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REPORT ON FOREIGN DEALINGS

IN AMERICAN SECURITIES

By

Lunsford P. Yandell

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OUTLINE OF CONTENTS

Pages

Introduction

Purpose of Report, Scope of Study and Sources	1 to 3
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PART I

Foreign Investments
In American Securities

Background	4 to 9
America's Shift from Debtor to Creditor	9 to 11
Type of Enterprise and Security	11 to 14
Current Trends	15 to 17
Relative Size of Foreign Investments	17 to 22

PART II

Foreign Markets
For American Securities

Development and Relative Size	22 to 23
Significant Features	24 to 25
London	25 to 30
Extent of London Dealings in American Securities	30 to 31
Amsterdam	31 to 36
Extent of Amsterdam Dealings in American Securities	36 to 38
Zurich	38 to 46
Extent of Zurich Dealings in American Securities	46 to 47
Paris	48 to 57
Extent of Paris Dealings in American Securities	57 to 58

Outline of Contents
(Continued)



Pages

PART III
Foreign Dealings by Americans
In American Securities

General Characteristics	58 to 62
Extent, Location, and	
Origin of Dealings	62 to 65
Amsterdam	66
Brussels	67
Luxembourg	67
Switzerland	68
Lichtenstein	69
Paris	69
Canada	70
Motives	71 to 72
Methods and Agencies Employed	73 to 78

PART IV
Summary

Summary	79 to 85
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NOTE: At the back of this report is a digest of the principal sources from which the facts and impressions on which it is based were gathered, together with a list of such published information as was found available on the subject with which it deals.

REPORT ON FOREIGN DEALINGS

IN AMERICAN SECURITIES



INTRODUCTION

Purpose of Report:

The purpose of this report is to indicate where, how, and to what extent American securities are dealt in and held in England and Europe, both by foreigners and by Americans who use foreign facilities.

Scope of Study:

The leading foreign market for American securities is in London, and therefore the study on which this report is based was started there. Following leads developed in London, it was extended to Amsterdam, Zurich, and Paris, touching also Brussels, Luxembourg, and Basle. This study was not directed toward foreign stock exchange methods or banking practices, and such general impressions of methods and practices as are set forth herein are entirely incidental to the purposes of this report. They are included only for what value they may have in increasing the Commission's file knowledge of the conduct of financial affairs abroad.

Throughout this report the words "foreign" and "abroad" are used to refer primarily to England and to those European countries which at present occupy the positions of most importance in relation to international security dealings - namely, the Netherlands, Switzerland, and France. Similarly, "American" is used to mean of the United States, and "foreign investments" is used to mean long term investments, excluding foreign funds on deposit with bankers and brokers in the United States and foreign credits to American importers.

Sources:

The principal sources of information on which this report is based were made available through the courtesy of Ambassador Joseph P. Kennedy by introductions to stock exchange officials, brokers, bankers, and others engaged in the securities business in England and on the Continent. Specific facts and figures were obtained wherever possible. But the characteristic reticence of foreign financial people, together with their relatively small use of statistics, and the fact that foreign stock exchanges do not record volume of sales made it necessary to rely largely upon the gathering and careful sifting of impressions to accomplish the



purpose of this report. Since among foreign financial people this is the accepted method of going about such inquiries, it was perhaps the more effective through being better understood. At the back of this report is a digest of the principal sources from which the facts and impressions on which it is based were gathered, together with a list of such published information as was found available.

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P A R T I

FOREIGN INVESTMENTS

IN AMERICAN SECURITIES

Early in the course of this study it became apparent that no reliable figures are available in England either as to the size of English holdings of American securities or as to the volume of trading therein on the London Stock Exchange. The reason for this is that English banks and brokers are not given to compiling such statistics, nor does the British Government or the London Stock Exchange collect them. As the study progressed, this situation was found to exist also with respect to the Netherlands, Switzerland, and France, particularly since in the case of most European countries one of the main objectives of private holders of securities is to conceal both the location and identity of their holdings. Thus, so far as available foreign estimates of foreign investments and dealings in American securities are concerned, this study early established the fact that none exist. It would of course be possible, although extremely difficult, to assemble up-to-date data abroad that would be reasonably reliable and informative, but such a task would have required much more time and much wider facilities than were

available for the making of this report. Therefore, a substitute for non-existent foreign data was sought. Such a substitute was found in the form of numerous impressions systematically collected from informed sources, and checked against the only official data available, namely, that collected by the United States Department of Commerce and published in 1937 under the heading "Foreign Investments in the United States." These data are widely known abroad, and are considered there to be as reliable as such estimates can be under the circumstances which surround most foreign security holdings.

To create a clear picture of existing foreign investments in American securities and of the foreign markets that have resulted for them, it is necessary first to outline briefly the background against which this picture must stand.

Background:

For more than a century and a half this country has been supplied liberally with foreign funds. At first these funds were eagerly sought, but more recently they have come without urging and with doubtful welcome. Before the Revolution foreign interest in America found tangible expression in investments in bridges, turnpikes, canals, and merchandising enterprises.

As a result of the Revolution, United States Government obligations to the amount of \$6,500,000 were added to the list, in the form of loans from France and Spain and later from private bankers in the Netherlands and Switzerland. After the Revolution, English bankers became interested in United States bonds and by the end of the 18th Century their holdings exceeded those of any other foreign country. Thereafter railroads and canals expanded rapidly with the aid of foreign capital until the depression of 1837, which caused large amounts of foreign capital to be withdrawn. As a result of numerous bank failures and defaults on interest payments in the succeeding four years, the country's credit abroad was reduced to a low ebb. However, well before the outbreak of the Civil War prosperity had returned, and with it came a return flow of foreign capital, principally directed toward the building of railways. The outset of this war was a period of great uncertainty on the part of foreign investors. But when it began to appear that the Federal Government's success was assured, its credit rapidly expanded abroad, so that in 1869 the Government estimated that \$1,000,000,000 of its bonds were held by foreigners. At the same time foreign holdings of state and municipal bonds were set at \$107,000,000; of railroad bonds and stocks

at \$243,000,000; and of other securities and properties at \$65,000,000; or a total of \$1,415,000,000. During the succeeding thirty years industrial and railway expansion absorbed further substantial amounts of foreign capital until, at the beginning of the year 1899, a contemporary economist, Nathaniel T. Bacon, after collecting extensive data within the United States and abroad, estimated total foreign investments at \$3,330,000,000, of which he allocated \$2,500,000,000 to England, \$240,000,000 to the Netherlands, and \$200,000,000 to Germany.

