporate sector is currently holding near record levels of cash thanks to the surge in corporate profitability. To date, much of this free capital has been used to repair corporate balance sheets as corporate debt ratios have declined along with the pace of issuance of new corporate debt, particularly in the quarter just ended. Looking forward, we expect the growth of two principal uses for this cash — buybacks and business investment — to slow. The pace of stock buybacks appears to have decelerated during 2Q 2004 more than one would have expected due to seasonal patterns. Similarly, relatively high levels of business investment growth are currently the leading contributor to overall growth in the economy and are expected to decline in coming quarters as growth of real final demand decelerates to levels closer to long run averages of 2½ % to 2¾ %. These trends should provide support to increased growth of dividend payments.

Assessing the Impact

Weighing the economic effects and assessing the costs and benefits of the dividend tax reduction remains problematic. In January of last year we noted that any realistic evaluation of the impact of this tax reform must assess how individuals, as well as businesses, respond to it and any changes in investment and business activity that arise as a result of it. Thus far, estimates of the costs of this proposal are incomplete. While quantification of its benefits are difficult to assess at this point, initial work by NBER and others cited earlier indicates that the tax reduction has resulted in changes in behavior.

The two sides of this debate appear to follow two alternative explanations in corporate finance theory, commonly known as the "traditional view" and the "new view", of why corporations pay dividends. The traditional view holds that the amount of dividends paid will rise as the tax burden on dividends relative to capital gains has decreased, and that lowering the dividend tax rate will increase the dividend payout ratio and incentives for real investment, ultimately fostering more investment and business activity. Under the traditional view, the need to maintain higher dividend payments will constrain the use of retained earnings and encourage new equity issues as corporations' marginal source of equity financing for new investments.

The "new" view holds that dividend payments offer no non-tax benefits to shareholders relative to retained earnings and buybacks, and that changes in dividend tax rates do not affect the firm's dividend or investment policies, with dividends determined as a residual after the firm undertakes all profitable investments. Consequently, according to this view, a permanent change in the tax rate on dividends will not stimulate investment or business activity, and will only serve to benefit mostly wealthier taxpayers who own a disproportionate share of dividend-paying stocks held in taxable accounts.

While the data available thus far strongly support the "traditional view," it is still premature to judge the effects of this long-term tax reform. However, it would appear that the conclusion

reached by the Treasury 12 years ago[16] still holds true: the long-term benefits derived from eliminating biases and distortions is roughly comparable to the costs generated by lost tax revenues and resultant higher fiscal deficits. If one includes the presumed long-term benefits of higher growth in incomes and jobs, the balance tips well in favor of the dividend tax cuts. However, while we will have to leave the assessment of the long-term benefits for future research, for now we feel quite confident that the "traditional view" will prevail.

The increase in the number of companies paying dividends and in the amounts being paid to investors argue in favor of making the tax cut on dividends permanent. To allow this pro-investor initiative to sunset would adversely affect the economy's long-term outlook and reduce the attractiveness of equity investments, which help fuel innovation, economic growth and prosperity. The sunset provision on dividend tax-rate cuts — if accelerated — may exaggerate a decline in equity values and sharply reduce investor interest in shares and, perhaps, share prices as well in the months prior to the sunset.

Our assessment is that the dividend tax rate is working. It would be counterproductive not to extend this basic tax reform. Better still would be to completely put an end to the remaining bias and distortions by completely eliminating the double taxation of dividends.

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

[16] Report of the U.S. Treasury Department, Integration of the Individual and Corporate Tax Systems, January 1992. See specifically, Part V: Economic Analysis of Integration, Chapter 13: Economic Effects of Integration.

Risk Disclosure in Public Reporting

Enhanced risk disclosure has been a hot industry topic for some time, driven by changes in financial market risk and risk management as highlighted in previous Research Reports[1]. For several years, the Securities Industry Association has surveyed disclosure in financial institutions' annual reports to monitor the development of enhanced disclosure. Below is a review of the risk disclosures in 19 U.S. and global financial institutions' 2003 annual reports.

The Development of Risk Disclosure

Beginning in the summer of 2000, SIA has reported on financial institutions' risk disclosure in public reporting.[2] Since the release of the 2001 report of the Working Group on Public Disclosure[3], known as the "Shipley Report" after the name of its chairman, former Citibank chairman Walter V. Shipley, SIA has published a survey of risk disclosure based on its six disclosure recommendations (see Box 1).

Box 1: Shipley Report: Recommendations for Enhanced Disclosure

1. Aggregate high, average and low trading ***Value-at-Risk*** (***VaR***)*
2. High, average and low trading VaR by major risk category, including diversification effects
3. Quantification of how well market risk models performed
4. Current credit exposures by internal ratings
5. Information about the maturity profile of transactions
6. Insight into credit concentrations

There have been several concurrent public and private sector efforts to discuss and develop enhanced public disclosure, including those of the Group of Thirty (G30) and the Joint Forum. At around the same time as the Shipley group's efforts, the Multidisciplinary Working Group on Enhanced Disclosure (also know as the Fisher II Working Group) issued recommendations that were reviewed and reported on by the Joint Forum in the May 2004 release "Financial Disclosure in the Banking, Insurance and Securities Sectors: Issues and Analysis."[4] In December

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[1] Frank Fernandez, "Changes in Risk and Risk Management," *Research Reports*, Vol. I, No. 7, August 25, 2000, pp. 1-8 (http://www.sia.com/research/pdf/RsrchRprtVol1-7.pdf) and "Update in Regulatory Initiatives in Risk Management," *Research Reports*, Vol. II, No. 5, May 31, 2001, pp. 8-18 (http://www.sia.com/research/pdf/RsrchRprtVol2-5.pdf), and Kyle Brandon, "Value-at-Risk Back in the Headlines," *Research Reports*, Vol. V, No. 3, April 8, 2004, pp. 12-18 (http://www.sia.com/research/pdf/RsrchRprtVol5-3.pdf).

[2] In 2004, SIA added expanded the scope of its work on enhanced disclosure to include surveying critical accounting disclosures. See Kyle Brandon, "Critical Accounting Disclosure in Annual Reports," *Research Reports*, Vol. V, No. 5, May 17, 2004, pp. 12-21 (http://www.sia.com/research/pdf/RsrchRprtVol5-5.pdf).

[3] A copy of the Shipley report can be found on the Federal Reserve web site at http://www.federalreserve.gov/boarddocs/press/general/2001/200110111/DisclosureGroupLetter.pdf, (Shipley Report). The Working Group was comprised of Bank of America, Bank One, JPMorganChase, Citigroup, Deutsche Bank, Goldman Sachs, HSBC, Merrill Lynch, Morgan Stanley Dean Witter, UBS and Wells Fargo.

[*] Words or terms in bold italics are defined in the glossary provided at the end of this piece.

[4] The report may be found on the BIS web site at http://www.bis.org/publ/joint08.pdf. The Joint Forum is made up of the Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), and International Association of Insurance Supervisors (IAIS).

2003, the G30 issued "Enhancing Public Confidence in Financial Reporting," which focuses on public reporting of both accounting and risk disclosures.[5]

Box 2: Fisher II Report: Recommendations for Enhanced Disclosure of Financial Risks

1. Current disclosure covering five major risk areas: a) market risk in trading activity; b) firm-wide exposure to market risk; c) funding liquidity risk; d) credit risk; and, e) insurance risk.
2. Other disclosures that require some further work: risk concentrations and credit risk.
3. Further disclosures that require more development to become useful (longer time horizon): risk assessments that capture market liquidity risk and broad principles for evaluating funding liquidity risk.

The six Shipley recommendations presented in Box 1 on the previous page evolved from discussions that also developed four fundamental principles for enhanced public disclosure[6]. The four are summarized below:

1. Disclosure should reflect information that is consistent with management's approach to risk management;
2. Disclosures should focus on how risk within a firm changes over time;
3. Disclosures should be responsive to changes in internal practices; and,
4. Disclosures should be properly balanced between quantitative and qualitative information.

Below is the review of the risk disclosures in 19 U.S. and global financial institutions' 2003 annual reports that attempts to evaluate both how well the firms' disclosures adhere to the principles outlined in the Shipley Report and the usefulness of those disclosures. Summaries of the six Shipley disclosures are attached in Appendices 1 (#1 – #3) and 2 (#4 – #6), along with a list of the publications reviewed (in Appendix 3). On the whole, risk disclosures have become more standardized and more detailed since the time of the Shipley Report.

Market Risk

On the whole, the 19 annual reports' market risk disclosures follow the recommendations of the Shipley Report. All but one of the reports contain at least some disclosure of trading market risk VaR, at a 95% to 99% confidence interval for a one-day to ten-day holding period. Some disclosures also include non-trading VaR. Of the 18 that reported market risk VaR, all but one also provided a breakdown of the risk into component categories such as interest rate, foreign exchange and equity price risks, as well as the diversification effect.

As for the third Shipley recommendation for quantification of how the risk models performed, all of the annual reports surveyed contained at least one such disclosure. There were, however, significant differences in the level of explanation of what exactly was being compared. It was not always clear whether all trading instruments were included in the calculation of VaR or whether the performance measures used to quantify the models included precisely the same portfolios, nor whether there were positions or portfolios with significant market risks that were

[5] An overview of the report is on the G30 web site at http://www.group30.org/docs/G30=Overview.pdf.

[6] Shipley Report, p. 2.

not captured in the VaR disclosures. Typical disclosures for Shipley recommendations #1 – #3, which were taken from the summary of the 19 annual reports contained in Appendix 1, include the following:

1. Aggregate and market risk component VaR at end FY 2003 and 2002. Aggregate and market risk component high, low, and average VaR, for FY 2003 and 2002. (Calculated using a one-day interval and 95% confidence level.) (U.S. Investment Bank)
2. Market risk is separated into five components: diversification benefit; interest rate risk; equity price risk; foreign exchange risk; and commodity price risk. (Non-U.S. Bank)
3. Disclosure whether there were any days on which actual losses exceeded VaR in 2001-2003. Histogram of daily trading-related revenue for end FY 2003. Chart of daily VaR and trading-related revenue for end FY 2003. (U.S. Bank)

The most informative of the market risk disclosures related in fairly fine detail management's approach to risk management, how VaR was calculated, and the shortcomings of the VaR approach. Some of the most important disclosures were about other methods used to help capture market risk measurement that would otherwise not be reflected in VaR, such as stress testing. Stress testing, however, does not produce comparable results as each firm takes its own approach. Indeed, some firms may even change their stress testing parameters frequently. Although not covered in Shipley, disclosure that includes a description of what types of stress testing are conducted and how management thinks about stress testing are provided by some firms and are generally considered useful. As VaR is more prominently featured in the press, it is increasingly more important that disclosures are very clear about what VaR does and does not mean. If the firms don't do a good job of explaining what their market risk disclosures mean, then others will do it for them – and not necessarily with desirable results.[7]

Market risk disclosures have developed significantly over the years. Although there are only a few instances of significant changes between the disclosures contained in the 2003 annual reports compared with those of 2002, the trend is clearly in the direction of more disclosure. In particular there are several commercial banks, both U.S. and non-U.S., which have developed disclosures that are more similar to those used by investment banks for several years or more. For all institutions, disclosures concerning the quantification of market risk model performance have developed most significantly, although in some cases these disclosures still lack desired detail. In all cases, the more that the institutions can balance the apparent precision of quantitative measures with richer qualitative descriptions of their limitations, the better that readers of the annual reports will be able to understand market risk.

Credit Risk

Credit risk disclosure is less uniform than market risk disclosure. These disclosures are also more dispersed throughout many of the annual reports and therefore more difficult to consider as a whole. For example, 13 out of the 19 institutions disclose that they use internal or external ratings to evaluate their current credit exposure. Few of the 13, however, provide much in the way of explanatory information on their internal rating system, or how they compare (if applicable) to external ratings. Even fewer provide detailed breakdowns by internal ratings that reflect the effects of netting or collateral. Many of the institutions use those ratings only in regard to their derivatives portfolios, even though they have current credit exposure in other portfolios. This is an area where it is particularly difficult to compare investment bank disclosures to commercial bank disclosures, as demonstrated in the two examples below.

[7] For a further discussion of VaR reporting, please see "VAR: Ready to Explode?" *Risk*, July 2004, pp. 40-46.

Example 1 – Investment Bank: OTC derivative credit exposure by internally determined credit rating equivalents of public agency ratings, along with collateral held, exposure net of collateral, and percentage of exposure net of collateral. OTC derivative exposure net of collateral by credit rating equivalent.

Example 2 – U.S. Commercial Bank: No internal risk ratings system provided. Commercially criticized exposure; non-performing assets by type; nonperforming asset activity; allowance for credit losses; and, allocation of the allowance for credit losses by product type, all at end-FY 2003 and 2002. Nonperforming assets; allowance for credit losses; and allocation of the allowance for credit losses by product type, for FY 1999 – 2003. In Notes: Contract/notional and credit risk amounts for derivatives and managed loans and leases portfolio (portfolio balances, delinquencies, and historical loss amounts) at end-FY 2003 and 2002.

The bank example above is a relatively short one – the larger, more complex institutions provide an enormous amount of tables. Because both U.S. and non-U.S. bank disclosures are mainly focused on traditional banking book-credit risk, they are very different from investment bank disclosures on trading book-credit exposure (mostly OTC derivatives), and so far there is no agreed way to add up the different types of risk into one comparable – not to mention meaningful – metric. It is an area that will receive a lot of attention as Basel II is adopted globally, and financial institutions further develop their internal ratings to be able to take advantage of the most advanced methods of risk management and regulatory capital calculation.

