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Substantial structural changes have occurred in securities markets over the past few years, and many more are in the offing. This discussion paper reviews the specific changes that have occurred since 1975, when the latest amendments to the Securities and Exchange Act became effective. In addition to describing the major features of changes already accomplished, considerable attention is paid to the changes proposed and yet to be put into practice. The most important catalyst for the present era of change, through which the securities industry is passing, was the adoption of the 1975 amendments to the Securities and Exchange Act--effectively, mandating a central market system for trading securities in the secondary market.

The achievement of a central market system is proceeding in deliberate stages. The abolition of exchange-determined, fixed commission schedules has already been accomplished--brokers departing from fixed-fee schedules for customer transactions on May 1, 1975, and exchanges doing away with fixed-fees for execution of orders on the floor of an exchange on May 1, 1976.

In early 1976, the first stage of the central market system became operational with the introduction of consolidated tapes of all transactions in an exchange's listed shares. These tapes--one for the NYSE and another for the AMEX--report all transactions regardless of whether the trades took place on that exchange, one of the regional exchanges, or in the "third market."[1]

Much remains to be implemented before the central market concept becomes a reality. The protracted debate between contending factions--specialists on exchanges versus others desiring to be dealer market-makers--has bogged down the achievement of the second stage of the central market, the composite quotations system.[2] The final stage, that of centralized clearing of securities transactions without the use of physical certificates transfer, is being delayed by these disagreements over procedural questions relating to the establishment of a composite quotations system.

The final structural form that securities markets will eventually adopt is not clear at this point. The eventual resolution of conflicts regarding the appropriate standards to be implemented will, in turn, condition the ultimate environment for trading securities in the future. The relative importance of the exchanges, perhaps even their continued viability and that of the auction market approach to securities trading--as opposed to reliance on a dealer network as in the over-the-counter market--is dependent

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1 The "third market" is a term used to refer to trades consummated by non-exchange members acting as dealers in securities listed on one of the exchanges. Weeden and Company is the most well-known of the "third-market" firms.

2 In early May of 1977, however, the SEC formally announced that by the beginning of 1978 off-exchange trading of securities must be fully permitted. Member firms will no longer be bound by exchange prohibitions against such off-exchange transactions.

upon the ultimate decisions concerning the role of the specialist and related procedural questions.

The following discussion will elaborate upon the central market concept in general, citing the changes already in evidence and those problem areas generating much concern at the present time. In addition, the future effects of these changes upon the brokerage community and corporations seeking equity capital will be given some attention.

Negotiated Commissions

A far reaching change affecting the securities industry has been the departure from fixed commission schedules, opening all transactions to negotiation between broker and investor. In the prevailing competitive environment, the industry continues to experiment with different bases for commission charges.

Although large-sized securities transactions had been subject to negotiated commission charges since April of 1971,[1] the Securities Act Amendments of May 1, 1975 extended commission negotiations to all orders regardless of size. Over the following months, brokers initiated reductions of commission charges. The process of searching for new appropriate standards for commissions continues today--the competition among brokerage firms for business has steadily lowered charges, for orders of any given size.

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1 At first, negotiated rates were applied only to orders involving $500,000 or more of securities. Later, this was lowered to $300,000 or more. Generally speaking, only institutions made much use of negotiated rates prior to May 1, 1975.

The former fixed-fee schedule of commissions was based upon a percentage of the dollar value of a transaction, and although the percentage rate diminished as the value of the transaction increased, the total commission charge per transaction was greater the larger the dollar value of the transaction.

At first, all brokers used the old fixed-fee schedules as a basis from which discounts of commission charges were negotiated. Gradually, the size of negotiated discounts increased and many of the major brokerage concerns shifted to a cents-per-share standard for commissions--especially those firms eager to compete for institutional business. As a result, commission charges on an order for 100 shares of a $50 stock can amount to as little as $10 (i.e., 10¢ per share) versus an earlier $77 that would have been paid according to the old fixed-fee schedule. While only selected large customers presently qualify for the largest commission reductions offered by brokers, other customers can benefit to a lesser but still substantial extent from the erosion of fixed rates. To be sure, though, customers must shop around, since brokers are not uniformly offering the same rates for all transactions.[1]