For several years at the turn of the century American securities were apparently repatriated in substantial quantities, but by the end of the first decade, through heavy flotations of railway issues and the extensive development of mines, oil fields, and other natural resources, the country had again assumed a heavy debtor position. In 1908 the total foreign investment in the United States was estimated at \$6,500,000,000 by Sir George Paish, a leading English economist, who placed England's holdings at \$3,500,000,000, Germany's at \$1,000,000,000, and those of the Netherlands at \$750,000,000. The large debtor position indicated by these figures continued until the Summer of 1914 when the total foreign investment is

estimated to have been \$6,750,000,000. During the World War there was very heavy liquidation of American securities by foreigners, which reduced their holdings to \$2,525,000,000 by the end of 1919. Both these figures are estimates made by the Brookings Institution, based on all available estimates.

During the post-war period foreigners added steadily to their holdings of American securities, which by 1929 had risen to \$4,700,000,000. Apparently the post-war inflow of foreign capital reached a peak in 1928 and again in 1936. Even in the depression years 1930 through 1933 there appears to have been no major withdrawal of foreign capital, for the United States Department of Commerce has estimated the total foreign investment at \$4,357,000,000 at the end of 1934. This total had risen to \$6,108,000,000 by the end of 1936. Recent estimates indicate that by the end of 1937 foreign holdings had declined to \$5,270,000,000, principally due to the sharp drop in security prices which took place in this country during that year. Although no later estimates have been made, it is believed in well-informed quarters abroad that, notwithstanding the intervening further decline in American security prices and the universal feeling of doubt and uncertainty among foreigners as to the

Administration's policies and intentions, the prevailing trend of foreign funds is now into, rather than out of American securities.

America's Shift from Debtor to Creditor:

Up to the outbreak of the World War, America was a debtor nation. The principal creditor nations (America's creditors as well) were Great Britain, the Netherlands, France, and Germany. Four and a half years later, as the War ended, American claims against foreigners (excluding Government claims) were greatly in excess of the total foreign investment in the United States. This rapid shift from debtor to creditor was due to a heavy repatriation of American railway and other securities plus the growing rate of private investment and lending abroad. After the war came a great expansion of foreign lending and of American investments in foreign countries. When this period ended in 1929, America's foreign investments were almost five times the 1914 total, whereas foreign investments in the United States had increased less than 25%. As a creditor nation, America is now exceeded only by Great Britain. Throughout the post-war period a stream of capital, springing from this country's capacity to produce, has flowed to all parts

of the world, greatly increasing this creditor position. Of the resulting investments, a relatively small part are in Great Britain, the Netherlands, and France. The largest investments, both direct and portfolio, are in Canada, with South America second and Europe third.

Expressed in figures, America's shift from debtor to creditor is indicated in the following estimates:

<u>End of</u>	<u>America's Foreign *Investments</u>	<u>Foreign *Investments In America</u>	<u>Creditor or Debtor Position</u>
1914	\$3,500,000,000	\$7,200,000,000	\$3,700,000,000
1919	7,000,000,000	4,000,000,000	3,000,000,000
1929	17,000,000,000	8,900,000,000	8,100,000,000
1936	13,300,000,000	7,600,000,000	5,700,000,000
1937	11,800,000,000	7,000,000,000	4,800,000,000

*Short term as well as long term investments.

The latest available data on America's foreign investments indicate that direct investments (those in American-controlled foreign enterprises) are considerably larger than its portfolio investments in foreign securities, loans, etc. In the former category investments in manufacturing enterprises predominate, followed by mining, public utilities and oil. Portfolio investments comprise principally foreign dollar bonds.

Investments in foreign shares are of relatively minor importance. Geographically, at the end of 1937 America's long term foreign investments lay 37% in Latin America, 33% in Canada, and 21% in Europe. The rest are widely scattered. By and large, it may be said that foreign investments by Americans in the form of American-controlled enterprises operating abroad have not only been considerably larger but have been very much more profitable than portfolio investments in foreign securities. Finally, in comparing America's investments abroad with those of foreigners in the United States, it is interesting to note that in 1937, according to the Department of Commerce estimates, interest and dividend receipts on American investments abroad were \$608,000,000, as compared with corresponding payments of \$278,000,000 to foreigners on their investments in the United States.

Type of Enterprise and Security:

Foreign investments in American securities have on the whole been a changing group, covering many of the varieties of enterprise that arose in the country's development. As has been pointed out, the earliest investments were in bridges, turnpikes, canals, and merchandising ventures. Thereafter came the land companies, the railways, and the mining companies.

In the period of rapid growth in foreign investments which closely followed the Civil War, foreign holdings of railway issues increased more rapidly than other share interests, a trend which continued until the World War. Late in the 19th Century the cattle companies reached their prime, while in the period before the War mortgage companies flourished. However, while foreign interest in some enterprises continued, in others it declined, as, for example, in American mining from which, even before the War, foreign funds were being transferred to the development of new fields. Up to 1914 foreign investments in oil, manufacturing, and insurance were all increasing. During the War the general liquidation by foreigners of their American investments affected holdings in all types of enterprise, but particularly railway holdings, which in 1914 constituted over two-thirds of the total foreign investment. It is estimated that foreign holdings of common shares in American railways are now only slightly over half as large as in 1914, while holdings of preferred shares are less than half as large. As an illustration of war-time liquidation, rail shares made up about three-quarters of the \$411,000,000 of dollar shares mobilized by England during the War. As a further result of the War Germany's interest in the American chemical industry,

which in 1914 was virtually controlling, has been reduced to a very small part of the total. After the War the Eighteenth Amendment greatly reduced foreign investments in breweries and distilleries.

The gradual accumulation of American securities by foreigners that has taken place during the post-war period has resulted in a portfolio in which, at the end of 1934, manufacturing securities predominated. Next came public utilities, and third, railways. Although no data are available for more recent years, it is thought that this distribution of the foreign investment by industries has not changed greatly since 1934.