All 19 institutions generally provide the fifth Shipley disclosure – maturity profiles of transactions that give rise to material credit exposure – but the disclosures vary greatly by type of institution. Different types of obligations are presented in different parts of the annual reports, making it somewhat of a challenge to find them all, especially for the more complex institutions, let alone to make sense of what they mean for the institutions' risk profile. This is another area in which disclosure may not yet be as illuminating as it could be. While this is an area in which the institutions provide far more information now than they did even two years ago, it is not easy to determine whether the disclosures provided are more meaningful, since not all of the additional quantitative information is matched with enhanced explanation.

The final Shipley recommendation concerns credit concentrations, again not easy disclosure to compare across institutions. In this area, commercial banks – which are generally more involved in extending credit – tend to have more developed disclosure. There is a huge range of the level of credit concentration disclosure. Two institutions, one investment bank and one commercial bank, provided no numbers at all. Several provided very limited information, such as Example 1 below, while much fuller information was provided in Example 2.

These examples once again highlight the differences between commercial and investment-banking credit disclosures. However, as disclosures should, on principle, reflect the way that management looks at risk, it is not surprising that as the risks differ, so do the risk disclosures. Over the past several years, most of the institutions have increased the amount of their credit concentration disclosure, although whether that leads to better understanding – let alone comparable information – is still up for debate.

Example 1 – Investment Bank: Disclosure of credit exposure to U.S. government and federal agency obligations and other sovereign governments as a percentage of total assets as of end FY 2003. Disclosure of the concentration of collateral held in U.S. government, federal agencies or other sovereign government obligations as a percentage of total assets as of end FY 2003.

Example 2 – Non-U.S. Commercial Bank: Disclosure of credit risk concentrations, domestic and international, and by industry. Loans and acceptances by region and industry, domestic and

international, FY 1999 - 2003. Non-accrual loans by region and industry, domestic and international, FY 1999 - 2003. Provision for credit losses by region and industry, domestic and international, FY 1999 - 2003. Allowance for credit losses, domestic and international, FY 1999 - 2003. Foreign outstandings by region and country, FY 2001–2003. U.S. loans and acceptances and loan quality information by industry, FY 2000-2003. Risk profile, domestic and international, FY 1999–2003. Loans, domestic, U.S. and other international, end FY 2003 and 2002. On-balance sheet assets and off-balance sheet credit instruments by geographic concentrations, FY 2003 and 2002.

Conclusion

In light of the development of more risk-based capital regulation in the financial markets globally – Basel II and the Securities and Exchange Commission's Consolidated Supervised Entities rule – the current state of risk management and reporting are more front and center than ever. Financial institutions have been on the cutting edge of the development of approaches to quantify risk such as VaR, stress testing and scenario analysis. Enhanced public risk disclosure has continued to develop, mostly in step with the recommendations of the Shipley and Fisher groups. Risk-based disclosures form the core of the new capital regimes being implemented and will only become more important as firms adopt them globally.

While there are several types of quantitative risk approaches being used currently, the two most developed areas are market and credit risks. Basel II envisions the use of quantitative approaches to operational risk, but the development of such approaches is in a relatively early stage, and is not yet in general use in public reporting. The recent report by the Joint Forum Working Group on Enhanced Disclosure report urges continued work on risk disclosure issues, and while this working group has been retired, other public efforts continue. With the active support of private sector industry participants and organizations, public efforts by groups such as IOSCO, BIS, the Federal Reserve, and the SEC will continue the work on enhanced disclosure.

Kyle L Brandon
Vice President and Director, Securities Research

Appendix 1
Summary of "Shipley Report" Disclosures 1 – 3: 2003 Annual Reports

Legend:
"IB" = Investment Bank
"US BHC" = U.S. Bank Holding Company
"Non-US BHC" = Non-U.S. Bank Holding Company

Firm	1. Aggregate High, Average, Low Trading VaR	2. High, Average, Low Trading VaR by Major Risk Category	3. Quantification of Market Risk Model Performance
1 IB	Aggregate and market risk component VaR as of end FY 2003 and 2002. Aggregate and market risk component high, low, and average VaR for FY 2003. One-day interval and 95% confidence level	Market risk is separated into four components: interest rate; currency; equity; and diversification benefit.	Disclosure whether trading losses exceeded the reported average daily VaR during FY 2003. Graph of distribution of daily net trading revenues for end FY 2003 and 2002.
2 IB*	Aggregate and market risk component average VaR for end FY 2001-2003. Aggregate and market risk component VaR at end FY 2003 and 2002, and high and low VaR for end FY 2003. One-day interval and 95% confidence level.	Market risk is separated into five components: interest rates; equity prices; currency rates; commodity prices; and diversification effect.	Disclosure whether trading losses exceeded their 95% one-day VaR during FY 2003.Charts of daily VaR of substantially all trading positions over FY 2003 and frequency distribution for substantially all daily trading net revenues.
3 IB*	Aggregate and market risk component VaR as of end FY 2003 and 2002, for trading and non-trading, and for trading only. Aggregate and market risk component high, low and average VaR for FY 2003. One-day interval with 95% and 99% confidence levels.	Market risk is separated into five components: interest rate and credit spread; equity price; foreign exchange rate; commodity price; and diversification benefit.	Disclosure whether trading losses exceeded 99% one-day VaR and whether there were trading days on which the largest one-day loss exceeded the low 99% one-day VaR, for 2003. Histograms of 99% one-day VaR and daily net revenue of institutional trading business in 2003.
4 IB	Aggregate and market risk component VaR at end FY 2003 and 2002. Aggregate and market risk component high, low, and average VaR, FY 2003. One-day interval and 95% confidence level.	Market risk is separated into four components: interest rate; equity price; foreign exchange; and diversification benefit.	Chart of distribution of daily net revenues for FY 2003 and 2003, with averages.
5 US BHC*	Total VaR, trading and non-trading aggregate and market risk component VaR as of end FY 2003 and 2002. Trading and non-trading aggregate and market risk component average, minimum and maximum VaR for end FY 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into six components in the trading portfolio: interest rate; foreign exchange; equities; commodities, hedge fund investments; and portfolio diversification. Non-trading activities and portfolio diversification are also presented.	Disclosure whether trading losses exceeded one-day VaR in 2003. Chart of distribution of daily market risk-related revenue for trading business and a chart of the distribution of daily VaR, less trading losses. Worst-case economic-value stress test loss in the trading portfolio and non-trading portfolio, 2002 and 2003.

* Member of original Shipley Group

Firm	1. Aggregate High, Average, Low Trading VaR	2. High, Average, Low Trading VaR by Major Risk Category	3. Quantification of Market Risk Model Performance
6 US BHC*	Aggregate and market risk component average, high and low VaR for 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into seven components: foreign exchange; interest rate; credit; real estate/mortgage; equities; commodities; and diversification benefit.	Disclosure whether there were any days on which actual losses exceeded VaR in 2001- 2003. Histogram of daily trading-related revenue for end FY 2003. Chart of daily VaR and trading-related revenue for end FY 2003.
7 US BHC*	Aggregate and market risk component for (1) high volume capital markets trading portfolios and mortgage pipeline and (2) other trading portfolios at end FY 2003 and 2002, and average, high, and low VaR, 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into five components for the high volume capital markets trading portfolios and mortgage pipeline: interest rate; commodity price; currency exchange rate; equity; and portfolio diversification. Other trading portfolios are presented by interest rate and currency exchange rate components.	Disclosure whether there were any days on which actual losses exceeded VaR and of the worst daily trading loss in FY 2003. Graph of backtesting results for the high volume capital markets trading portfolios and mortgage pipeline for end FY 2003. Disclosure of breakdown of primary market risk exposures as of end FY 2003 and of which types of positions and activities accounted for the change in VaR from end FY 2002 to end FY 2003.
8 Non-US BHC	Year-end VaR at end FY 2003 and 2002, and average daily VaR for FY 2003. One-day interval and 99% confidence level.	No disclosure of VaR by market risk components. Graph of interest rate risk exposure at end FY 2003, closed (non-optioned) instruments within the financial position. Graph of interest rate risk exposure at end FY, 2003, all instruments within the financial position.	Disclosure whether there were any days on which actual losses exceeded VaR and of the worst daily trading loss in FY 2003. Frequency distribution of net trading revenue and graph of weekly stress test results for FY 2003. Graph of net trading related revenue vs. VaR for FY 2003.
9 US BHC*	Not provided.	Not provided.	During FY 2003 maximum daily VaR, the worst expected loss over a given time interval at 99% confidence interval for all trading positions covered by VaR measures, did not exceed a stated amount.
10 US BHC*	Aggregate and market risk component VaR for the trading portfolios as of end FY 2003 and 2002, with averages. Low and high market risk component (excluding covariance adjustment) VaR for 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into five components: interest rate; foreign exchange; equity; commodity; and covariance adjustment.	Disclosure of number of days with negative trading-related losses and the range of the worst daily trading-related loss in FY 2003. Frequency distribution of daily trading-related revenue for FY 2003.

* Member of original Shipley Group

Firm	1. Aggregate High, Average, Low Trading VaR	2. High, Average, Low Trading VaR by Major Risk Category	3. Quantification of Market Risk Model Performance
11 Non-US BHC	Aggregate and market risk component average, high and low VaR for FY 2003 and 2002. Year-end total VaR at end FY 2003 and 2002. One-day interval and 98% confidence level.	Market risk is separated into six components: interest rate; credit spread; foreign exchange; equities; commodities; and diversification effect.	Disclosure of number of days in which the daily trading revenue loss of regulatory trading book exceeded the corresponding back-tested daily VaR for FY 2003 and 2002. Graph of total VaR daily exposures for FY 2003 and 2002. Graph of the distribution of market risk daily trading revenue in 2003 and 2002. Average daily revenue and number of positive revenue days, FY 2003 and 2002.
12 Non-US BHC	Maximum, median, minimum and year-end VaR, group-wide and in the three largest units, FY 2003 and 2002. One-day interval and 99% confidence level.	Risk position of the trading portfolio, VaR (10-day 99% confidence interval) by different business lines at end FY 2003 and 2002. Interest rate risk of the banking book, measured on the basis of net present value approach, applying the historical simulation method, VaR (10-day 99% confidence interval), at end FY 2003 and 2002.	Disclosure whether there were days on which actual losses exceeded VaR in FY 2003. Graph of VaR (1-day 97.5% confidence interval) weekly averages for group and three largest units in 2003. Picture of percentage distribution of market risk (1-day 97.5% confidence interval) across units at end FY 2003. Graph of back-testing P&L, 97.5% VaR and 99% VaR over 2003. Graph of stress test in the course of 2003, weekly averages, for three units.
13 Non-US BHC*	Aggregate and market risk component end FY, minimum, maximum and average daily trading activities VaR for 2003 and 2002. Ten-day interval and 99% confidence level.	Market risk is separated into three components: foreign exchange trading positions; interest rate trading positions; and equities trading positions.	Disclosure of average daily revenue earned from market risk-related activities, and the standard deviation of the revenues in FY 2003 and 2002. Histogram of daily distribution of market risk revenues in FY 2003 and 2002. Disclosure of average one-day revenue for foreign exchange and interest rate activities in FY 2003 and 2002.
14 Non-US BHC*	Aggregate and market risk component average, maximum, minimum and year-end daily VaR of trading units for 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into five components: diversification benefit; interest rate risk; equity price risk; foreign exchange risk; and commodity price risk.	Disclosure whether there were any days on which actual losses exceeded VaR in FY 2003 and 2002. Graphs of daily aggregate VaR of trading units and histograms of daily income of trading units, in FY 2003 and 2002. Graph of income of trading units and VaR, 2003. Stress testing results at end FY 2003.

* Member of original Shipley Group

Firm	1. Aggregate High, Average, Low Trading VaR	2. High, Average, Low Trading VaR by Major Risk Category	3. Quantification of Market Risk Model Performance
15 IB*	Aggregate and market risk component VaR for trading instruments at end FY 2003 and 2002, with daily averages. High and low market risk component VaR for FY 2003. Aggregate and market risk component VaR for non-trading instruments at end FY 2003 and 2002, with quarterly averages. One-week interval and 95% confidence level.	Market risk is separated into six components for trading instruments: interest rate and credit spread; equity; commodity; currency; volatility; and diversification benefit. There are five components of market risk for non-trading instruments: interest rate and credit spread; equity; currency; volatility; and diversification benefit.	Graph of distribution of weekly net-trading revenues for end FY 2003.
16 Non-US BHC	Aggregate and market risk component for main trading and non-trading portfolios at end FY, minimum, maximum and average daily VaR for FY 2003 and 2002. One-day interval and 99% confidence level (10-day VaR is scaled to one-day).	Market risk is separated into five components: interest rate; foreign exchange rate; equity; commodity; and diversification benefit.	Disclosure of backtesting exceptions that occurred in FY 2003. Graph of back testing P&L vs. one-day 99% VaR in FY 2003 for one unit. Graph of distribution of same unit's daily trading revenue, 2003 vs. 2002.
17 Non-US BHC	Global and market risk component end FY, high, average, and low VaR for trading activities for FY 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into three components: equity; foreign exchange and commodity; and interest rate. Global VaR reflects the correlation effect through diversification. Graph of global VaR by major risk categories, FY 2003.	Disclosure whether there were any days in FY 2003 on which hypothetical net loss exceeded VaR. Graph of daily net trading revenue vs. trading VaR and histogram of daily net trading revenue for FY 2003. Market risk measures, non-trading activity, FY 2003 and 2002.
18 Non-US BHC*	Pictogram of average VaR, by market risk component, in %, for FY 2003. Aggregate and market risk component end FY, minimum, maximum, and average VaR for FY 2001-2003. Aggregate and business group component Dec. 31, minimum, maximum and average VaR for 2001-2003. Minimum, maximum, average and end FY non-trading currency risk VaR, 2001-2003. Bar graph of average VaR, 2001-2003. Ten-day interval and 99% confidence level.	Investment Bank market risk is separated into five components: equities; interest rates; foreign exchange; other; and diversification effect. Business group market risk is separated into eight business unit components, including diversification effect.	Disclosure whether there were any regulatory backtesting exceptions in FY 2003. Investment Bank, backtesting revenue and VaR (one-day 99% VaR and 10-day 99% VaR), FY 2003. Investment Bank distribution of daily revenues, FY 2003, full revenues and backtesting revenues. Interest rate sensitivity of the bank book as of end FY 2003.
19 Non-US BHC	Aggregate and market risk component trading VaR at end FY, average, minimum, and maximum, FY 2003 and 2002. One-day interval and 99% confidence level.	Market risk is separated into five components: interest rate; equity price; exchange rate; commodity price; and compensation effect. Breakdown of VaR by type of risk.	Disclosure whether there were backtesting exceptions in FY 2003. Graph of trading VaR during FY 2003 (one-day 99%). Graph of VaR back testing during FY 2003. Stress-test scenarios described for various risk factors.