Since the amount of actual savings on commission costs varies across investors and order sizes, accurate measurement of savings in commissions is difficult and has not, as yet, been systematically undertaken. Recently, however, the SEC has indicated that brokerage commission revenue in the first year and one-half of unfixed commission rates has amounted to 10-15 per cent less than it would have under

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1 A recent informal inquiry into commissions charged by four major brokerage concerns for an ordinary customer purchase of 100 shares of a $50 stock was quite revealing. Three of the brokers have not departed from the old fixed-fee charges for small individual investors--charging between $79 and $83 for the suggested transaction. One broker offered a rate for order execution only of $25; however, this fee included no research or safekeeping services for the customer.

conditions prevailing prior to May 1, 1975. Due to increased trading volume, however, total brokerage industry commission revenue differed little in 1976 from that in 1975--totaling roughly $3 billion in both years.

The fact that large block-sized orders involving $300,000 or more in value were already subject to negotiation of commissions before May 1, 1975, has served to mitigate some of the recent effect of negotiated rates upon brokerage commission revenues.[1] Recently, brokers have increasingly offered lower per share execution rates to high volume traders--typical of this is the 10¢ per share rate available to selected customers for order sizes of from 100 to 1,000 shares. For larger-sized orders, where best execution requires more broker attention, the per share cost is somewhat higher.

Other Structural Changes within the Brokers Industry

In 1976, attrition further thinned the ranks of the NYSE's member firm community--28 new member organizations appeared during 1976 and 38 previous member firms disappeared. Since 1968, the year of the tremendous back-office,

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1 Institutions collectively account for over 3/5 of the average daily trading on the NYSE. Large block transactions, those involving more than $10,000 shares of stock and presumably representing transactions by institutional customers exclusively, comprise about 1/5 of total shares traded on the NYSE. Thus, almost 1/3 (i.e., 1/5÷3/5=1/3) of total institutional trading is made up of sufficiently large-sized orders to have been subject to negotiation of commission charges prior to May of 1975. To be sure, most of the remaining 2/3 of institutional business now benefits from across-the-board negotiation.

paperwork problems in the securities industry, the number of NYSE member firms has dwindled by more than 25 per cent to total only 484 at year-end 1976.[1] The number of offices and registered representatives maintained by these member organizations also has been reduced substantially from their 1968 levels--the number of offices declining by 16 per cent to 3,576 and the number of registered representatives falling some 8 per cent to 45,700 at year-end 1976. (Table 1).

In addition, the structural organization of NYSE member firms has undergone substantial change in the past eight years. Whereas less than one in three member firms were incorporated in 1968, the rest being partnerships, incorporated entities now represent a majority of the member firm community.[2] The switch from partnership to corporate organization of NYSE member firms in part has been predicated upon the need to infuse increased amounts of capital into the businesses in order to modernize operations to effectively cope with the secularly rising volume of securities transactions. Total ownership equity in member firms rose by more than 17 per cent over

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1 Data from the National Association of Securities Dealers convering virtually all brokerage concerns, not just NYSE member firms, reveal that a more striking drop in number of brokers has occurred over the past four years--data prior to 1972 being unavailable. From the end of 1972 to the end of 1976, 1,214 NASD members have gone out of business--reducing NASD membership to 2,877 at the end of 1976.

2 From 1968 to 1976, the number of incorporated NYSE member firms has continued to grow--rising from 203 to 266, while the number of member firms organized as partnerships has been halved--falling from 443 to 218. Much of this shift reflects the effects of mergers over the past 8 years--small firms being bought out by the larger, more well-known houses. Of late, early May 1977, mergers between fairly well-known companies have been agreed to. These include: Mitchell, Hutchins Inc. into Paine Webber Inc., Shields Model Roland Inc. into Bache Halsey Stuart Inc., Spencer Trask into Hornblower and Weeks-Hemphill, Noyes Inc. The departing firms are not small, as is evidenced by the $16 million of unencumbered capital possessed by Shields Model Roland Inc.

the past eight years--in large part due to increases in equity during 1975 and 1976--and amounted to nearly $2.9 billion at the end of 1976. (Table 2).