In addition to considering the kinds of enterprise into which foreign funds have flowed, consideration must also be given to the types of security among which the foreign investment is divided. Both factors have a direct bearing on the size, location, and activity of foreign markets in American securities, to be considered in Part II of this report. State and federal obligations and corporate bonds held a predominating place among early foreign investments in the United States. During the past fifty years, however, the obligations of the federal government, the states and other political entities have become increasingly unimportant in the foreign portfolio. At present they constitute a

negligible part of the list. Before the War bonds constituted over 50% of the total foreign investment. Department of Commerce estimates show them to have been only 11% at the end of 1937. This points to an important trend in foreign investments in recent years. Bonds have given place to common stocks, which constitute a much more volatile type of investment. At the end of 1937 common stocks comprised approximately 35% of the total foreign investment. Next came direct investments 32%, miscellaneous investments 14%, and preferred stocks 8%. At the end of 1936 common stocks made up 44% of the list, the decline during 1937 having been due largely to a somewhat sharper drop in the market value of common stocks than in other types of securities. There is no doubt that at present the most important type of foreign investment in America is common stocks.

Approximately one-half of the common stocks and one-third of the preferred stocks in the foreign portfolio are shares of manufacturing concerns. The majority of the bonds and preferred stocks are railway and public utility issues. Direct investments lie one-third in manufacturing companies followed by finance and transportation. Almost one-half of these direct investments in turn are made up of common stocks.

Current Trends:

In addition to the drift away from railroad securities, and away from bonds toward common stocks, there has developed more recently a minor trend away from preferred stocks toward common stocks and a major trend away from direct holdings toward nominee holdings through banks and brokers. This latter trend has been particularly noticeable since 1934, especially on the part of France, Switzerland, and the Netherlands. Since 1933, due presumably to unstable political and economic conditions abroad, there has been a steady flow of foreign funds into this country, apparently impelled by a desire for security of principal more than for permanent employment of capital. Much of this money has gone into the security markets, either on a long or short term investment basis. Another large part has been placed on deposit with American banks and brokers, the low yield on such deposits indicating that the current objective is safety rather than profit.

This movement of foreign funds to the United States for deposit marks another important post-war trend. In 1914 such short term credits (foreign money on deposit with American banks and brokers, and foreign credits extended to American importers) were estimated at \$500,000,000. In 1919 they stood at \$800,000,000;

in 1929 at \$3,077,000,000; in 1934 at \$614,000,000; and at the end of 1937 at \$1,766,000,000. In this connection it is worth observing that the short term credits of Switzerland are now the largest of any European country, followed in order by those of England and France. This sheds direct light on Switzerland's position among foreign investors in the United States, as will be noted below. It is felt in banking circles abroad that the presence of these short term foreign funds in the United States need not be disadvantageous to the American economy so long as their transitory nature is fully understood and provided that they do not come to be looked on as part of the country's permanent credit structure and thus allowed to furnish a basis for credit expansion, in which event their sudden withdrawal might be disturbing.

Considerable light is shed on current trends in foreign investments in the United States by Treasury Department statistics of capital investments based on reports from banking institutions and security dealers. These figures show that between 1934 and the end of March 1938 England accounted for 38% of the net foreign purchases of American securities, Switzerland for 24%, the Netherlands for 17%, and France for 6%. Thus, although the Netherlands rank ahead of Switzerland in holdings of American securities, the Swiss have apparently bought

more than the Dutch since 1934, which correctly reflects the growing interest in American securities on the part of Switzerland. In this connection, it is important to note that the reported origin of foreign security transactions does not necessarily reveal their true national origin or the real beneficial interest therein. This is particularly true of Switzerland, long a haven for funds seeking refuge from political and economic disturbances. Treasury Department statistics further show that after steadily flowing into the United States during the years 1935 and 1936, and less strongly in 1937, short term banking funds flowed out in substantial volume in the first quarter of 1938, and that the outflow of Swiss funds was largest, indicating the volatility of refuge money. In general, banking funds were flowing out of the country from October 1937 through March 1938 (the last date on which data is available), whereas foreign security transactions show net purchases throughout practically the entire period since 1934, although the volume of transactions decreased very drastically during the last two months of 1937 and the first three months of 1938.

Relative Size of Foreign Investments:

Thus far this report has dealt principally with foreign investments as a whole. Before considering

the various foreign markets for American securities that have developed in Europe as a result of Europe's investment in the United States, it will be helpful to consider the relative size of the holdings of the principal European investors, namely, England, the Netherlands, Switzerland, and France. First, it should be observed that since 1914 two notable changes have taken place in the relative positions of America's foreign investors. Before the War Germany was the second largest creditor of the United States. During the War practically all the German investments in the United States were lost or liquidated, and Germany's post-war borrowing has been on a large scale. The result is that the country is now numbered among the principal international debtors, and is the only one of America's pre-war creditors who is now her debtor on private account. At present, German investments in the United States are at a very low level, and German security markets have entirely lost their international significance.

The second change has to do with Canada which has recently become America's second largest foreign investor, whereas in 1914 Canada stood fifth on the list. Canadian investments in the United States were the only ones that increased during the War. At the end of 1936 they stood at \$1,408,000,000, according to estimates

based on Department of Commerce data. However, since Canadian investments are outside the scope of this report, which covers only England and those European countries of importance in international security dealings, no further consideration will be given to Canadian investments other than to list them for purposes of comparison.