* Member of original Shipley Group

Appendix 2
Summary of "Shipley Report" Disclosures 4 – 6: 2003 Annual Reports

Legend:
"IB" = Investment Bank
"US BHC" = U.S. Bank Holding Company
"Non-US BHC" = Non-U.S. Bank Holding Company

Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
1 IB	OTC derivative credit exposure as of end FY 2003 by internal counterparty credit ratings, by exposure; collateral; exposure, net of collateral; and percentage of exposure, net of collateral.	Maturities of notional/contract amount outstanding for derivative financial instruments by type; contractual obligations and commitments, by type, per expiration period; and (in Notes) maximum payout/notional amounts associated with guarantees by expiration per period, all as of end FY 2003.	In Notes: Description Only.
2 IB*	OTC derivative credit exposure by internally determined credit rating equivalents of public agency ratings, along with collateral held, exposure net of collateral, and percentage of exposure net of collateral. OTC derivative exposure net of collateral by credit rating equivalent and by remaining contractual maturity.	Contractual obligations and contingent commitments by expiration period and OTC derivative credit exposure by remaining contractual maturity, as of end FY 2003. OTC derivatives by remaining contractual maturity as of end FY 2003 and 2002. Derivative contracts that meet the definition of a guarantee and certain other guarantees by period of expiration as of end FY 2003.	In Notes: Disclosure of credit exposure to U.S. government and federal agency obligations as a percentage of total assets.
3 IB*	OTC derivative products financial instruments owned, fair value of instruments in a gain position as of end FY 2003 by internally determined credit ratings: by years to maturity; cross-maturity netting; net exposure pre-collateral; and net exposure post-collateral.	Contractual obligations and contingent liabilities and commitments by type and expiration period, as of end FY 2003. Remaining years to maturity on OTC derivative products (long and short) fair value, by product type, and OTC derivative products – owned, fair value of instruments in a gain position, by internal ratings, as of end FY 2003.	In Notes: Disclosure of credit exposure to U.S. government and federal agency obligations and other sovereign governments as a percentage of total assets as of end FY 2003. Disclosure of the concentration of collateral held in U.S. government, federal agencies or other sovereign government obligations as a percentage of total assets as of end FY 2003.
4 IB	In Notes: Net credit exposure (percentage) for OTC contracts based upon actual ratings made by external rating agencies or by equivalent ratings established and used internally, end FY 2003 and 2002.	Lending-related and other commitments, guarantees and obligations, by maturity at end FY 2003. Fair value of OTC derivative contracts by maturity at end FY 2003. In Notes: Weighted-average maturity of notional amounts of end-user derivatives at end FY 2003 and 2002. Net credit exposure for OTC contracts by maturity at end FY 2003.	In Notes: Disclosure of credit exposure to U.S. government and federal agency securities and securities issued by non-U.S. governments as a percentage of total assets as of end FY 2003.

* Member of original Shipley Group

Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
5 US BHC*	Ratings profile of commercial exposure by type based on internal risk ratings, presented on S&P-equivalent basis as of end FY 2003 and 2002. Ratings profile of balance sheet derivative receivables MTM, exposure net of cash and other highly liquid collateral and percentage of exposure net of collateral as of end FY 2003. Ratings profile of commercial credit exposure, investment grade and non-investment grade as of end FY 2003 and 2002.	Maturity profile of commercial exposure by type as of end FY 2003 and 2002. Schedule of maturities on non-exchange traded commodity contracts, asset and liability positions; off-balance sheet lending-related financial instruments and contractual cash obligations by remaining maturity; and maturity schedule of available-for-sale and held-to-maturity securities as of end FY 2003. In Notes: Commercial loan maturities and distribution between fixed and floating interest rates, based on the stated terms of the commercial loan agreement (does not include impact of derivative instruments) and maturity schedule of available-for-sale and held-to-maturity securities as of end FY 2003.	Industry distribution of commercial credit exposure as of end FY 2003 and 2002. More detailed discussion of several industries to which there significant exposure. Commercial criticized exposure trends by industry and by quarter, 2003, and criticized exposure industry concentrations at end FY 2003. Selected country exposure, by activity and total, at end FY 2003, and total at end FY 2002. U.S. managed consumer loans by region and consumer loans by geographic region, by type of loan, end FY 2003 and 2002. In Notes: Cross-border outstandings exceeding 0.75% of total assets by type and by country and U.S. government and agency securities a percentage of stockholders equity, as of end FY 2003.
6 US BHC*	No internal risk ratings system provided. Commercial criticized exposure; non-performing assets by type; nonperforming asset activity; allowance for credit losses; and allocation of the allowance for credit losses by product type, all at end FY 2003 and 2002. Nonperforming assets; allowance for credit losses; and allocation of the allowance for credit losses by product type, all 1999 – 2003. In Notes: Contract/notional and credit risk amounts for derivatives and managed loans and leases portfolio (portfolio balances, delinquencies, and historical loss amounts) at end FY 2003 and 2002.	Interest rate and foreign exchange derivative contracts by expected maturity; selected loan maturity data; maturities of credit extension commitments; and non-exchange traded commodity contract maturities, all as of end FY 2003. In Notes: Fair value and associated unrealized losses on investments in debt securities with unrealized losses by maturity and expected maturity distribution and yields of securities portfolio at end FY 2003.	Utilized commercial credit exposure by significant industry; regional foreign exposure and selected emerging market exposure; non-real estate outstanding commercial loans and leases by significant industry; and outstanding commercial real estate loans by geographic region and by property type, all at end FY 2003 and 2002. Selected emerging markets by type of transaction and by region/country at end FY 2003 and change from end FY 2002. Cross-border exposure exceeding one percent of total assets at end FY 2003.
7 US BHC* (Cont. on following page)	No internal risk ratings system provided. Nonperforming assets and net charge-offs at end FY 2001 – 2003. Changes in allowance for loan losses for FY and composition of allowance for loan losses, amounts and percent, at end FY, 2000 – 2003. In Notes: Impaired loan information at end FY 2003 and 2002. Changes in allowance for credit losses for FY,	Net notional amounts, maturity, and weighted-average pay and receive rates for the ALM swap position; estimated maturities of investor principal in securitized credit card loans; credit related financial instruments by commitment expiration per period; and long-term contractual obligations, payments due by period, all at end FY 2003. In Notes: Fair value	The more significant concentrations of the commercial banking commercial and industrial portfolio, outstanding amount and percent of total loans and commercial real estate loan portfolio by collateral location and property type, amount and percent of portfolio, both at end FY 2003.

* Member of original Shipley Group

Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
7 US BHC* (Cont.)	2001 – 2003.	of securities with unrealized losses and an aging of those unrealized losses, by maturity; available-for-sale debt securities by maturity; and maturity distribution and interest rate sensitivity of loans, all at end FY 2003.	
8 Non-US BHC	No internal risk ratings system provided. Risk-weighted assets at end FY 2001 – 2003. In Notes: Loans, impaired loans, and allowance for credit losses 2003 and 2002. Allowance for credit losses by type of allowance 2003 and 2002, and total for 2001. Gross impaired loans and net write-offs for components of reported and securitized financial assets as of end FY 2003 and 2002. Credit exposure of derivative financial instruments at end FY 2003 and 2002 by type and less impact of master netting agreements and collateral.	Contractual obligations by remaining maturity at end FY 2003. In Notes: Securities maturity schedule at FY 2003 and totals for 2003 and 2002. Interest rate risk by remaining maturity and interest rate risk by currency by remaining maturity for 2003 and interest rate risk by remaining maturity for 2002 according to local requirements. Derivative financial instruments by term to maturity for 2003 and total for 2002.	Loans and customers' liability under acceptances, net of allowance for credit losses by industry sector and location of ultimate risk; impaired loans less allowance for credit losses by industry sector and location; and provision for credit losses by industry sector and location, all at end FY, 2001 – 2003. Replacement cost of derivatives by location and sector at end FY, 2001 – 2003, and by location of ultimate risk amounts and percent at end FY, 2003 and 2002. Concentration of credit risk of on balance sheet assets by country as of end FY 2003 and 2002. Concentration of off balance sheet financial instruments: (a) credit instruments by country and by industry segments exceeding 5% and (b) derivative financial instruments region/country and by counterparty type exceeding 3% as of end FY, 2003 and 2002.
9 US BHC*	No internal risk ratings system provided: Non-accrual loans and other assets and loans 90 days or more past due and still accruing, at end FY 1999 – 2003. In Notes: Changes in allowance for loan losses, FY, 1999-2003. Recorded investment in impaired loans and the methodology used to measure impairment; principle balances of managed and securitized loans, total, delinquent and net charge-offs, end FY 2003 and 2002. Notional, contractual and credit risk amount and net fair value for derivative financial instruments at end FY 2003 and 2002.	Significant contractual obligations at end FY 2003 (excluding short-term borrowing arrangements and pension and postretirement benefits plans). In Notes: Remaining contractual principal maturities and yields of debt securities available for sale, at end FY 2003.	In Notes: Description Only.

* Member of original Shipley Group

Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
10 US BHC*	Global derivatives portfolio by internal obligor rating, as a percentage of credit exposure, at end FY 2003 and 2002. Corporate credit portfolio, direct outstandings and unfunded commitments, by facility risk rating, as a percentage of the total portfolio, FY 2003 and 2002. Risk rating of hedged credit exposure, FY 2003 and 2002. Loans outstanding by type; other real estate and other repossessed assets; details of credit loss experience; and cash-basis, renegotiated, and past-due loans, all at end FY, 1999 – 2003. Foregone interest revenue on loans 2003. Consumer loan delinquency amounts, net credit losses and ratios, corporate cash-basis loans and net credit losses, 2001 – 2003. In Notes: Impaired loans and allowance for credit losses, 2001 – 2003.	Corporate credit portfolio, before consideration of collateral, by maturity at end FY 2003. Loan maturities and sensitivity to changes in interest rates in and out of U.S. at end FY 2003. Contractual obligations by year and by type of obligation as of end FY 2003. In Notes: Fair value of investments in fixed maturity and equity securities in as unrealized loss position by maturity, at end FY 2003. Amortized cost and fair value of fixed maturity securities by contractual maturity dates as of end FY 2003. Guarantees by maturity and type, at end FY 2003 and 2002. Financial standby letters of credit by maturity at end FY 2003.	Consumer loan delinquencies, net credit losses and ratios, by region, FY 2001 – 2003. Corporate credit portfolio, direct outstandings and unfunded commitments as percent of the total corporate portfolio, by region, end FY 2003 and 2002. Cross-border outstandings by country, for those that exceed 0.75% of total assets at end FY 2003 and 2002. Foregone interest revenue on loans, in U.S. and non-U.S. offices, 2003. Cross-border outstandings for ten largest non-OECD countries at end FY 2003 and 2002, by sector. Global derivative portfolio by industry as percent of credit exposure, FY 2003 and 2002. Corporate credit portfolio, direct outstandings and unfunded commitments, by industry as percent of the total corporate portfolio, FY 2003 and 2002. Industry distribution of hedged credit exposure, FY 2003 and 2002. In Notes: Disclosure of two largest credit concentrations by country at end FY 2003 and 2002.
11 Non-US BHC (Cont. on following page)	List of internal credit ratings: minimum, maximum, and mid-point probability of default. Risk tendency by business cluster, FY 2003 and 2002. Non-performing loan summary FY 1999 – 2003. Interest forgone on non-performing loans. Provisions charge, total and as a percentage of the banking book, FY 1994 – 2003. Bad debt provisions charge ratios ("loan loss ratios") for FY, 1999 – 2003. Provisions charge analysis, by type, FY 2001 – 2003. Provisions balances, FY 1993 – 2003. Provisions balance ratios and movements in provisions for bad and doubtful debts, FY 1999 – 2003. Provisions coverage ratios for non-performing loans and potential credit risk lendings, FY 1999 – 2003. Ratios of general and specific provisions	Maturity analysis of loans and advances to banks, at end FY 2003 and 2002. Maturity analysis of loans and advances to customers at end FY 2003, total and percents. Maturity analysis of loans and advances to customers by maturity, at end FY 2003 and 2002. Source of commodity derivative fair values, by maturity of contracts, at FY 2003. Analysis of weighted-average receive fixed and pay fixed rates and of weighted-average receive variable and pay variable rates by reset maturity date at end FY 2003. Contractual obligations and other commercial commitments, by period, at end FY 2003 Maturities and weighted average yield of investment debt securities, at end FY 2003. In Notes: Loans and advances to banks and to	Loans and advances to banks and interest rate sensitivity of loans and advances to banks, by region, at end FY 2003 and 2002. Geographic analysis of loans and advances to customers on the banking book at end FY 2003. Global loans and advances to customers by industry, banking book, percent of total, at end FY 2003 and 2002. Interest rate sensitivity of loans and advances to customers by region at end FY 2003. Loans and advances to customers booked in home country, other EU, US, and rest of the world (banking business), by industry, at end FY, 1999 – 2003. Loans and advances to borrowers in non-local currency for borrowers in countries where this (a) exceeds 1% of total assets and (b) is between 0.75% and 1%, at end FY, 2001 – 2003. Exposure to