Profitability of NYSE member firms improved substantially in recent years. In 1976, pre-tax profits totaled $983 million and were up more than 22 per cent from 1975's level. The pre-tax rate of return on equity invested in NYSE member firms rose to more than 34 per cent. While this was noticeably below the prevailing 1968 rate of return of more than 54 per cent, it represented an improvement over the 16 and 21 per cent rates of return generated during 1973 and 1974 and was in excess of 1975's near 33 per cent rate of return before taxes. (Table 3).

Central Market System Overview

Further changes affecting the securities industry were set in motion by the Congressional mandate in the form of the Securities Act Amendments of 1975, which directed the Securities and Exchange Commission (SEC) to work with the securities industry toward the achievement of a national central market system for trading securities in a secondary market. Such a centralized system was viewed to be in the public interest, since enhanced competition would be expected to foster efficiencies in securities trading and simultaneously add to the overall depth and liquidity of markets. As barriers to competition--such as restrictive, exchange-enforced trading rules and membership requirements--were eliminated and as broadened access to trading information became available to all market participants, buyers and sellers of securities were expected to benefit from having their transactions executed promptly at the best available price and at the lowest cost possible. A central market system, by bringing together all bids and offers for securities, would provide greater market-making capacity and, presumably contribute to the depth and liquidity of the market--especially, with regard to large-sized orders.

To be sure, the central market system entails substantial changes in rules and practices under which brokers and dealers, whether members of exchanges or not, had historically operated. Accordingly, considerable leeway in terms of both a timetable for effecting the necessary changes and the specific nature of the changes has been granted by Congress to the SEC in its efforts to facilitate the development of a central market system. In order to promote security industry involvement, Congress created a National Market Advisory Board (NMAB)[1] to assist and advise the SEC on matters related to the development of the system. The NMAB was also to provide a report to Congress, by the beginning of this year, on the issue of how the system might best be governed.[2]

Stripped of the details, the evolution toward a central market can be simply summarized. The process is sequential, of necessity, and implementation of the later stages hinges upon introduction of the earlier ones. The three major phases are:

1. A consolidated tape for reporting transaction prices and volume of trading for all listed stocks without regard to the exchange or market in which the trades are effected. (Already achieved, having become operational in early 1976.)

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1 The National Market Advisory Board is comprised of knowledgeable individuals from the securities industry, the regulatory field, and the academic world.

2 The NMAB failed to meet the deadline--opinions of the membership being so divided as to preclude agreement on the coverage of such a report.

2. A composite quotation system and limit order book:
   a. The composite quotation system refers to the development of an electronic system to accept instantaneously and display all market-makers' bids and offers to transact. (A number of private vendors have already proceeded with the physical development of such a system. The implementation, however, will await resolution of trading rule and broker access questions.
   b. The composite limit order book (CLOB) is necessary to ensure fair treatment of all market participants and their orders. (Achievement of general industry consensus on this issue appears remote--the various stock exchanges and specialists thereon, advocating relatively little change, and the non-exchange-affiliated spokesmen pushing for more substantial changes. Standards may eventually have to be imposed by NMAB/SEC directives.[1]

3. A unified system for clearing and settling transactions in securities without involving the physical delivery of certificates evidencing ownership. (The capability for implementing this phase of the program already exists, and such a system is in use for much security trading, although considerable physical transfer of security certificates is still relied upon.)

Present planning does not contemplate inclusion of all securities in the central market system, at least not at the beginning. Minimum financial requirements--such as number of shares outstanding, market value of shares, etc.--will govern inclusion. While virtually all NYSE listings and the majority of AMEX issues would meet the initial standards for inclusion, over time these requirements could be eased to admit many of the remaining issues as well. Over-the-counter (OTC) securities will probably not be included in the system at the outset, but could be added later. Most of the features that the central market system will possess are already being extended to OTC securities transactions, through the National Association of Securities Dealers Automated

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1 The SEC in early May of this year notified the industry that unlimited off-exchange trading is to be a reality no later than January 1, 1978. An ultimatum of this sort appeared necessary both to assuage Congress and to prod the industry toward adoption of enabling rule changes.

Quotations (NASDAQ) System. With only minor modifications, this NASDAQ system could be sanctioned to operate in tandem with the central market system being developed for listed securities.