The following estimates show the relative size of long term foreign investments in American securities on significant dates since 1914, in millions of dollars:

	<u>1914</u>	<u>1919</u>	<u>1929</u>	<u>1934</u>	<u>1936</u>
England	4,045	1,490	1,560	1,297	1,711
Germany	905	-	-	-	-
Canada	260	295	935	1,007	1,408
Netherlands	605	385	450	713	1,002
Switzerland	*	*	200	348	504
France	390	120	400	226	344
Others	<u>545</u>	<u>235</u>	<u>1,155</u>	<u>766</u>	<u>1,139</u>
Total	6,750	2,525	4,700	4,357	6,108

*Included in "Others"

Although no breakdown by countries is available of the most recent Department of Commerce estimate of \$5,270,000,000 long term foreign holdings at the end of 1937, it is thought that the relative positions of the countries listed above have not changed greatly since

the end of 1936. For many reasons these estimates cannot be looked on as more than wide approximations. And as pointed out above, they do not necessarily disclose the true national origin or beneficial ownership of the investments in question. However, they are believed to be the only estimates available, either here or abroad, and among foreign financial people they are considered to be as close to the facts as circumstances will permit. With these limitations in mind, it will be observed that England's present holdings of American securities are less than half of what they were before the World War, an impression that generally prevails in London financial circles. Since the War Canada's investment in the United States has increased five-fold, a greater increase than that of any other foreign country. In the same period the Dutch investment has almost tripled, and the Swiss investment has also increased substantially, but the French investment has declined. However, the consensus of opinion abroad is that the greater part of the French investment is in the names of Swiss and Dutch banks, or of American bank nominees.

In connection with the relative size of foreign holdings, differences in the types of securities held by each country are worth noting. The latest available data on this subject is as of the end of 1934. It is

thought that no great changes have taken place since then and that such shifts as have taken place have been principally toward common stocks. At the end of 1934 Department of Commerce estimates show that Canada holds more American common stocks than any other country. They also show that over half of England's American investment was in the form of direct holdings, with common stock holdings amounting to 18% and preferred to 10%. Even so, England held more preferred stocks than any other country, from which it is obvious that preferred stocks occupied a relatively minor place in the foreign portfolio. Direct investments made up 31% of the Dutch holdings, while 29% was in bonds and 19% in common stocks. The bond holdings of the Netherlands were greater than those of any other country. In Switzerland common stocks were the principal medium of American investment, comprising 29% of the total, while direct investments accounted for 26% and bonds for 18%. The French investment was 36% in common stocks and 22% in bonds.

Despite the substantial size of the foreign holdings of American securities indicated by the above figures, it is estimated that at the end of 1937 only 4.08% of the outstanding common stocks of such large corporations as had foreign-owned stock was owned by foreigners and by non-resident Americans combined,

while for the smaller companies reporting foreign-owned stock the figure was something like 1/2 of one percent. As has been pointed out, common stocks are the largest single factor in the foreign investment.

P A R T II

FOREIGN MARKETS

FOR AMERICAN SECURITIES

The purpose of this report, in so far as it relates to foreign markets for American securities, is to indicate the location, size, and activity of the principal markets for American securities in England and on the Continent. The development of these markets closely parallels the growth of foreign interest in American securities traced above. It has been directly influenced as well by the relative size of foreign holdings, by the type of security held, and by the relative political and economic importance and stability of the countries involved. Thus, the countries whose economic position permitted them to seek investments abroad when the United States was becoming a nation are the ones whose American investments are now of greatest importance, with the exception of Germany and with the addition of Canada. From these long standing American

investments have sprung markets for them abroad which bear much the same relation to each other in size and importance as do the investments from which they have sprung, modified by the aforesaid factors of political and economic stability. The London Stock Exchange not only serves England, but receives much business from the Continent as well, and is the largest and most important market for American securities outside of the United States. On the Continent the most important market for American securities is the Amsterdam Stock Exchange. The second largest Continental market for American securities is the Zurich Stock Exchange, the principal security market of Switzerland. The Paris Stock Exchange is an independently run government monopoly, and lacks significance either as an international market or as a market for American securities, while the Berlin Stock Exchange, along with the rest of the German economy, is so completely under government control and regulation that it does not fall within the scope of this report. Thus, the stock exchanges of London and Amsterdam have emerged as the principal European security markets, and with the addition of the Zurich exchange are the principal European markets for American securities as well.

Significant Features:

Before considering these markets individually, there are certain distinguishing characteristics that apply to them as a group. With the exception of London, they are all under varying degrees of government control. Term settlements, whereby accounts are settled fortnightly or in some cases monthly, are available in all of them, although in Amsterdam and Zurich cash settlements generally prevail. Listing requirements are dictated principally by national incorporation laws, and are not as strict as the requirements of the New York Stock Exchange. Banks play a much more important part in security dealings in England and on the Continent than in the United States, and in London and Paris receive a split of brokerage commissions on business which they originate. Branch banking is much more widespread and branch brokerage offices much less widespread abroad than in America. Option dealings are general and accepted practice on foreign stock exchanges. Finally, foreign markets do not record volume of sales, and the use of ticker systems and other mechanical devices for quoting prices, spreading information, and transacting business is not nearly so widespread in England and on the Continent as in the United States, nor is the general tempo of these markets so fast or

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the public interest in security trading so wide. These generalizations should be borne in mind in considering the four exchanges individually.

London

Although the British have been the principal creditors of the United States for the past century, the London Stock Exchange had already been in existence more than a century before the First American securities were introduced and dealt in there. The growth of dealings in American securities in London has closely paralleled the growth of the British investment in the United States. In London it is said that before the World War this investment was more than twice as large as at present, and as a result dealings in American securities were very much larger then than now. Also, there is said to have been much more speculation in them in those days than at present. During the War a large part of the British holdings were liquidated. Thus much of the floating supply that served the London market disappeared, and not until 1925 was an important market for American securities re-established there. Since 1926 this market has been expanding, slowly at first but more rapidly in the past several years, although it is thought in London that it is unlikely ever to

regain its pre-war size so long as the United States remains a creditor nation, and the New York market retains its freedom and liquidity. New York is unquestionably the primary market for American securities in general. But so long as there is in effect a world market for American securities, it follows that London's proportion will be large. To estimate how large this proportion is at present requires a brief consideration of the characteristics that distinguish the London market today.

Perhaps the principal distinguishing characteristics of the London Stock Exchange are its liquidity and the unrestricted and vast international scope of its trading. In addition to being a clearing house for all the British provincial exchanges, it is the only stock exchange open when all other important world exchanges are open. Moreover, London is the world center for monetary exchange operations and international banking. This uniquely international quality has in time given rise to another distinguishing feature, the jobber system. Only with this system, in which some 1500 jobbers specialize in various securities, could a market be provided for the 7000 issues listed on the London exchange, and for the even greater number of unlisted securities that are admitted to trading. Other individual features

of the London exchange, all as more fully described in a separate report on that subject dated June 24th, 1938, are fortnightly settlements, elastic margin requirements, the fact that it serves a public generally more interested in investment than in speculation, the fact that it is entirely self-regulating, and the absence of any record of the volume of sales. This latter feature is of great importance to this report, for it means that no record is kept of the size of trading in American securities, nor is it at all likely that the London Stock Exchange would lend assistance in collecting such data from its members. Thus estimates must be relied upon, which under existing circumstances can be nothing more than informed guesses.