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
11 Non-US BHC (Cont.)	balances, FY 1999 – 2003. Analysis of net positive commodity derivative fair value by counterparty credit risk rating, FY2003 and 2002. In Notes: Movements in provisions for bad and doubtful debts, FY 2001 – 2003. Non-performing advances, FY 2003 and 2002. Net replacement cost of OTC and non-margined exchange traded derivatives held for trading and non-trading purposes, by residual counterparty, at end FY 2003 and 2002.	customers by repayable period, FY 2003 and 2002. Residual risk under finance leases by recoverable period FY 2003 and 2002. Obligations payable, by period, FY 2003 and 2002. Interest rate sensitivity gap analysis, non-trading book assets and liabilities, by the earlier of the next contractual interest rate repricing date and the maturity date, at end FY 2003 and 2002. Nominal amounts of OTC foreign exchange derivatives held to manage the non-trading exposure by final maturity, FY 2003 and 2002. Notional principal amounts of trading and non-trading derivatives, by residual maturity, at end FY 2003 and 2002. Replacement cost of OTC and non-margined exchange traded derivatives, by residual maturity, at end FY 2003 and 2002.	countries receiving substantial IMF support, total (2001-2003) and largest (2003). Summary graph and detailed table of nonperforming and potential problem loans, by region of offices, 1999 – 2003. Analysis of provisions charges and provision balances for bad and doubtful debts, by region, for FY, 1999 – 2003. Amounts written off, recoveries, provisions charged against profits, and total provisions for bad and doubtful debt at end of FY, by region, 1999 – 2003. Specific provisions charges and balances for bad and doubtful debts by industry and analysis of amounts written off/ recovered by industry, FY 1999 – 2003. Ratios of total provisions coverage on non-performing loans and potential credit risk lendings, by region, FY 1999 – 2003. Disclosure of holdings of own and other countries' gov't. securities that exceed 10% of shareholders' funds, FY 2003 and 2002. In Notes: Loans and advances to banks and customers by area, FY 2003 and 2002. Provisions for bad and doubtful debt by region, at end FY 2003 and 2002. Structural currency exposures at end FY 2003.
12 Non-US BHC (Cont. on following page)	Description of internal ratings. Expected loss and credit VaR by business line at end FY 2003. Total amount of the 20 largest sub-standard (by internal rating) loans; total amount of the 20 largest problem (by internal rating) loans; and coverage ratio for non-performing loans, all at end FY 2003 and 2002. Valuation allowances and loan losses (excluding country risks) FY 1992-2003. Country risk by rating group in percent, at end FY 2003. Credit derivatives (trading book) by rating class amounts, at end FY 2003. Borrowing by rating structure, commercial banking and investment banking in percent at end FY 2003 and 2002. In Notes:	In Notes: Nominal amounts of OTC derivatives and derivatives traded on a stock exchange by remaining lifetimes, at end FY 2003 and 2002. Maturities of claims and liabilities lifetimes (by type of claim or liability) by remaining maturity, as of end FY 2003 and 2002	Country risk by rating group in percent, as of end FY 2003. Regions of foreign exposure percentage, as of end FY 2003. In Notes: Provision for credit risk, broken down by type of customer, 2003. Breakdown of derivatives business, by borrower group, end FY 2003 and 2002. Credit risks relating to balance sheet financial instruments by type of customer and where located, end FY 2003 and 2002.

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
12 Non-US BHC (Cont.)	Provision for possible loan losses, FY 2003 and 2002, and percent change. Provision for possible loan losses, by individual valuation allowances, country valuation allowances, and global valuation allowances, for latent credit risk, and totals for FY 2003 and 2002. Provision for possible risks, FY 2003, 2002, and percent change. Provision for credit risk, by type of customer FY 2003. Data on provision for credit risk (ratios) FY 2003 and 2002. Liabilities from dealing activities FY 2003, 2002, and percent change. Risk structure in terms of various risk assets that have been hedged, end FY 2003 and 2002.		
13 Non-US BHC* (Cont. on following page)	No internal risk ratings system provided. Specific and general provisions at end FY, 2001 – 2003. Provisions against loans and advances at end FY 2003. Provisions against loans and advances to customers, in percentage, 1999 – 2003. Percentage of telecom industry exposure that is investment grade under own gradings at end FY 2003 and 2002. Non-performing loans and advances by type of customer at end FY 2003 and 2002. In Notes: Provisions for bad and doubtful debts at end FY, 2001 – 2003. Contract amount and replacement cost of derivatives used for risk management purposes by product type, FY 2003 and 2002. Carrying value and mark-to-market value of derivative contracts held for risk management purposes, FY 2003 and 2002.	Percentage of telecom industry exposure that is under one year remaining maturity at end FY 2003 and 2002. Loan maturity and sensitivity analysis by loan type on a contractual repayments basis, at end FY 2003. Contractual obligations by payment period at end FY 2003. In Notes: Analysis of contractual maturities and weighted average yields of available-for-sale treasury bills and other eligible bills at end FY 2003. Loans and advances to banks and customers by remaining maturity, FY 2003 and 2002. Investment securities by maturity at end FY 2003. Analysis of contractual maturities and weighted average yields of investment debt securities as at end FY 2003. Analysis of replacement cost of all third party exchange rate, interest rate, and equities and credit derivative contracts with positive mark-to-market gains by category of counterparty and by maturity, including netting where available at end FY 2003 and 2002. Maturity profile of the notional principal values of third party derivative contracts outstanding as at end FY 2003 and total for 2002.	Bad and doubtful debts by region, end FY 2003. Customer loans and advances by industry sector, region and type of loan at end FY, 1999-2003. Customer loans and advances by principal area, country and region, at end FY, 2003 and 2002. Analysis of loans and advances to banks by region at end FY, 1999-2003. Details of the movements in the provisions for bad and doubtful debts by location of lending office for FY, 1999-2003. Net charge to the profit and loss account for bad and doubtful debts, by regions for FY, 1999-2003. Provisions for bad and doubtful debts as a percentage of average gross loans and advances to customers by region for FY, 2001-2003. Non-performing customer loans and related specific provisions outstanding by geographical segment, 2003 and 2002. Analysis of risk elements in the loan portfolios by region end FY, 1999-2003. In-country foreign currency and cross-border outstandings by type of borrower to countries that individually represent in excess of 1% of total assets by country and type of borrower, at end FY, 2001-2003. Loan maturity and sensitivity

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
13 Non-US BHC* (Cont.)			analysis by loan type on a contractual repayments basis, and by region, at end FY 2003. In Notes: Concentrations of gross loans and advances to customers by region at end FY, 2003 and 2002. Geographic concentrations of exposure to contingent liabilities and commitments; assets and liabilities denominated in foreign currency; and net structural currency exposures, FY 2003 and 2002.
14 Non-US BHC*	In-house, rating scale. Corporate credit exposure by type according to credit-worthiness categories of counterparties, at end FY, 2003 and 2002. Default and transfer risk exposure and expected loss, by business units and for group, end FY 2003. Components of problem loans, end FY, 2003 and 2002. Analysis of the changes in the allowance for credit losses on lending related commitments, 2001-2003. In Notes: Impaired loans, end FY, 2001-2003. Activity in allowances for loan losses and activity in allowance for credit losses on lending-related commitments, 2001-2003.	Notional amount maturity distribution of OTC and exchange-traded derivative contracts at end FY 2003. In Notes: Maturity distribution of the debt security component of securities available for sale at end FY 2003. Maturity profile of loans and advances to credit institutions and customers, end FY 2003 and 2002.	Consumer credit exposure, domestic and other Europe, past due and net credit costs, percent, end FY 2003 and 2002. Credit exposure by industry sector, end FY 2003 and 2002. Credit exposure by region of counterparty domicile, end FY 2003 and 2002. Total emerging markets net counterparty exposure, 2001-2003. Utilized emerging markets net transfer risk exposure, by region, 2001-2003. Total problem loans by counterparty domicile, end FY, 1999-2003. Allowance for loan losses by industry, home country and non-home country by location of borrowers, end FY 1999-2003. Movements in allowance for loan losses by industry, home country and non-home country by location of borrowers, 1999-2003. Analysis of the changes in the international component of the allowance for loan losses, 1999-2003, and percent of total allowance attributable to international clients, end FY 2003. In Notes: Composition of loans by sector, home and non-home country; credit risk profile by industry sector; and credit risk profile by region, end FY 2003 and 2002.
15 IB* (Cont. on following page)	Counterparty credit ratings for the replacement cost of OTC trading derivatives in a gain position; trading and non-trading exposures to non-investment grade or highly leveraged issuers and	Significant off-balance sheet arrangements by expiration as of end FY 2003. Contractual obligations by remaining maturities at end FY 2003. Replacement cost (net of collateral) of OTC trading	In Notes: Disclosure of amount of credit exposure to U.S. government and agency instruments, and amount of U.S. government and agency instruments held as collateral at end FY 2003 and

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
15 IB* (Cont.)	counterparties; commitments with exposures to non-investment grade or highly leveraged counterparties; and assets and liabilities, by degree of liquidity, three valuation categories, end FY 2003 and 2002. In Notes: Retained interests arising from securitization transactions and sensitivity of the fair value of the retained interests, at end FY 2003. Principal amounts outstanding, delinquencies and net credit losses of securitized financial assets at end FY 2003 and 2002.	derivatives in a gain position at end FY 2003, by years to maturity. In Notes: Amortized cost and estimated fair value of debt securities by contractual maturities; commitments by expiration; and, guarantees by expiration, all at end FY 2003.	2002. Disclosure of unsecured exposure amount and as a percent of total assets as well as the credit rating of largest counterparty.
16 Non-US BHC	No internal risk ratings system provided. Total credit risk exposure, by product and business unit, and total loan portfolio exposure, allowances and provisions for credit risk, by business unit, end FY 2003 and 2002. Roll forward of loan valuation allowance and net credit-related valuation allowances and provisions, by business unit, FY 2001-2003. In Consolidated Financial Statements: Off-balance sheet collateral, end FY 2003. Derivative instruments, replacement values before and after netting agreements, end FY 2003 and 2002. In Notes: Loans, collateral due from customers and mortgages, end FY 2003. Loan valuation allowance, end FY 2003 and 2002. Roll forward of loan valuation allowance, 2001-2003. Impaired loans, end FY 2003 and 2002. Valuation allowances and provisions, FY 2003.	In Notes: Consolidated off-balance sheet and fiduciary business, by maturity, as of end FY 2003. Maturity structure of current assets and borrowed funds as of end FY 2003.	In Notes: Assets by countries/ regions, end FY 2003 and 2002. Loans, due from customers and mortgages by industry sector, end FY 2003 and 2002. Balance sheet by origin (customers' domicile), home country vs. foreign, end FY 2003 and 2002. Balance sheet by currencies, end FY 2003.
17 Non-US BHC (Cont. on following page)	Internal risk ratings on a 22-point scale. In US GAAP Notes: Non-accrual loans, FY 2003 and 2002. Allowance for loan losses, 1999-2003. Risk profile, 1993-2003. In local GAAP Notes: Replacement cost of derivative financial instruments by internal risk rating and by counterparty type, as end FY, 2003. Derivative-related credit risk, FY 2003 and 2002.	Maturity of contractual obligations and maturity of commercial commitments by remaining term to maturity at end FY 2003. In US GAAP Notes: Maturity of trading account and available-for-sale securities by type, by contractual maturities at end FY 2003. Loan maturities (by the earlier of contractual repricing or maturity date) and rate sensitivities at end FY	Disclosure of credit risk concentrations, domestic and international, and by industry. Loans and acceptances by region and industry, domestic and international, FY 1999-2003. Non-accrual loans by region and industry, domestic and international, FY 1999-2003. Provision for credit losses by region and industry, domestic and international, FY 1999-2003.