Issues Still to be Resolved

The implementation of the second stage in the process of moving toward a central market system is being delayed by bickering between the two principal sides attempting to formulate a mutually agreeable set of standards for operation. The SEC, through the NMAB, is pushing for less restrictive access to markets; the industry viewpoint--expressed through the National Market Association (NMA)--is that access must be controlled to insure orderly marketing of securities.

The principal stumbling block involves issues related to the existing NYSE Rule 390--prohibiting off-board transactions between member firms and retail customers and thereby providing protection for limit orders on specialists' books.[1] Without such a restriction NYSE member firms would be able to make markets in all securities and obviate the need for an exchange. Furthermore, the various specialists in stocks would be called upon to make markets without their present exclusive knowledge of all orders for their stocks as reflected in their books and without earning the commission revenue associated with conducting transactions that clear those books.

Recently, the SEC has seen the need to put the industry on notice that by January 1, 1978, Rule 390-type restrictions against broker and retail customer transactions must be eliminated. The NMAB--having failed to reach enough of a

1 The protection of limit orders assures that all existing orders at prices between the last sale and the next one are executed and not passed over.

consensus to issue a statement on recommendations regarding Rule 390--may have outlived its usefulness, according to some industry observers.

Neither the NMAB nor the SEC has yet decided upon the proper approach to the limit order question. That some attention is being paid to this question is apparent from the debate over the Central Limit Order Book (CLOB). Most advocates of what has become known as the “Hard CLOB” prefer automatic execution of orders via electronic matching of bid and ask prices of dealers entering quotes in the system--assuring that all appropriate limit orders in the CLOB are executed, in turn, as price quotations change.[1] Specialists would be accorded no privileges in handling limit orders.[2] Those favoring a so-called “Soft CLOB” on the other hand, desire to preserve the role of the specialists by permitting them to retain a privileged position in handling limit orders, by granting them exclusive knowledge of orders in a central limit order book (CLOB) and/or by allowing them to obtain fees from the execution of all limit orders they enter into such a book. “Soft CLOB” proponents note that price continuity would suffer from an instant execution system, since specialists would no longer have the same incentive to engage in market stabilizing transactions--having had their potential revenue stream reduced.

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1 Some, especially academics, prefer the extreme version of the “Hard CLOB”--instant execution with no allowance for limit orders at all.

2 Under the current system, for limit orders on a specialist’s book, orders either to buy or to sell a specified amount of stock at a particular price, the specialist is obligated to execute these orders when market price quotes warrant. That is, for a limit sell order involving 100 shares at $40 per share, any transaction involving 100 shares or more at a price of $40 or more is to include that limit sell order. Should the market price quotes move sharply higher, say from an ask price of 39-7/8 to 40-1/4, the specialist is able to transact as an intermediary against his limit order book at $40 and retain the $1/4 per share difference. Under a “hard” version of CLOB, the specialist would no longer obtain any such monetary return from transactions involving limit orders.

Since any approach short of the “Soft CLOB” involves revenue loss for specialists, resolution through compromise meets strong opposition from specialists and their Association for the Preservation of Auction Markets (APAM). It seems quite likely that the SEC will be forced to assume the function of arbitrator and most likely will have to mandate the ultimate “Softness” or “Hardness” of the Central Limit Order Book.

The final resolution of the Rule 390 and CLOB issues remains unclear at this point. However, the settlement of these issues is pivotal to the progress toward a central market. The Composite Quotation System--the second stage in the development of a central market--cannot be implemented without such resolution of these trading rule provisions, despite the existence of the physical systems to make composite quotation operational.

The final stage--centralized clearing and settlement of transactions--is also being held hostage by the continued wrangling over the trading rules underpinning the composite quotations phase. In large measure, the structural apparatus for centralized clearing and settlement currently exists, in the form of security depository institutions and is in use--though the system is fragmented and caters only to institutional and professional traders.[1]

Possible Future Changes for the Securities Industry

In the future, further consolidation within the brokerage community appears quite likely. In a central market environment, the heavier capital requirement in the form of electronic communications networks and support personnel suggest that the smaller-sized brokerage firms will be ever more hard pressed to survive. The direct effects of future consolidation will be the continued reduction in the number of brokerage concerns, further closings of sales offices--especially duplicate offices arising as a result of mergers--and some additional curtailment of total employment in the securities industry.[2] With over 2,800 separate brokerage firms still in business at the end of 1976, consolidation would be able to proceed considerably further without substantial anti-competitive effects.