These estimates differ so widely that it is almost impossible to reconcile them. However, there is reason to believe that a mean of them represents the consensus of experienced London opinion. First, it is unquestionably true that for American securities in general the market in London fluctuates widely both in size and activity. These fluctuations are principally due to waves of interest in American securities originating in England or on the Continent or from the activity of the New York market. This interest is fostered by the fact that, because of double taxation and the foreign

public's attitude toward American securities, a strong motive behind many London dealings in them is price appreciation rather than income, an attitude not generally maintained toward established British and European securities. In other words, American equities are bought extensively in London both by the British and other foreigners for speculation as well as for investment. Thus, when the view gains ground among the trading element in London that "Americans are right to have" an active market quickly develops in a number of favorite shares. On the other hand, in times of sharply falling New York prices, a bigger market may develop in London than in New York in certain securities, due to the fact that at such times the large professional investors, both British and Continental, such as the investment trusts, insurance companies, and other big bargain hunters, step in and take large blocks of American securities off the market. On the average as much as 20% of the portfolio of British investment trusts may be American securities, while such investments may make up 10% of insurance company holdings.

The important point is that, in the opinion of London authorities, with the exception of a very few securities such activity is entirely occasional. They consider that over any considerable period of time, the main market for almost all American securities is in

New York, and dealings there exert a fundamental control over the London price. They believe, however, that at times, and for comparatively brief periods, a market does exist in London in such American shares as General Motors, U.S.Steel, Chrysler, New York Central, and Anaconda, which both in size and in freedom of dealing exceeds that prevailing in New York, while in the Canadian stocks International Nickel and Canadian Pacific there is usually a more active market in London than in New York. The year 1936 and the first few months of 1937 are cited as examples of this type of activity, whereas in the succeeding period up until June of this year it could almost be said that no market of any importance existed in London for American securities, at least until after 3 P.M. London time, when the New York market opens.

The jobber system mentioned above plays an important part in determining the size of this occasional activity. Normally there are no more than half a dozen really big jobbers in American securities and an equal number of active arbitrage firms. But in times of occasional increased activity a number of dealers may "make a book" temporarily in American securities and thereby assist materially in broadening the scope of trading. In addition there are a large number of outside firms who do not belong to the London Stock

Exchange, but whose dealings at times contribute substantially to the total turnover of American securities in London.

Extent of London Dealings
in American Securities:

With all these factors in mind, the mean of the most reliable and experienced estimates obtained is that the London turnover of American shares varies between 20,000 shares a day in times of extreme inactivity up to 500,000 shares a day in the occasional periods of great activity. Some estimates place the latter figure at 900,000 shares, but such a figure is generally regarded as entirely too high for markets that have existed since the War.

The total number of American issues dealt in is not recorded in London, and moreover any security dealt in on any recognized exchange may be dealt in unofficially on the London exchange. Thus, it is virtually impossible to arrive at a useful estimate, but in the Fall of 1936 London financial papers were quoting Wall Street closing prices of as many as 300 stocks and 50 bonds, indicating that the British public was actively interested in something like that number. However, it is considered doubtful that the number of issues customarily dealt in often greatly exceeds 80 to 100, although

due to the size of the British investment in American securities, the floating supply of American securities available for trading in London is certainly substantial.

Amsterdam

Next to London, the Amsterdam Stock Exchange is the center of European trading in American securities. The investment interest of the Netherlands in the growth and development of America antedates the American Revolution, but the Amsterdam Stock Exchange was formed almost 200 years earlier, in the 16th Century. It was the first European stock exchange of international significance, and was London's predecessor as the world's greatest exchange. When the North Sea ports became active in trade with the New World and through new trade routes with the East, Dutch industries were stimulated, merchants prospered, and surplus wealth was accumulated which placed the Netherlands in a position to loan money at home and abroad. Wars were financed, explorations of new territories were backed, and trading and colonizing companies were formed. England was one of the first borrowers from Dutch bankers who, to a large extent, financed the establishment of the Bank of England in 1694. In 1700 the Dutch were creditors to most of the countries of Europe, but at the end of that century Napoleon's occupation of the country culminated the

decline of Dutch commercial and financial prestige. Since the early 19th Century there has been a slow but steady increase in Dutch holdings of foreign securities, many of them of American industrials and railroads. In 1890 it was estimated that one-third of the foreign holdings of the Netherlands was of American securities, and this ratio is not thought to have changed by 1914, which would place the total Dutch foreign investment at something like \$1,800,000,000 in that year. During the War the Dutch investment in American securities was reduced somewhat by liquidation and losses, but since 1919 it has expanded very greatly, as has been shown above, so that at the end of 1936 it is estimated to have stood at \$1,002,000,000.

In addition to the direct bearing that the development of this large investment in American securities has had on the size and importance of the Amsterdam market for American securities, the Dutch temperament and attitude toward securities has had an important influence in forming that market. In the main, the Dutch are a nation of small savers, holding their foreign securities widely distributed and in small lots. Their principal wealth comes from their colonies and from financing, trading, issuing, arbitrage, and foreign exchange. In foreign securities dealings they are primarily shrewd

speculators, using their home securities principally for investment. They characteristically seek low priced securities in periods when bargains prevail, and their preference in foreign securities is for a high return and for appreciation rather than for safety, depending for the latter on the wide diversification of their holdings. In addition, the Dutch are active and expert arbitrageurs, and their arbitrage dealings in American securities are exceeded only by the British. In London it is said that the Dutch maintain the largest speculative interest in American securities that exists outside of the United States, and that Amsterdam bankers admittedly make a practice of setting aside a certain portion of their resources for dealing in American securities. Nevertheless, Dutch holdings of American bonds are estimated to exceed the holdings of any other foreign country.