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
17 Non-US BHC (Cont.)		2003. Analysis of financial instruments with contractual amounts representing credit risk, including original term to maturity, FY 2003 and 2002. In local GAAP Notes: Notional amount of derivatives by term to maturity, FY 2003.	Allowance for credit losses, domestic and international, FY 1999-2003. Foreign outstandings by region and country, FY 2001-2003. U.S. loans and acceptances and loan quality information by industry, FY 2000-2003. Risk profile, domestic and international, FY 1999-2003. In U.S. Notes: Loans, domestic, U.S. and other international, end FY 2003 and 2002. On-balance sheet assets and off-balance sheet credit instruments by geographic concentrations, FY 2003 and 2002.
18 Non-US BHC* (Cont. on following page)	Internal rating scale and mapping to external ratings. Total credit risk exposure by type of credit and business group, end FY 2001-2003. Banking loan exposure by counterparty rating, FY 2000-2002. Wealth management and business banking loan book by loan type, end FY 2003. Business banking (domestic), gross loans by counterparty rating, as percent of business banking domestic loan exposure, end FY 2001- 2003. Wealth management and business banking, distribution of gross loans across counterparty rating and loss given default (LGD) buckets. Investment bank, credit hedging and banking products by rating, end FY 2003. Distribution of net take and hold banking products exposure across counterparty rating and LGD buckets. Investment bank, banking product exposure by counterparty rating, as percent of investment banking products exposure, end FY, 2001-2003. Investment bank, gross traded products exposure by counterparty rating, as percent of investment bank products exposure, end FY, 2001-2003. Emerging market exposure by country rating category, end FY 2003. Actual credit loss (expense)/ recovery vs. business group credit loss charge, end FY, 2001-2003. Al-	Interest rate sensitivity of the bank book by duration, at end FY 2003. Contractual obligations, payment due by period, as of end FY 2003. Schedule of principal cash flows, as at end FY 2003. Derivative instruments, positive and negative replacement values, by term to maturity, as at end FY 2003 and 2002. Interest rate sensitivity position by time bands at end FY 2003 and 2002. Contractual maturity analysis of assets and liabilities, at end FY, 2003. Duration of unrealized losses not recognized in the income statement for FY 2003. Contractual maturities of investments in debt instruments, at end FY 2003. In additional SEC Disclosure: Contractual maturities of the investments in debt instruments, end FY, 2001-2003. Due from banks and loans maturities by type, domestic and foreign, at end FY 2003.	Business banking domestic, gross loans by industry sector, as a percent of business banking domestic loan exposure, at end FY, 2001-2003. Investment bank, banking product exposure by industry exposure, as a percent of Investment Bank banking products exposure, end FY 2001-2003. Emerging market exposure by country rating category, as at end FY 2003. Emerging market exposure by major geographical area and by product type, at end FY, 2001-2003. In Notes: Due from banks and loans, by type of exposure, region of borrower, and type of collateral. Non-performing due form banks and loans, by type region of borrower, end FY 2003 and 2002. Breakdown of assets and liabilities by currencies, at end FY 2003 and 2002. Breakdown of credit exposure before allowances and provisions at end FY 2003 and 2002. In additional SEC Disclosure: Due from banks and loans by industry sector, domestic and foreign, at end FY, 1999-2003. Impaired, non-performing and restructured loans, domestic and foreign, at end FY, 1999-2003. Countries for which cross-border outstandings exceeded 0.75% of total assets at end FY, 2001-2003. Summary of movements in allowances and provisions for credit losses by

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Firm	4. Credit Exposures by Internal Ratings	5. Maturity Profile of Transactions	6. Credit Concentrations, e.g., Industry Sector and Country Risk
18 Non-US BHC* (Cont.)	lowances and provisions for credit loss, and ratios, end FY, 2001-2003. Business banking domestic impaired loans as percent of gross loans, end FY, 2001-2003. Investment bank, impaired loans as percent of gross loans, end FY, 2001-2003. Actual credit loss (expense)/ recovery end FY, 2001-2003. In Notes: Allowances and provisions for credit losses; impaired due from banks and loans; and non-performing due form banks and loans, by exposure type, end FY, 2003 and 2002. In additional SEC Disclosure: Loan history statistics, 1999-2003.		industry, domestic and foreign, at end FY, 1999-2003. Allocations of the allowances and provisions for credit losses by industry sectors, domestic and foreign, at end FY, 1999-2003. Due from bank and loans by industry sector, domestic and foreign, end FY, 1999-2003.
19 Non-US BHC	Breakdown of risk by internal rating for Group banking customers (percent, risk weighted assets), end FY 2003. Provisioning for credit risks by business line At end FY 2003 and 2002. General risk reserve (excluding country risk reserve) at end FY 2003 and 2002. In Notes: Provisions and reserves, FY 2001-2003. Credit risk equivalent of forward financial instruments determined in accordance with methods recommended by Basle, FY 2001-2003. Net allocation to provisions for identified risks, 2001-2003.	In Notes: Forward financial instruments by term to maturity, FY 2003. Breakdown of assets and liabilities by term to maturity, at end FY 2003.	Breakdown of commercial outstanding by industry, end FY 2003. Breakdown of loans to non-banking customers by geographical region, end FY 2003. Breakdown of loans to non-banking customers by geographical region, including all on- and off-balance sheet commitments, end FY 2003. Change in non-banking exposure in emerging markets, retail banking and corporate/investment banking, end FY 2003 and 2002. Breakdown of doubtful loans and provisions by geographical region at end FY 2003. Country risk reserve, end FY 2003. In Notes: net allocation to general country risk reserves, FY 2001-2003.

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Appendix 3
List of Reports Surveyed, in Alphabetical Order

Institution	Report
Bank of America	10-K
Bank One	Annual Report
Barclays	Annual Report
Bear Stearns	Annual Report
Citigroup	Annual Report
Commerzbank	Annual Report
Credit Suisse Group	Annual Report
Deutsche Bank	Annual Report
Goldman Sachs	Annual Report
HSBC	Annual Report
JPMorganChase	10-K
Lehman Brothers	Annual Report
Merrill Lynch	Annual Report
Morgan Stanley	10-K
RBC	Annual Report
Societe Generale	Annual Report
TD Bank Financial Group	Annual Report
UBS	Annual Report
Wells Fargo	Annual Report

Glossary

Confidence level (or Confidence Interval) is a measure of the probability that there will be price movements within a given range, which can be expressed in a number of ways. Perhaps most common is the reference to a percentage: calculating a VaR number of $1 million at a 97.5% confidence interval means that there is only a 2.5% chance that losses on the portfolio in question will exceed $1 million. The confidence interval can also be expressed in terms of how often the maximum loss is expected to exceed: $1 million VaR at a 97.5% confidence interval also means (using a one-day holding period) that a loss greater than $1 million will occur, on average, approximately once every 40 trading days. Thus the choice of a confidence interval is, to a large extent, a choice about an institution's appetite for risk.

Holding period is an important quantitative parameter of a VaR model, and its choice requires careful deliberation. The holding period chosen will need to reflect the uses of the VaR model in question and the liquidity profile of the institution's trading activity. A ten-day holding period means that the model operates on the assumption that it would take a minimum of ten days before the institution can trade out of or hedge a position, during which time losses could accumulate. Also, different holding periods can reflect the uses of the model: a trader may be interested in normal trading market conditions and therefore a one-day holding period, while a risk manager who is more concerned by the prospect of illiquid markets may use a longer holding period.

Stress testing is a risk exposure tool, by which potential losses as a result of changes in major market parameters are measured. For example: what would happen to the value of the portfolio for a given change in interest rates, foreign exchange rates or equity prices? Stress testing may involve relatively few changes or it may take a matrix approach in which multiple parameters are changed to see how they impact the portfolio. Choosing what to stress (i.e., the variables), the range of stress and the usefulness of the stress information (versus simply producing data overload) is only the beginning of the difficult decisions required for meaningful stress test results

Value-at-Risk (VaR) is the maximum loss over a target horizon such that there is a low, prespecified probability that the actual loss will be larger than the maximum estimated. In order to calculate VaR, historical returns (of a pre-specified holding period) are compiled and plotted into a distribution. Simply put, from this distribution, if it is normal, one can calculate the probability of returns being greater or less than a certain amount. Since distributions of returns are unlikely to be either normal or linear, more sophisticated computation methods (Monte Carlo simulations being very common) are used to account for risk and correlations.

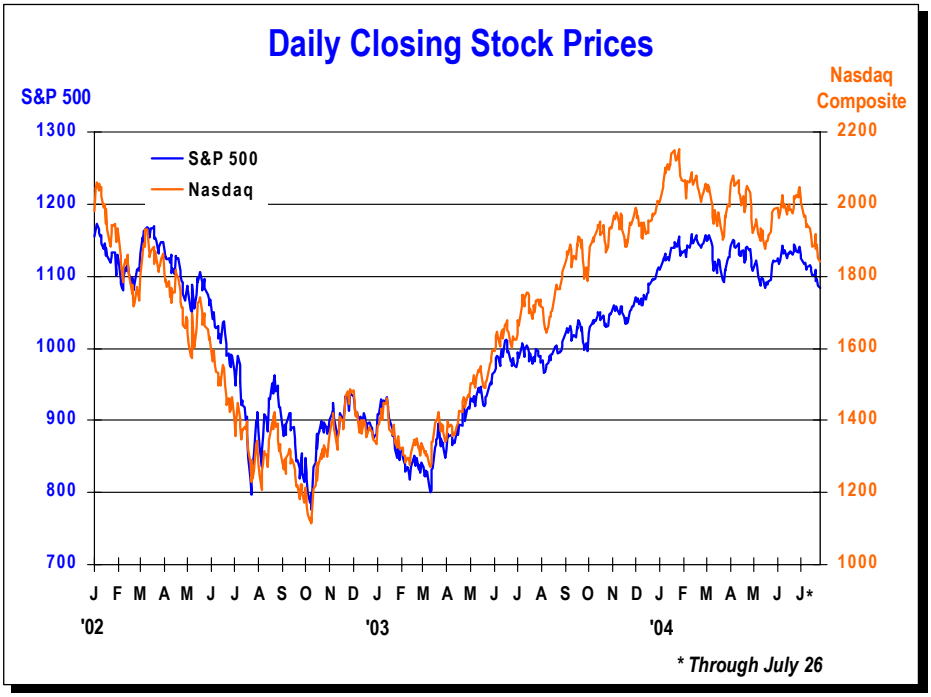
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices – All major stock indices rebounded in June after setting new 2004 lows on May 17. The Nasdaq Composite Index (Nasdaq) climbed 3.1% in June to close at 2,047.79. The Dow Jones Industrial Average (DJIA) rose 2.4% to 10435.48, and S&P 500 gained 1.8% to 1,140.84. For the second quarter of 2004, these stock gauges registered slight gains, with the DJIA up 0.8%, the S&P 500 up 1.3%, and the Nasdaq up 2.7%. In the first six months of 2004, the DJIA slipped 0.2%, while the S&P 500 rose 2.6%, and the Nasdaq added 2.2%.

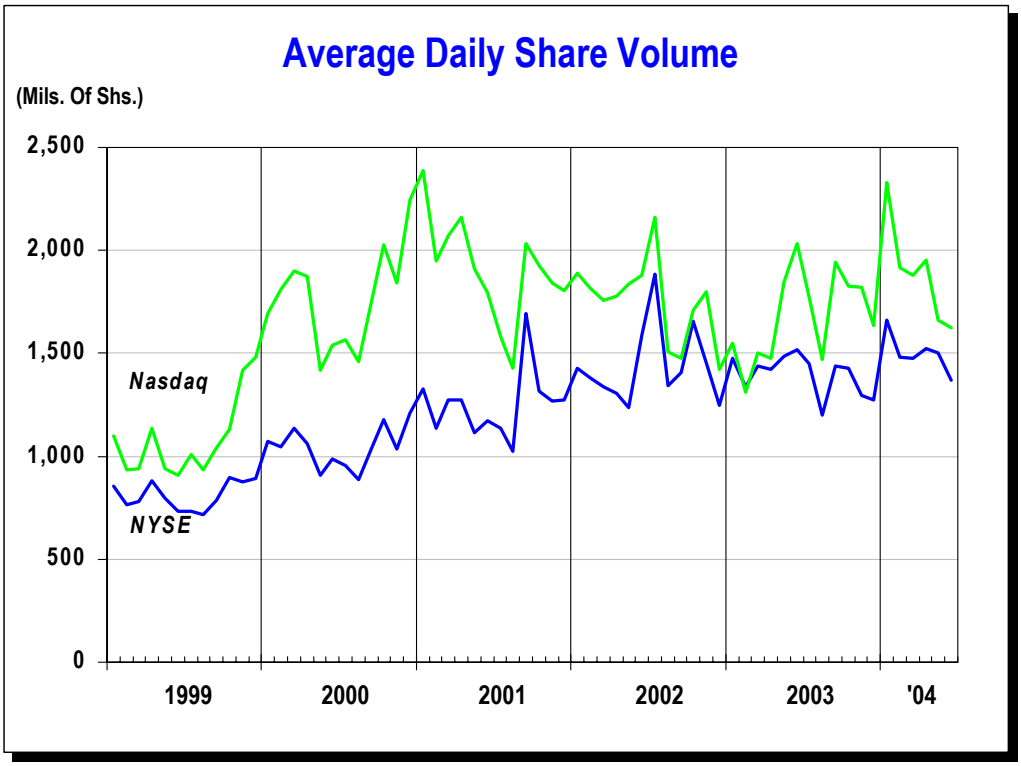
Stocks headed lower in July amid lingering uncertainties about the timing and magnitude of future Federal Reserve interest-rate increases, rising inflation, terrorism, as well as the upcoming presidential election. Concerns over decelerating corporate profit growth for the rest of the year overshadowed better-than-expected second quarter earnings reports. The S&P 500 companies are on track to report 24.0% year-over-year earnings growth in 2Q'04, marking the fourth consecutive quarter of 20%-plus growth. Thomson First Call reports that this string of four straight quarters of 20% or more earnings growth has only occurred twice in the past 25 years (4Q78-3Q79 and 3Q99-2Q00).