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1 Security depository institutions accept deposits of certificates from participating banks as well as brokers and dealers and immobilize them in vaults. Transfers between participants are effected through bookkeeping entries at the depository institutions--additional certificates are deposited as the volume of such inter-institutional transfers increases. Essentially, daily net sales of each security on deposit are offset against daily net purchases of each for the participating banks and brokers and dealers.. Any remaining insufficiency is covered by additional deposits of certificates on behalf of the participating institutions. Security certificates on deposit retain their collateral features for loans sought by brokers and dealers in the ordinary course of business.

The major depositories are in New York, Chicago, San Francisco, and Philadelphia. The Depository Trust Co. in New York is the largest U.S. depository for security certificates--having more than $115 billion worth of certificates immobilized as of April 30, 1977.

2 Although the number of registered representatives employed by NYSE member firms has increased somewhat since 1974, total employment in the industry has continued to decline.

Specialists' function:

The role of the specialist is certain to change in the central market era. No longer will any single entity like today's specialist on the NYSE, control the market-making in a particular stock. Anyone satisfying the minimum capital requirements for designation as a security dealer in the new system will be able to enter quotes and assume a market-making function.

While the total return for performing the market-making function may not actually decline, though many suspect that it will, the revenue will likely accrue to many different entities rather than to any single specialist. According to the spokesman for the specialists (APAM), their elimination could lead to a decrease in overall price continuity and market liquidity. At present, the specialist is obligated to maintain orderly markets and to assure smooth progression in prices to higher or lower levels as market conditions warrant.[1]

Some observers contend that the specialist enjoys too great a return--derived from his monopoly on public customers' transactions in a particular stock--for the amount of market stabilization required. They suggest that dealers could make just as continuous markets and would be willing to do so with, at most, minimal effects upon price continuity and with substantial savings to the investing public.

Although the specialist system in existence today--e.g., unitary specialists on the NYSE--is likely to give way to a multiple market-maker regime, care will have to be taken to insure a high degree of permanence of the market-making function. Steps being considered in this regard include designing the system to accept and mandating

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1 The specialist performs this function by short-selling when market prices rise and by making long purchases as market prices fall.

participants to enter only “firm” quotes into the composite quotations system--firm quotes both in terms of bid and ask prices and quantities involved.[1]

Role of organized exchanges:

While it is safe to assume that the overall importance of the NYSE will decline in a central market setting--the exchange losing its exclusive control over member organizations and their stock trading--it does not necessarily mean that the NYSE (or any other exchange for that matter) will cease to exist. Though the vital function performed by exchanges today--i.e., the expeditious transfer of ownership of securities in a secondary market--will be accomplished through a central market system for all securities, exchanges could still play a major role in the overall scheme of things.

Some have suggested that a physical floor upon which to conduct trading is highly useful and perhaps even essential, though others have maintained that floors for trading are an anachronism in today’s electronic age of communication.[2] Although whatever the merits of the arguments in the long-run, it appears that the evolutionary movement toward a centralized market will be hastened along by some initial reliance upon trading floors for the conduct of business. Congress anticipated the continuation of trading floors and provided in the 1975 Act that, with the exception of physical capacity

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1 The present NASDAQ system for trading OTC stocks uses a multiple market-maker structure. The rules require that quotes be firm for at least 100 shares, with the capability to query the respective market-makers regarding the actual size they are ready to transact at the stated bid and ask price quotes. This is time consuming for investors and a drawback of the existing NASDAQ system.

2 The NASDAQ system for trading OTC stocks is based on electronic communication through computer terminals. It is not considered an exchange, although it performs the function of one, because it lacks a physical floor for trading.

reasons for limiting direct use of the facilities, access to trading floors must be open to all parties meeting reasonable standards of financial stability and competency, and conforming to the operational requirements imposed by the exchange.