In addition to the dealings of the Dutch, much business reaches the Amsterdam market from outside sources, principally from France, Switzerland, and Belgium. This outside business is said to make up as much as 50% of the total security business transacted in Amsterdam. Even so, the Amsterdam market for American securities is very narrow compared with the markets of London and New York, and most big Dutch business in

American securities goes to those markets, London having the advantage over New York of being open when the Amsterdam market is open. London also offers the advantage over Amsterdam of lower costs and generally more liberal credit terms.

From this environment the stock exchange in Amsterdam has derived individual characteristics which bear directly on the volume of American securities traded thereon. In the first place, although theoretically under government control, the Amsterdam exchange actually practices self-regulation. It is run by a board of 15 directors, and is in fact an association of bankers, merchants, and brokers. The bankers play a leading role, since practically all of them are members of the exchange. The bulk of securities dealt in are bearer, and thus term settlements are unnecessary, settlement on the day following the transaction being the rule. This preference for bearer certificates together with difficulties arising from inheritance laws, and a desire to concentrate voting power in well-informed hands has resulted in the growth of a system of Administration offices, of which there are now something over 70. These offices have been organized by Dutch private banking houses to purchase sizeable blocks of foreign registered securities, principally American and British, and to have them

transferred to their names and shipped to them in Amsterdam for safekeeping. Bearer certificates for 10 shares each are issued against securities so held, are listed on the Amsterdam Stock Exchange, and to them are attached coupons for claiming dividends when and if declared on the securities represented, which meanwhile stand in the names of the Administration offices, and are voted by them. For their services the Administration offices receive sizeable fees, which has made them a profitable sideline of Dutch private banking. Partly for this reason, the bankers seek to expand this business from time to time by introducing new American issues to the Amsterdam exchange in bearer certificate form. If well received by the Dutch public, more shares are imported, while if not, the issue is bought up and withdrawn and the bearer certificate retired.

In general organization, the Amsterdam market is more like New York than London. There are some 800 brokers but no jobbers. Some of these brokers act as specialists. Generally speaking, Amsterdam brokers do not take much of a position for their own account. As in London, all the members of a firm must be members of the exchange. Corporations and their directors are admitted to membership, along with banks. Officially, the Amsterdam exchange is open from 1.30 to 2.45, but

dealings start unofficially about 10.30 A.M. and carry on to 4.00 or 5.00 P.M. There is no over-the-counter market and no dealings in any security unless it is listed, but any bank or broker can ask for a listing and, unless the company objects, the listing is usually permitted. American shares are more expensive to deal in than Dutch shares, and dealings in them on the Amsterdam exchange are more expensive than in either London or New York. Short selling is said not to be practiced to any great extent on the Amsterdam exchange, but it should not be inferred that the Dutch are averse to taking a short position on other exchanges. Nowadays most of the Dutch dealings in American securities are said to be in stocks, although as pointed out above, Dutch holdings of American bonds are estimated to be greater than those of any other foreign country.

Extent of Amsterdam Dealings
in American Securities:

As to the extent of dealings in American securities on the Amsterdam exchange, since there is a ticker but no recording of the volume of sales, it is again necessary to rely on estimates by experienced bankers and brokers. These estimates, while somewhat nearer agreement than those of the size of London dealings in American securities, offer no unanimity of

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opinion. The mean of these estimates is that on days of great activity, which usually reflect similar activity in New York or London, the turnover of American stocks in Amsterdam may reach 225,000 shares, made up in large part of dealings in such leaders as U.S. Steel, Shell Union Oil, Anaconda, and Cities Service. On such a day it is said that dealings in American shares will exceed those in Dutch shares, a statement borne out by the fact that slightly less than one-half the floor area of the Amsterdam exchange is habitually given over to dealings in American securities. Even so, the total volume of Dutch dealings in American securities greatly exceeds the volume dealt in on the Amsterdam exchange, for much of it goes to London and some of it goes directly to New York. Dutch speculative dealings in American securities are not thought to be as large now as before the World War. But at present Dutch capital is very abundant and mostly idle, and as a result it is turning more and more toward the United States and Canada in search both of profitable employment and of safety from political disturbances.

At the present time there are something like 280 American stocks and 115 American bonds listed on the Amsterdam exchange, and since there is no over-the-

counter market and only listed securities can be dealt in, this number presumably represents the maximum. That there is a lively and wide public interest in these and other American securities is evidenced by the fact that the New York closing prices of most of the active New York stocks are broadcast each night on the Dutch radio. A statement showing the total number of American shares registered in the names of the Dutch Administration offices would shed considerable light on the size of the floating supply of American securities that serves the Amsterdam market and constitutes the bulk of the American holdings of small Dutch investors. Such a statement has been recently prepared for the use of the Commercial Counselor of the Netherlands Legation in Washington, and it would doubtless be made available to the Commission if officially requested.

Zurich

To readily understand the position of the Swiss in relation to international security dealings, it is helpful to consider briefly their political and economic situation and some of their national characteristics. Switzerland is the oldest working democracy, having stood united for some 700 years. Although three-fourths of its population speak German and are German racially, and although Switzerland is a nation of

intense patriotism, it entirely lacks the aggressive nationalism that practically surrounds it. The keynote of its patriotism is defense, the Swiss apparently having believed for generations that it is not aggression that makes prosperity, but cooperation within and without. Following this belief they have virtually made a workshop of their entire country, accenting technical skill and using quality as a weapon against the quantity production of their neighbors. Having to import three-fourths of their food because of the character of their land, they have been faced for years with unfavorable trade balances, a situation that could only be met by sober hard work and by saving, which have become strong national traits. Thus the per capita wealth of Switzerland is very high, and with a population of 4,000,000 there are over 2,800,000 savings bank accounts in the country. In addition, the Swiss hold more insurance per capita than any other nation. The standard of living is unusually high, with little abject poverty, and conversely, with few really wealthy men. The higher bracket income taxes and inheritance taxes are lower than in the United States, The Swiss Government reflects the characteristics of its people. They distrust the concentration of power in the hands of one man, and thus the executive power is vested in a commission of seven, of which their

President is a member, ranking equally with the other six. The people govern themselves by initiative and by referendum, with a strong tendency toward decentralization and the entrusting of large powers to the states. The executive branch is subordinated to the legislative, and the work of the government is largely carried on by permanent officials who do not change with changing administrations.