July's month-long sell-off drove the Nasdaq and S&P 500 to fresh 2004 lows and the blue-chip DJIA stocks to a two-month trough on July 26. The tech-laden Nasdaq closed at 1,839.02, its worst level since October 2, 2003. The S&P 500 finished at 1084.07, its lowest close since December 17, 2003, and the DJIA ended at 9961.92, its lowest point since May 24, 2004. July's action pushed the three major indices into negative territory for the year-to-date, with the Nasdaq down 8.2%, the S&P 500 down 2.5%, and the DJIA down 4.7%.



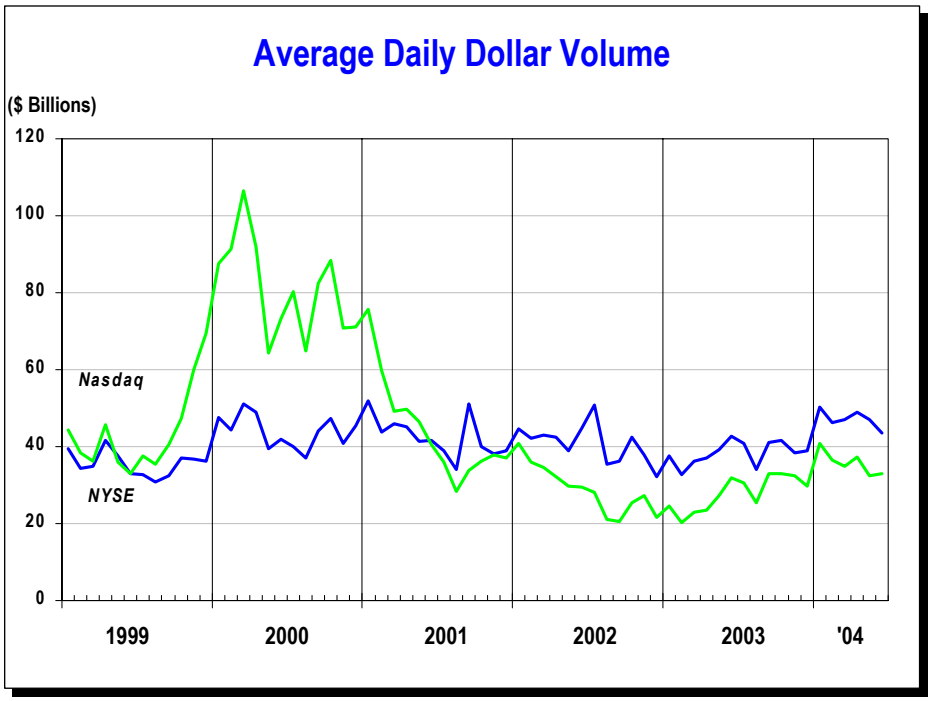
Share Volume – In June, both the New York Stock Exchange (NYSE) and Nasdaq experienced their slowest month of trading this year. June's average daily trading volume on the NYSE of 1.37 billion shares was down 8.6% from May's average and at its lowest level since last December. Nasdaq average daily volume slipped 2.4% from May's level to 1.62 billion shares in June, its slowest pace since last August.

Despite retreating in June, trading activity on the major U.S. equity markets through this year's first six months remains above last year's annual pace. NYSE average daily volume of 1.50 billion shares year-to-date is 7.4% higher than 2003's average of 1.40 billion shares, and is running just ahead of the annual record pace of 1.44 billion set in 2002. Year-to-date Nasdaq volume averaged 1.89 billion shares daily, 12.3% above last year's 1.69 billion daily annual average, and just shy of 2001's record pace of 1.90 billion daily.

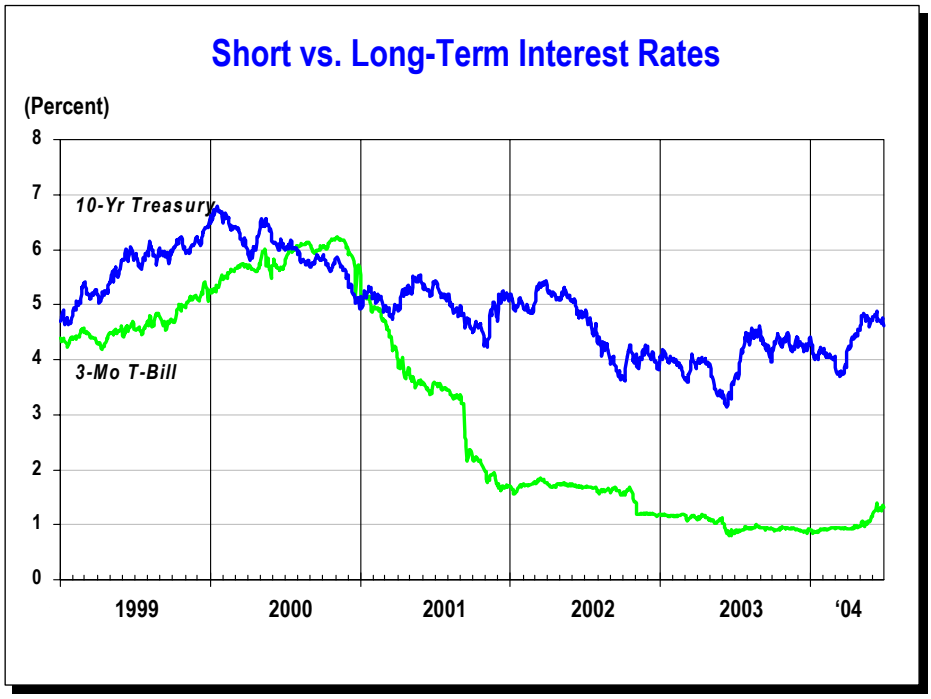


Dollar Volume – The value of trading in NYSE stocks fell in June, reflecting the decline in trading activity which outpaced the increase in equity prices. NYSE daily average dollar volume dropped 7.2% from May's level to a 2004 monthly low of $43.5 billion in June. Still, the year-to-date daily average of $47.2 billion is running 22.6% ahead of 2003's average daily pace of $38.5 billion.

Average daily dollar volume on Nasdaq increased 1.9% to $32.9 billion in June from its 2004 low of $32.3 billion in May. That brought the year-to-date daily average dollar volume to $35.7 billion, a 27.5% increase over the $28.0 billion in 2003.

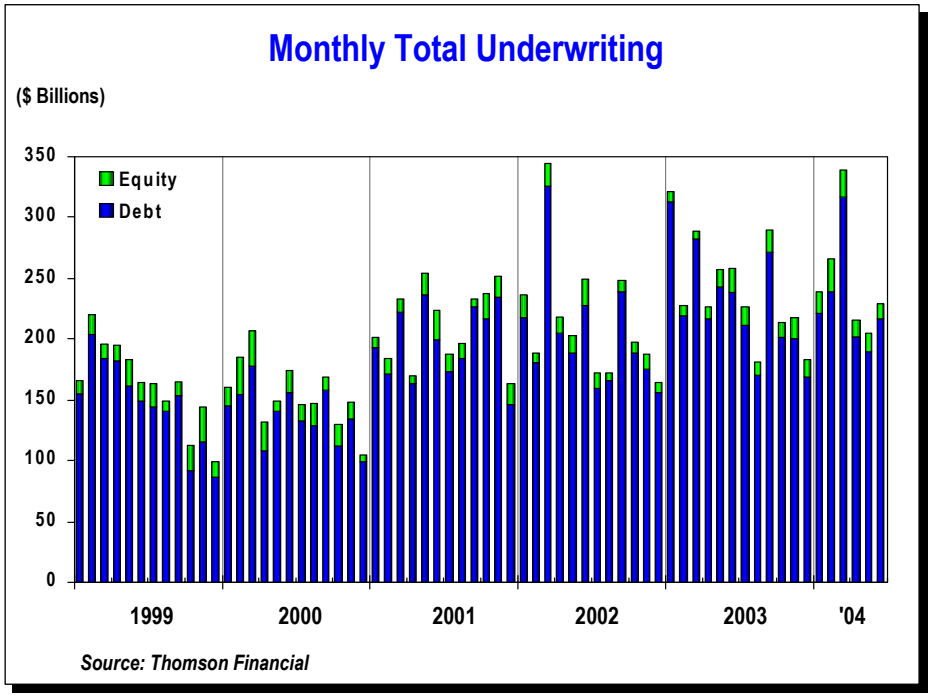


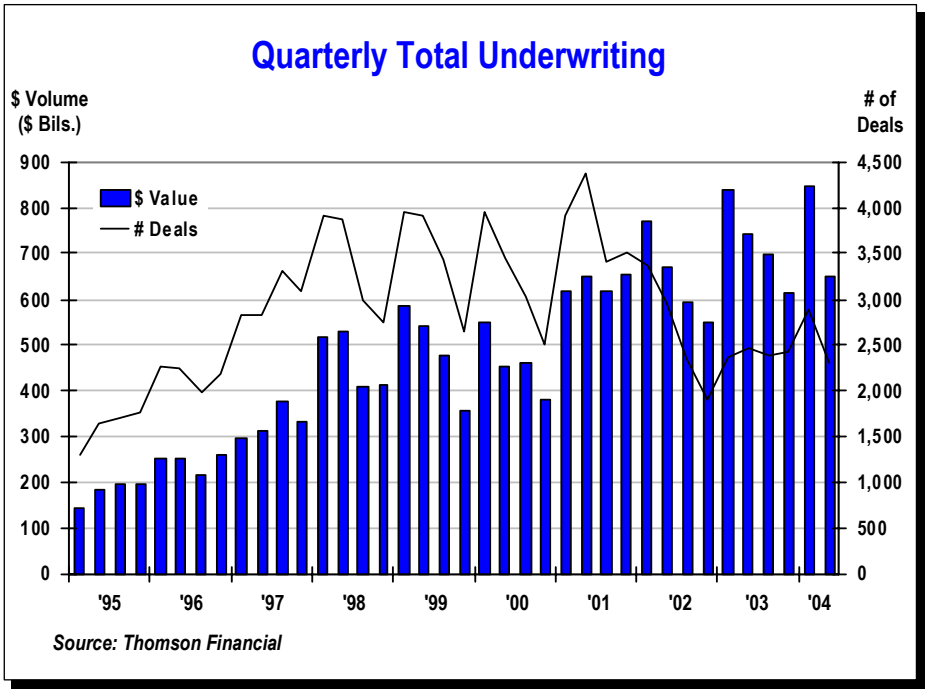
Interest Rates – Conditions in the bond market changed dramatically in the second quarter, as an unexpectedly strong job market recovery and signs of accelerating inflation heightened investors fears of an imminent interest rate hike. The Federal Reserve made its move on June 30, when it raised interest rates for the first time since May 2000. The central bank, which lifted its federal-funds target rate 25 basis points to 1.25% from the 46-year low of 1%, is expected to continue to gradually push up interest rates in the months ahead. The 10-year Treasury yield has been on an upward slant since early April and ended June at 4.62%, up 76 basis points from 3.86% at the end of the first quarter. Yields on three-month Treasury bills closed the second quarter at 1.31%, up 38 basis points from 0.93% at the end of 1Q'04.