The exchanges have long acted as principal elements in the self-regulatory process which governs securities transactions. The exchanges probably will continue to perform this regulatory function in the future. Most of the existing rules, especially those covering broker/dealer and customer actions, have no counterpart under existing Federal statutes--the SEC and FRB regulations repeatedly citing “accepted industry (i.e., exchange) practice” without elaboration.

If exchanges survive, perhaps by becoming an integral part of the overall system through providing trading floors, their revenue base may shrink--making it impossible to continue to carry all of their previous self-regulatory load. Furthermore, being denied the strict control over membership, which they currently enjoy, the number of brokers and dealers subject to any exchange’s self-regulatory oversight may well decrease.[1] Presently, discussions addressing this point are going in the direction of a single self-regulatory entity. The NASD, by virtue of its near total coverage of all brokers and dealers, is being pressured to accept a larger responsibility for the self-regulatory function. Whether the NASD will eventually agree to take on more of the actual enforcement activities or merely co-ordinate the efforts of the separate exchanges

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1 Under present procedures, the NYSE inspects its members; the AMEX inspects each of its members not subject to NYSE oversight; the regional exchanges--Midwest, Pacific, Philadelphia, etc.--inspect any of their members without either AMEX or NYSE affiliation; the NASD inspects its members with no exchange standing; and the SEC inspects the small remainder of brokers and dealers.

is as yet not settled. To be sure, however, funding for the regulatory effort will have to be forthcoming from the industry in the form of some surcharge on transactions.[1]

Raising equity capital:

The effect of a central market system itself on the equity capital raising process--i.e., flotation of new stock offerings--may not be very large, on balance. The potentially beneficial influences of more competitive market-making in all stocks, more rapid settlement of transactions, and the generally lower costs for investors may enhance somewhat the desire to hold equity securities. Since stocks listed on the AMEX and regional exchanges would be included in a single, unified market for securities trading, smaller corporations would benefit relatively more from the new environment than the larger, better-known NYSE-listed corporations--the stocks of which already are accorded high investor recognition.

On the other hand, some influences of the overall evolution toward a central market--negotiated commissions and reductions in the number of brokerage firms--may create a few problems in the area of equity capital raising, especially for small firms seeking to market new shares.

In an era of fixed, minimum commissions an underwriter stood to gain not only from the underwriting fees and any return for acting as a principal, but also from subsequent commissions received for retail distribution efforts. With commissions now subject to negotiation, more of the costs of underwriting any issue will have to be offset

1 No increase in the overall cost of transacting for customers is envisioned, though, since the present fees charged by exchanges would be accordingly reduced or eliminated.

by actual underwriting revenues--these being translated into higher expenses for an issuing corporation. Therefore, the share of an underwriter's participation in the proceeds from a new stock offering are likely to increase. (Table 4).

A greater potential problem for issuance of equity securities in the future, especially those offerings of small and regionally-based corporations, may be the disappearance of many brokerage firms. The large, well-established brokers and dealers have traditionally not sought to underwrite small offerings--leaving this part of the market to be serviced by the small, independent brokers and dealers in the local area. With the decline in number of independent brokerage concerns likely to continue and be aggravated by the capital requirements associated with conducting a securities business in an electronic age, the small corporation may have fewer available underwriters willing to handle any new offerings of equity securities.[1]

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1 Some historical perspective is provided, in Table 5, on the volume of unseasoned securities issues and small offerings exempted from SEC registration.

Table 1

NYSE Member Organizations: Partnerships/
Corporations, Offices, and Registered Personnel
1965-1976

End of Year	Number of Member Organizations			Number of Offices	Registered Representa- tives
	Total	Partnerships	Corporations		
1965	651	499	152	3,521	33,805
1966	649	484	165	3,692	38,514
1967	647	462	185	4,130	42,423
1968	646	443	203	4,278	49,644
1969	622	398	224	4,084	52,466
1970	572	353	219	3,636	50,787
1971	577	329	248	3,777	52,635
1972	558	287	271	3,751	50,977
1973	523	263	260	3,663	47,068
1974	508	247	261	3,441	43,245
1975	494	236	258	3,426	44,700
1976	484	218	266	3,576	45,700

Source: New York Stock Exchange Fact Book.