Due to this political and economic situation, and to the character of its people, Switzerland has been recognized for many years as a refuge for foreign capital in flight from unfavorable economic conditions at home, from social legislation, excessive taxation, and political disturbances. As the largest and most active of the seven Swiss stock exchanges, the Zurich exchange owes much of its growth to this fact. It has long been the policy of the Swiss Government to keep Switzerland a safe haven for such capital, just as has also been the policy of the British Government with respect to London as a financial center, and of the Dutch with respect to Amsterdam. In each case, the result has been most beneficial to the various financial institutions involved. A basic principle of this policy is that banks and brokers in these countries are protected by law from disclosing either the identity of their customers

or any information whatsoever as to their holdings or transactions. In this respect Swiss laws are particularly stringent, making bankers liable for damages sustained by their clients in the event of such disclosures.

The result of harboring foreign funds under bank secrecy has been to place in the names of Swiss banks and their nominees in New York, London, and Amsterdam a portfolio of domestic and foreign investments the size of which is out of all proportion to the investment capacity of the Swiss people. To the outsider this makes the disentangling of what is really owned by the Swiss from that which is owned by other nationalities in Swiss names an impossible task, and due to nominee holdings it is not even possible to estimate accurately the total holdings involved. The total of Swiss holdings of American securities was estimated by Bacon at \$75,000,000 in 1899, although it probably considerably exceeded that figure both then and at various times during the earlier growth of the United States. Most early estimates did not attempt to segregate the Swiss holdings from those of other European countries, indicating both the difficulty involved and the fact that the early Swiss holdings apparently occupied a position fairly far down the list in point of size.

However, it appears that the Swiss were one of the few nations who were in a position to add to their holdings during the World War, and from such current figures as are available, their holdings have increased sharply in the past several years, although bankers in Zurich say that of the estimated Swiss holdings at the end of 1936, set forth above, less than half are actually for Swiss account. The principal trends in Swiss investments in American securities during the past several years have been toward common stocks, nominee holdings, short term credits and bank deposits, the latter being to some extent accumulated dividends and interest from American investments.

As regards the location, size, and activity of the Swiss markets for American securities, they have been influenced to a less degree by the size and type of the Swiss investment in the United States than have other European markets for American securities. This is thought to be due largely to the cosmopolitan character of the clientele of the Swiss banks, which has caused them to extend their operations to the world's financial centers and to buy foreign securities in centers where the biggest markets and the closest prices prevail. Of the Swiss exchanges, the Zurich Stock Exchange is unquestionably the most important.

The market for American securities there is said to be larger than that of Geneva and Basle combined. Even so, it can hardly be considered a market of much consequence for American securities, since until July 11, 1938 only Baltimore and Ohio and Pennsylvania Railroad stocks were dealt in on it. On that date Standard Oil of New Jersey, General Electric, Montgomery Ward, International Nickel, and Kennecott were listed, being added as well in Basle and in Geneva. These recent listings indicate that the Swiss market for American securities is growing. The fact is that it is being carefully expanded by the two principal banks of Switzerland, the Swiss Banking Corporation and the Credit Suisse. These two powerful banks, which have some 50,000 investment accounts each, and which with the other banks of Zurich completely control its stock market, are the sponsors for the five new American stocks. They import these stocks in their names, in units of one, ten, and twenty-five shares, and put them on the Zurich market, endorsed in blank. The motive behind these listings seems to be to bring the small Swiss speculator and investor more into the Swiss markets by creating thereon marketability for the leaders of the five groups of American stocks most favored in Switzerland. Also, to open possibilities for arbitrage, and to gain for the

banks the commissions which heretofore they have paid to brokers in the foreign markets whereon they have bought securities for their clients. The latter are charged the same commission for American stocks whether they are bought in New York or Zurich. These objectives seem likely to be realized, judging from the size of the Swiss interest in Baltimore and Ohio, which it is said causes these two banks to be the largest single stockholders in that company. The growth of trading in American stocks on the Swiss exchanges will probably be aided considerably by the fact that there exists in Switzerland, as in the Netherlands, an amount of idle capital greatly in excess of the needs of the country and quite beyond the capacity of Swiss securities to absorb it.

The difference in the organization of the various Swiss exchanges is not great, although they are all very different from Amsterdam, London, and New York. In Zurich there are neither brokers nor jobbers, but instead bank representatives, twenty-seven of whom deal in stocks and an equal number in bonds. Obviously, the Zurich securities business is in the hands of the banks, and the public does its business only through them. The affairs of the exchange are run by six directors. Its trading is conducted at the rails of

two circular enclosures, one for stocks and one for bonds. Since there are no brokers and no specialists, a government agent sits in the center of each enclosure, and calls off the names of the listed securities in alphabetical order, pausing over each long enough to permit such trading in it as the twenty-seven bank representatives at the rail have on their books. Obviously, these representatives are simply negotiators for their banks on behalf of the latter's clients. The exchange hours are from 12.00 Noon to 1.30 P.M., so that Zurich is open when Amsterdam and London are open. Three times as many bonds are listed as stocks, there being something like 425 of the former and 125 of the latter. It is estimated that 60% of the Zurich stock turnover is for investment, 20% to 30% for speculation, and the rest in-and-out trading. Most securities are bought outright and the banks discourage buying on margin, but if shares are bought on margin, the rate is usually 25%. There are no restrictions on short selling, although the Swiss are not given to it, and borrowing stocks is fairly easy. Settlement periods are for a maximum of six weeks, but in practice 70% to 80% of all stock transactions are for cash, while all bond transactions are for cash. As regards the buying on the Zurich exchange for the account of the Swiss themselves, it is

estimated that from 80% to 90% of it is for investment account, which reflects a trait of Swiss character.