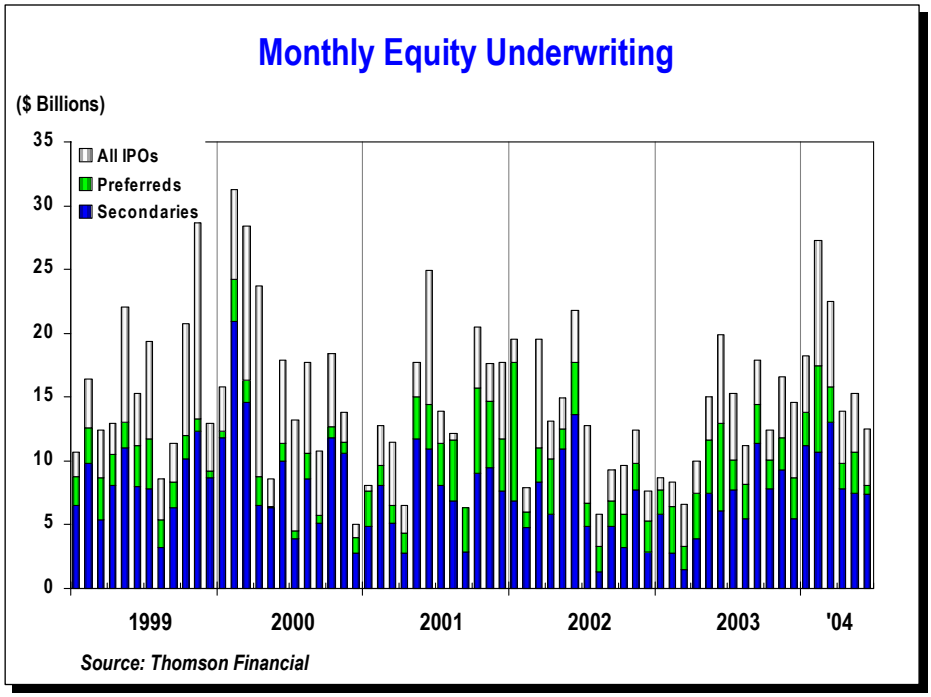
U.S. Underwriting Activity

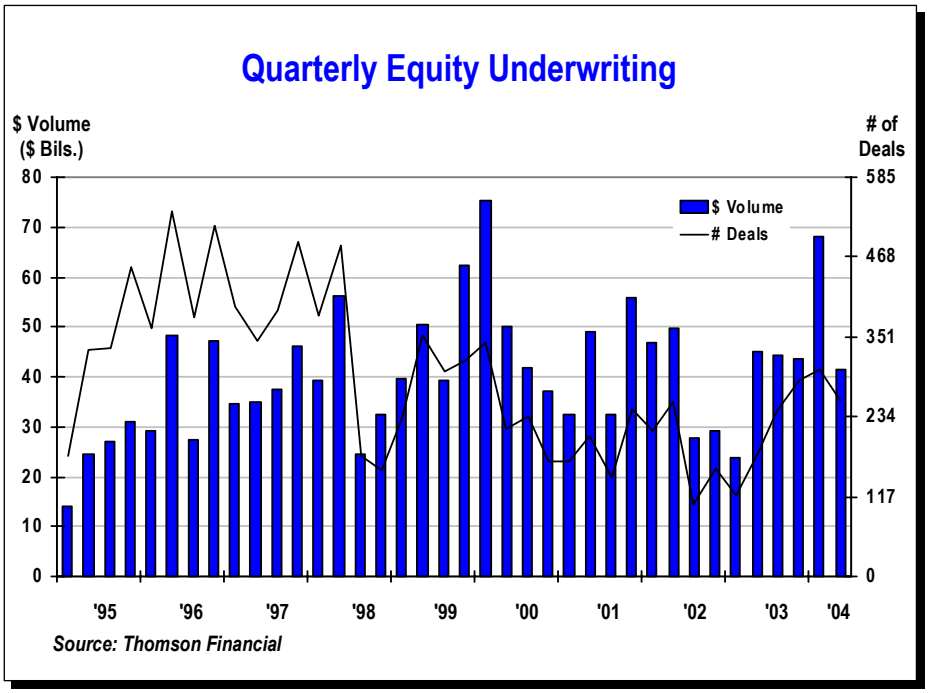
Total Underwriting – Interest rate jitters and a lackluster stock market drove many issuers to the sidelines during 2Q'04. Although total underwriting activity rose 11.8% in June to $228.8 billion due to increased debt issuance, that amount was nowhere near the $338.8 billion raised in March. For the second quarter overall, combined stock and bond issuance totaled $649.3 billion, a 23.1% decrease from the record $844.3 billion posted in 1Q'04 and 12.5% below last year's second-quarter tally. In the first half of 2004, underwriting activity in the U.S. market totaled $1.49 trillion, 5.4% short of the $1.58 trillion raised a year earlier.



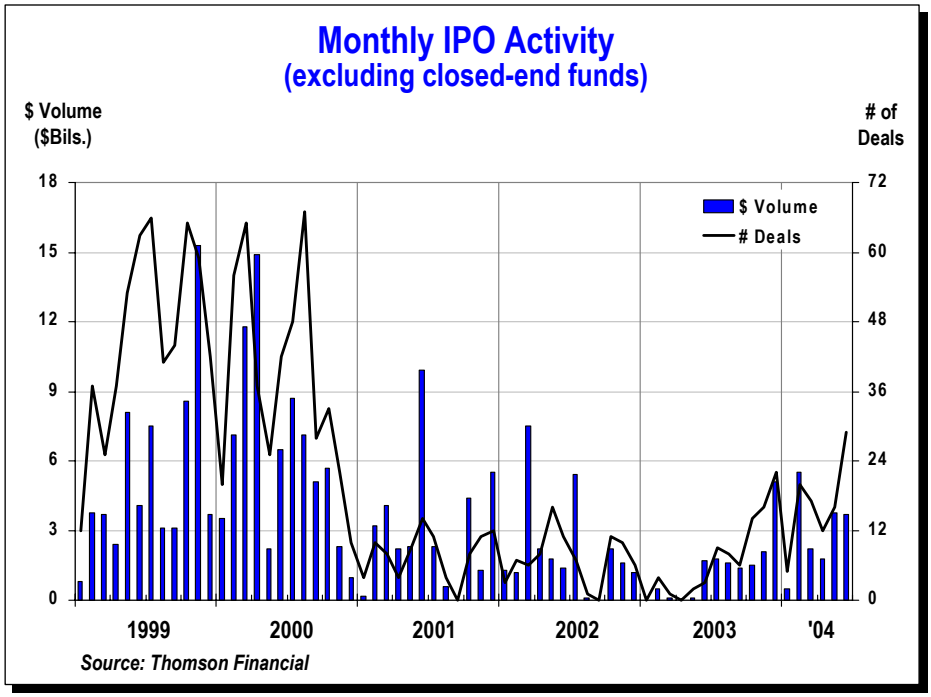


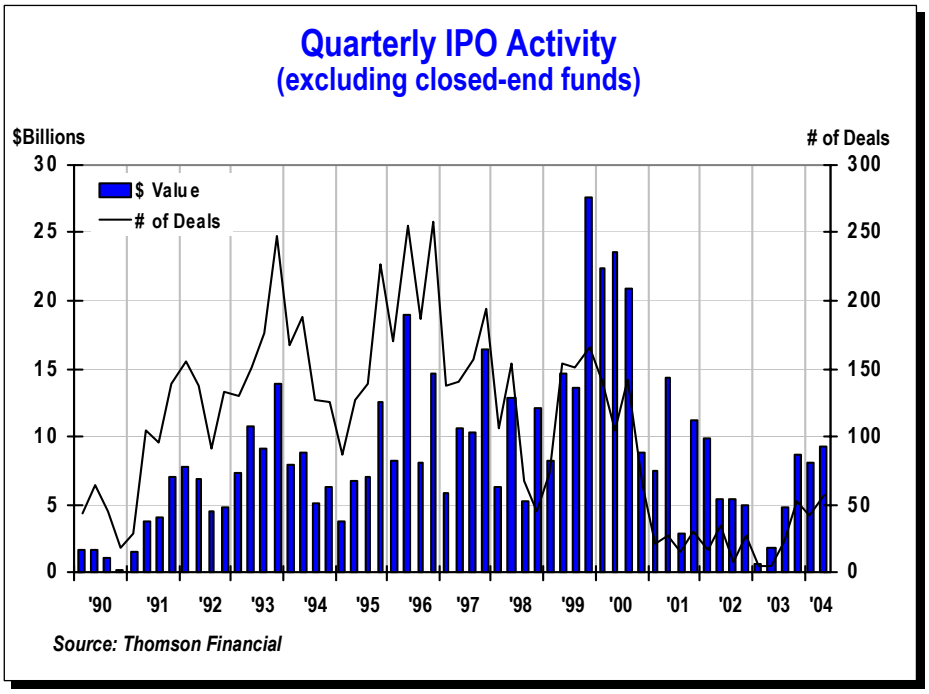
Equity Underwriting – Total equity underwriting activity slumped 19.0% from May's level to $12.4 billion in June, marking its slowest pace of the year. June's total was driven down by a dramatic falloff in preferred stock issuance, which tumbled to its lowest level since September 2000. Dollar proceeds from common and preferred stock offerings totaled $41.7 billion in 2Q'04, down 38.7% from the second-best quarterly total ever of $67.9 billion raised in 1Q'04. Despite the quarterly decline, equity issuance in the first half of 2004 of $109.6 billion represented a 60.0% increase from its first half 2003 total of $68.5 billion.



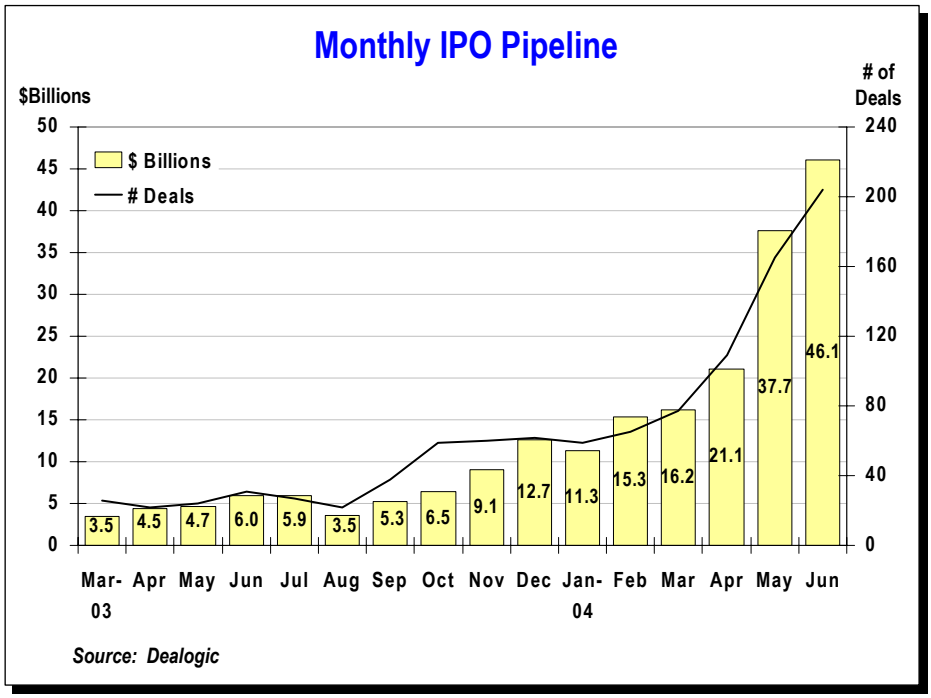


Initial Public Offerings (IPOs) – IPO activity picked up in 2Q'04 as deals that have been pending for months finally came to market. Although IPO dollar volume in June was essentially unchanged for May at roughly $3.8 billion, 29 deals were completed in June versus 16 deals in May. For the second quarter overall, IPO volume totaled $9.3 billion, a 14.4% increase over the 1Q'04 level. During the first half of 2004, IPOs raised $17.5 billion for 99 companies compared to the $2.4 billion raised for only 10 companies in the same period last year. Furthermore, the $17.5 billion raised so far this year already exceeds 2003's full-year total of $15.9 billion.

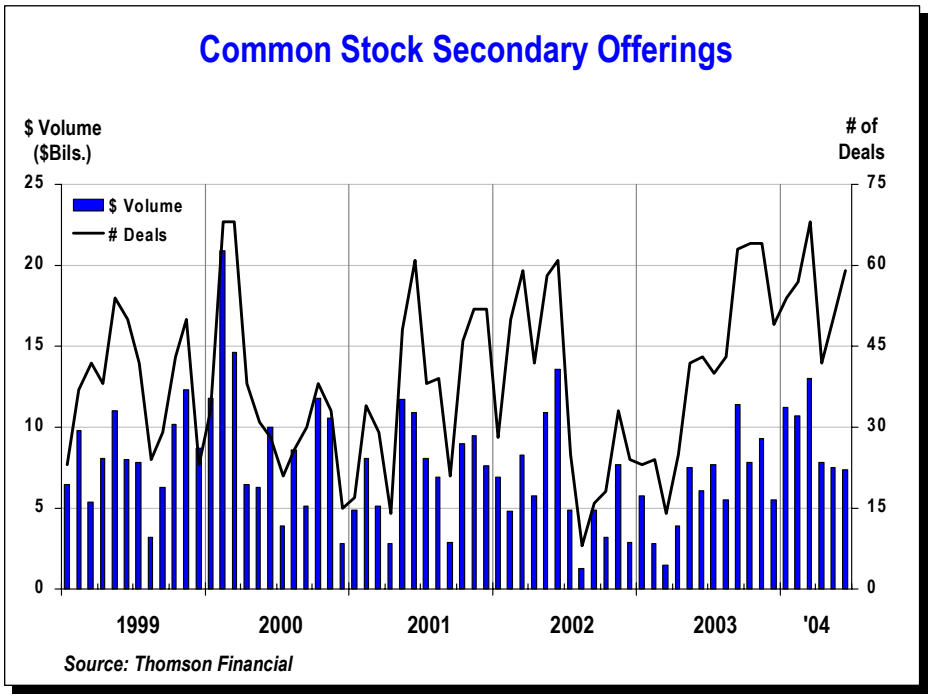




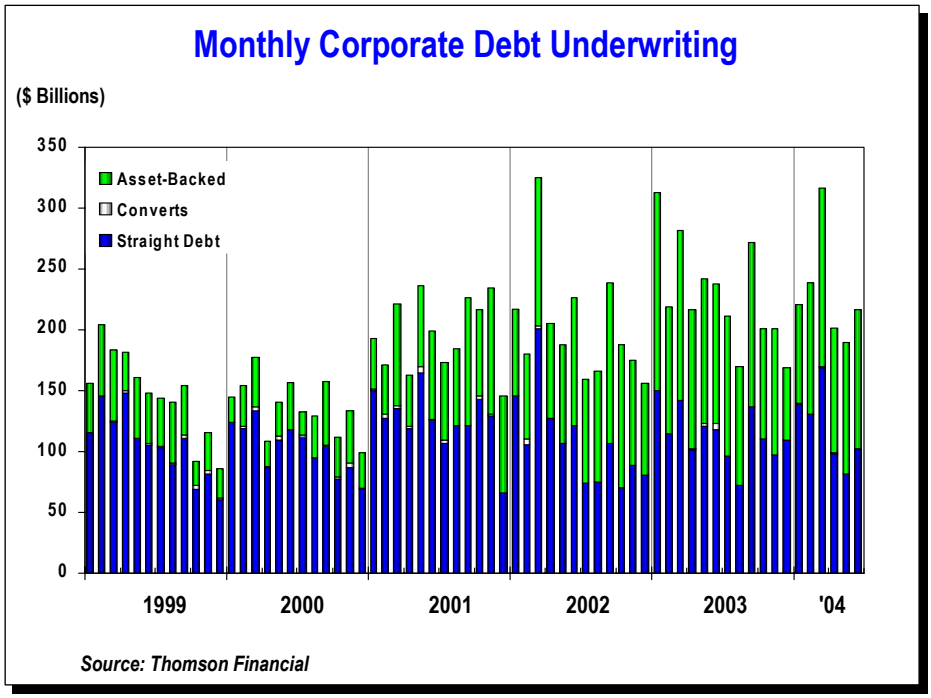
With 204 U.S.-registered IPOs in the pipeline expected to raise a total of $46.1 billion, it is likely that this will be the best year for IPOs since 2001.