Table 2

Aggregate Equity Ownership in NYSE Member
Firms Carrying Accounts of Public Customers[1/]
1965-1976

Year	(1) Ownership Equity ($ millions)	(2) Number of Firms	(3) Average Equity Per Firm (1) ÷ (2) ($ millions)
1965[2/]	1,210	345	3.5
1966[2/]	1,294	355	3.6
1967[2/]	1,959	357	5.5
1968	2,453	385	6.4
1969	2,038	379	5.4
1970	1,916	333	5.8
1971	2,517	330	7.6
1972	2,749	319	8.6
1973	2,327	276	8.4
1974	2,135	254	8.4
1975(p)	2,460	245	10.0
1976(e)	2,880	230	12.5

Source: Securities Exchange Commission Statistical Bulletin.
(p) -- preliminary.
(e) -- estimated.

[1/] Approximately one-half of the total NYSE member firms did not carry accounts of public customers during this period.

[2/] Since this information was not a mandatory SEC requirement until 1968, some 16-29 member firms did not report during 1965-67.

Table 3

Commission Income, Before Tax Profit,
and Equity Ownership for NYSE
Member Firms Carrying Accounts of Public Customers[1/]
1965-1976

Year	(1) Commission Income ($ millions)	(2) Before Tax Profit ($ millions)	(3) Ownership Equity ($ millions)	(4) Return on Equity (2) ÷ (3) (per cent)
1965	1,413	473	1,210[2/]	39.1
1966	1,766	578	1,294[2/]	44.7
1967	2,520	1,022	1,959[2/]	52.2
1968	3,245	1,328	2,453	54.1
1969	2,563	565	2,038	27.7
1970	2,081	591	1,916	30.8
1971	2,953	1,331	2,517	52.9
1972	3,004	1,106	2,749	40.2
1973	2,414	380	2,327	16.3
1974	2,109	457	2,135	21.4
1975(p)	2,700	802	2,460	32.6
1976(e)	2,920	983	2,880	34.1

Source: Securities Exchange Commission Statistical Bulletin.
(p) -- preliminary.
(e) -- estimated.
[1/] Approximately one-half of the total NYSE member firms did not carry accounts of public customers during this period.
[2/] Since this information was not a mandatory SEC requirement until 1968, some 16-29 member firms carrying public customer accounts did not report during 1965-67.

Table 4

Dollar Value of Securities Offered and
NYSE Member Firm Profit from Participating
in Underwriting Activities
1965-1976

Year	(1) Profit from Underwriting Activities ($ millions)	(2) Equity Securities Offered ($ millions)	(3) All Securities Offered ($ millions)	(4) Return Relative to the Value of Securities Underwritten (1) ÷ (3) (per cent)
1965	169	2,197	14,782	1.1
1966	208	2,481	17,385	1.2
1967	315	2,808	24,014	1.3
1968	462	4,521	21,262	2.2
1969	495	8,331	25,997	1.9
1970	472	8,427	37,450	1.3
1971	801	13,184	43,230	1.9
1972	768	14,078	39,705	1.9
1973	400	10,984	31,683	1.3
1974	421	6,233	37,727	1.1
1975(p)	780	10,871	52,536	1.5
1976(e)	850	11,094	52,164	1.6

Source: Securities Exchange Commission Statistical Bulletin.
(p) -- preliminary.
(e) -- estimated.

Table 5

Security Offerings by Corporations
Registering with the SEC for the
First Time and by Issues Exempt from Registration Requirements
1971-1976

(Dollar Value of Offerings in Millions)

Year	Unseasoned[1/]	Regulation A[2/]	Total
1971	1,246	n.a.	n.a.
1972	1,690	256	1,946
1973	300	154	454
1974	82	78	160
1975	70	49	119
1976	176	47	223

(Number of Offerings)

Year	Unseasoned[1/]	Regulation A[2/]	Total
1971	468	n.a.	n.a.
1972	633	650	1,283
1973	176	393	569
1974	45	223	268
1975	24	130	154
1976	42	123	165

Source: Securities Exchange Commission Statistical Bulletin.

n.a. -- not available.

1/ Unseasoned refers to common stock offerings by corporations registering under the 1933 SEC Act for the first time.

2/ Regulation A refers to securities offerings--stocks or bonds--of less than $500,000 and, therefore, exempt from registration requirements of the 1933 SEC Act.