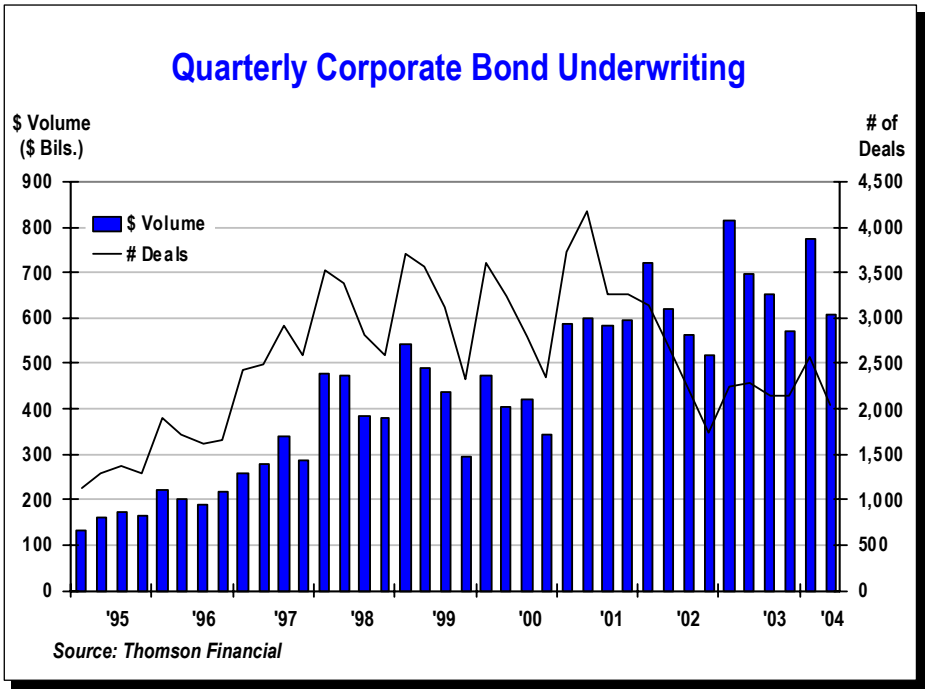


Common stock secondary issuance has hovered around $7.5 billion for the past three months and totaled $22.7 billion in 2Q'04, down 34.9% from $34.8 billion in 1Q'04, as internal cash flow provided any needed funding for many companies. Even so, the $57.5 billion raised in the first six months of 2004 was more than double the $27.6 billion raised in last year's comparable period.



Corporate Bond Underwriting – After declining for two consecutive months from a near-record $316.2 billion in March to $189.4 billion in May, corporate bond issuance increased 14.3% in June to $216.4 billion. That brought the 2Q'04 total to $607.6 billion, which was 21.7% below 1Q'04's $776.3 billion. Corporate bond underwriting for the first half of 2004 totaled $1.38 trillion, down 8.4% from $1.51 trillion in the same period a year earlier.





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
2003											
Jan	150.3	0.0	162.5	312.7	6.8	1.9	8.8	1.0	0.0	5.8	321.5
Feb	114.7	0.0	104.1	218.8	4.7	3.6	8.3	1.9	0.5	2.8	227.1
Mar	141.9	0.1	140.2	282.3	4.8	1.8	6.5	3.3	0.1	1.5	288.8
Apr	101.5	1.3	113.6	216.5	6.4	3.6	10.0	2.5	0.0	3.9	226.5
May	120.7	3.0	118.7	242.4	10.9	4.1	15.0	3.4	0.1	7.5	257.4
June	118.0	5.1	114.7	237.9	13.1	6.8	19.9	7.0	1.7	6.1	257.8
July	96.4	0.4	114.0	210.8	12.9	2.4	15.3	5.2	1.8	7.7	226.1
Aug	72.7	0.0	97.5	170.3	8.4	2.7	11.1	3.0	1.6	5.5	181.4
Sept	137.4	0.0	133.9	271.3	14.9	3.0	17.9	3.5	1.4	11.4	289.2
Oct	110.5	0.1	90.6	201.2	10.2	2.3	12.4	2.3	1.5	7.8	213.6
Nov	97.4	0.0	103.1	200.6	14.0	2.5	16.6	4.8	2.1	9.3	217.1
Dec	109.1	0.6	59.3	169.0	11.3	3.2	14.5	5.9	5.1	5.5	183.5
2004											
Jan	138.5	1.4	81.0	220.9	15.6	2.6	18.2	4.4	0.5	11.2	239.1
Feb	130.8	0.3	108.1	239.2	20.4	6.8	27.2	9.8	5.5	10.7	266.4
Mar	169.2	0.6	146.4	316.2	19.8	2.8	22.6	6.7	2.2	13.0	338.8
Apr	98.6	0.3	102.9	201.9	11.9	2.0	13.9	4.1	1.8	7.8	215.8
May	81.5	0.1	107.8	189.4	12.1	3.2	15.3	4.6	3.8	7.5	204.7
June	102.2	0.0	114.1	216.4	11.8	0.7	12.4	4.4	3.7	7.4	228.8
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '03	747.1	9.5	753.9	1,510.5	46.7	21.8	68.5	19.1	2.4	27.6	1,579.0
YTD '04	721.0	2.7	660.2	1,383.9	91.5	18.1	109.6	34.0	17.5	57.5	1,493.5
% Change	-3.5%	-71.5%	-12.4%	-8.4%	96.1%	-17.2%	60.0%	78.4%	615.7%	108.3%	-5.4%

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
2003										
Jan	1.4	16.8	18.2	4.4	4.3	8.8	27.0	1.17	4.05	2.88
Feb	1.8	15.6	17.4	5.1	7.6	12.8	30.2	1.17	3.90	2.73
Mar	2.0	16.4	18.4	4.2	5.5	9.7	28.1	1.13	3.81	2.68
Apr	1.6	18.4	20.1	4.6	10.2	14.8	34.9	1.13	3.96	2.83
May	3.0	20.3	23.3	5.5	7.1	12.6	35.8	1.07	3.57	2.50
June	2.1	22.6	24.7	6.6	17.1	23.7	48.4	0.92	3.33	2.41
July	2.2	18.5	20.6	6.5	6.1	12.6	33.3	0.90	3.98	3.08
Aug	1.1	17.6	18.7	3.9	3.4	7.2	25.9	0.95	4.45	3.50
Sept	1.4	17.6	18.9	3.6	3.2	6.8	25.7	0.94	4.27	3.33
Oct	1.6	16.7	18.4	3.8	12.2	16.0	34.3	0.92	4.29	3.37
Nov	1.3	16.2	17.5	4.1	4.2	8.3	25.8	0.93	4.30	3.37
Dec	1.7	19.1	20.7	2.3	6.8	9.1	29.8	0.90	4.27	3.37
2004										
Jan	0.7	11.4	12.1	3.6	5.6	9.2	21.3	0.88	4.15	3.27
Feb	1.0	11.2	12.2	5.6	8.5	14.1	26.4	0.93	4.08	3.15
Mar	2.7	19.8	22.5	4.8	10.2	15.0	37.5	0.94	3.83	2.89
Apr	1.0	17.7	18.6	3.6	8.2	11.8	30.4	0.94	4.35	3.41
May	1.4	27.5	28.9	3.0	5.0	8.0	36.9	1.02	4.72	3.70
June	1.3	22.6	23.9	4.8	6.3	11.1	35.0	1.27	4.73	3.46
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '03	11.9	110.2	122.1	30.5	51.9	82.4	204.4	1.10	3.77	2.67
YTD '04	8.1	110.2	118.3	25.4	43.9	69.2	187.5	1.00	4.31	3.31
% Change	-31.6%	0.0%	-3.1%	-16.9%	-15.4%	-16.0%	-8.3%	-9.3%	14.3%	24.0%

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
2003									
Jan	8,053.81	855.70	4,868.68	1,320.91	1,474.7	62.9	1,547.6	37.5	24.7
Feb	7,891.08	841.15	4,716.07	1,337.52	1,336.4	53.6	1,311.4	32.8	20.4
Mar	7,992.13	848.18	4,730.21	1,341.17	1,439.3	64.7	1,499.9	36.3	23.0
Apr	8,480.09	916.92	5,131.56	1,464.31	1,422.7	54.7	1,478.2	37.1	23.5
May	8,850.26	963.59	5,435.37	1,595.91	1,488.6	69.6	1,847.9	39.2	27.4
June	8,985.44	974.50	5505.17	1,622.80	1,516.3	79.5	2,032.2	42.7	32.0
July	9,233.80	990.31	5,558.99	1,735.02	1,451.1	67.4	1,771.7	40.7	30.5
Aug	9,415.82	1,008.01	5,660.16	1,810.45	1,200.3	57.7	1,470.8	34.1	25.3
Sept	9,275.06	995.97	5,644.03	1,786.94	1,436.7	83.9	1,943.2	41.1	33.0
Oct	9,801.12	1,050.71	5,959.01	1,932.21	1,430.0	68.6	1,827.1	41.7	33.1
Nov	9,782.46	1,058.20	6,073.02	1,960.26	1,293.3	71.7	1,821.0	38.5	32.4
Dec	10,453.92	1,111.92	6,440.30	2,003.37	1,275.7	70.4	1,637.0	38.9	29.7
2004									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	79.8	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.5	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	76.7	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									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '03	8,985.44	974.50	5,505.17	1,622.80	1,448.1	64.3	1,624.5	37.7	25.2
YTD '04	10,435.48	1,140.84	6,602.99	2,047.79	1,501.6	73.3	1,892.3	47.2	35.7
% Change	16.1%	17.1%	19.9%	26.2%	3.7%	13.9%	16.5%	25.3%	41.6%

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
2003					
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2
Feb	2,537.8	322.9	1,171.1	2,236.2	6,268.0
Mar	2,551.3	325.3	1,183.3	2,204.7	6,264.6
Apr	2,770.3	346.8	1,210.5	2,157.7	6,485.3
May	2,958.5	365.8	1,238.7	2,140.6	6,703.6
June	3,031.1	373.6	1,248.4	2,164.4	6,817.5
July	3,126.0	376.4	1,212.1	2,152.5	6,867.0
Aug	3,238.5	382.3	1,209.4	2,141.0	6,971.2
Sept	3,228.5	388.2	1,231.3	2,100.0	6,948.0
Oct	3,440.4	405.9	1,226.6	2,080.1	7,153.0
Nov	3,513.3	416.4	1,232.7	2,071.7	7,234.1
Dec	3,684.8	436.7	1,240.9	2,051.7	7,414.1
2004					
Jan	3,805.1	447.8	1,249.9	2,034.3	7,537.1
Feb	3,896.3	458.6	1,262.4	2,016.6	7,633.9
Mar	3,887.5	456.3	1,278.9	2,006.6	7,629.3
Apr	3,811.4	452.3	1,246.8	1,961.9	7,472.4
May	3,854.4	456.9	1,223.6	1,970.3	7,505.2
June					
July					
Aug					
Sept					
Oct					
Nov					
Dec					
YTD '03	2,958.5	365.8	1,238.7	2,140.6	6,703.6
YTD '04	3,854.4	456.9	1,223.6	1,970.3	7,505.2
% Change	30.3%	24.9%	-1.2%	-8.0%	12.0%

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	151.4	33.3	31.3	-258.5	-42.5	216.1
2003						
Jan	-0.3	1.1	12.9	-1.1	12.6	13.7
Feb	-10.9	0.1	19.6	-39.5	-30.7	8.8
Mar	0.0	0.9	10.5	-32.3	-20.9	11.4
Apr	16.1	2.7	10.5	-53.8	-24.5	29.3
May	11.9	3.0	8.9	-18.3	5.6	23.8
June	18.6	4.0	5.1	22.1	49.9	27.7
July	21.4	3.5	-10.8	-12.9	1.2	14.1
Aug	23.4	3.3	-12.6	-20.3	-6.1	14.2
Sept	17.3	3.7	-5.9	-50.5	-35.3	15.1
Oct	25.3	4.1	-1.3	-22.1	6.0	28.1
Nov	14.9	3.0	-2.6	-7.6	7.8	15.3
Dec	14.2	3.6	-3.3	-22.6	-8.1	14.6
2004						
Jan	43.0	5.5	-0.3	-19.8	28.4	48.2
Feb	26.2	5.0	1.5	-21.0	11.8	32.8
Mar	16.0	4.8	7.8	-10.3	18.3	28.6
Apr	23.0	4.6	-7.8	-46.3	-26.6	19.8
May	0.6	2.3	-16.2	6.5	-6.8	-13.3
June						
July						
Aug						
Sept						
Oct						
Nov						
Dec						
YTD '03	16.9	7.7	62.4	-145.0	-57.9	87.1
YTD '04	108.7	22.2	-14.9	-90.8	25.1	116.0
% Change	542.1%	187.7%	-123.9%	NM	NM	33.1%

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

Source: Investment Company Institute

Securities Industry Association

120 Broadway, New York, NY 10271-0080
(212) 608-1500, Fax (212) 608-1604
info@sia.com, www.sia.com