Extent of Zurich Dealings
in American Securities:

No accurate information on the volume of transactions in American stocks on the Zurich exchange is available, because the ticker does not print volume of sales, and none is recorded elsewhere. It is said that one reason for this is that all trading is in the hands of the banks, who are not willing to disclose to each other what business each has done. Thus, again, estimates were sought and sifted. From them it appears that on an active day there might be a turnover of 5000 shares of Baltimore and Ohio and 2000 shares of Pennsylvania. The five new stocks are still untried, but if interest in them grows as expected, it is thought that their volume might average 3500 shares each, which would make a total turnover of 25,000 American shares on a very active day on the Zurich exchange. In making these estimates, it was said in Zurich that the majority of big orders for American securities still go to New York for execution, where most of the big accounts holding American securities are carried, in the names of nominees of American banks. This statement is borne out by the large Swiss deposits and the heavy security

transactions for Swiss account reported by American banks and brokers in recent United States Treasury Department statistics. Much business in American securities also goes to London and a smaller amount goes to Amsterdam. Of the business going to New York, about a half is said to go via the Paris branches of American brokerage houses. There are two American branch brokerage offices in Geneva, although there are none in Zurich. On the whole, Swiss dealings in American securities are said to be only 20% for Swiss account, the rest being for the account of foreigners, mostly French and other Europeans. Holdings of American securities for the account of the Swiss themselves are said to vary from "widows and orphans" funds, almost all of which are in Swiss securities, to holdings of active people of wealth, of which American stocks may make up as much as 50%. Swiss banks are generally said to seek to divide their risks by carrying something like 20% of their portfolio in American issues. Foreigners like the French, for example, who deal largely through the Swiss banks, are said to be in the habit of having approximately 25% of their portfolios in American securities, besides keeping a substantial part of their liquid funds in New York.

Paris

The importance of Paris as a center of interest in American securities, as a point of origin of dealings therein, and as a center of ownership thereof far outweighs the importance of the Paris Stock Exchange as a foreign market for American securities. Like the British and the Dutch, the French were early investors in the United States and their loans to the colonies played an important part in establishing the nation. But the French Government's political policy turned the savings of the French people toward loans to other European countries during the period of greatest growth in the United States. Thus early French investments in American railroads, for example, were negligible, and in general the American investments of France fell far behind those of England, Germany, and the Netherlands. At the outbreak of the World War France is estimated to have had \$390,000,000 invested in the United States. During the War this investment suffered heavy liquidation and sustained severe losses, being reduced approximately 70% by 1919. Since the War the French investment has almost regained its pre-war size, having increased rapidly in 1935 and 1936, and more slowly in 1937. This increase has undoubtedly been due in part to the flight of capital from France, which

is said to have started with the Blum regime of near-socialism and to have continued through the several devaluations of the franc that have occurred since. All the elements that make capital seek refuge in countries such as Switzerland and England have operated to drive French capital from France, and a great deal of it has found its way through these countries and through Holland and Belgium into American industry and American dollars. High taxes and the fear of further currency devaluations, social reforms, confiscation, and of the outbreak of war effectively prevent it from returning. Not only has this situation directly affected the size of the French investment in American securities, and particularly the indirect investments via other countries, but it has given it a characteristic nervousness and volatility that makes the French holdings of dollar balances greater in proportion to French holdings of American securities than is the case with the other large foreign holders of American securities.

Aside from the state of the French currency, and the flight of French capital from it, a real depression exists in France. All indices of trade, business, and industry are at very low figures, and although unemployment is currently reported to be only about 350,000, the hours that are worked by the employed



are relatively few. Financial people in Paris point to the fact that since 1929 the index of Government expenditures has risen from 100 to 131, while that of industrial production has declined to 70. The general impression prevails among them that until the Premier is prepared to tell the political element that the budget must be balanced, capital will not return to the country, and that until it does so, flowing back into French industry, no end to the country's difficulties can be brought about. In some quarters abroad it is felt that an unbalanced budget, while it is France's central financial problem, is only a symptom of the main trouble, which is that for some time the country has been experimenting with a type of legislation which, while humanitarian in purpose, has had the economic effect of raising the prices and the cost of production, thus reducing the rewards of capital investment, while at the same time raising the cost of government, further unbalancing the budget, unstabilizing the currency, and thereby threatening capital's safety. Many informed foreigners feel that no country, unless it is of the authoritarian type, can prevent the flight of capital under such circumstances.

At present the Paris Stock Exchange is unusually quiet and unimportant from an international viewpoint because of the factors cited above, but it is

never a market of real significance outside of France, or for American securities. This is due largely to its position as a government monopoly, to the fact that it has long been the policy of the government to put bonds directly to the people through the banks at a high rate of commission, and to heavy taxation on security transactions. For years the more stringent have been the efforts of the French fisc to get information from its citizens on their security transactions and capital and income in general, the larger the number of accounts opened in countries where banking secrecy prevails.

The Paris exchange had its beginning in 1138 among a group of money changers. It operated vicariously for many years, occupying successively a position on one of the Seine bridges, the courtyard of the Palace of Justice, and the wheat market. Government control began in 1705. The market was closed for a time during the French Revolution, and reopened to occupy a part of the Louvre, finally coming to rest in its present building in 1826. Parenthetically, it may be said that parts of the present market seem to retain many characteristics derived from its early "catch-as-catch-can" existence. The exchange may be divided into two principal parts, and a third part of less importance, all three related but functioning separately.

The two principal parts are the official market and the market on the veranda and steps of the exchange building, which somewhat corresponds to the New York Curb. The third part is the outside or over-the-counter market.

The official market is closely regulated by the Government, which appoints the 70 brokers who operate it. This appointment has become a property right and is hereditary. There is a voluntary mutual guarantee of solvency among these brokers, who are represented and governed by a board of eight members whose powers over the brokers are great, and whose functions are principally to exert discipline and to settle disputes. Each broker is allowed six clerks, who can negotiate on the exchange just as he can. But, although these official brokers have an absolute monopoly on dealings in the 2500 or so listed securities, they cannot engage in any other business nor can they deal in securities other than listed securities, nor can they deal in these for their own account or give investment advice to clients. They regularly split commissions with the banks and with a recognized group of "go-betweens" who dispense tips and news concerning stocks and bring in business. The official market is open from 12.30 P.M. to 2.30 P.M. each day, and the French public, excepting women, is freely admitted to the exchange and to dealings

thereon. A ticker system gives prices and sporting news, but no volume sales. Listed securities, most of which are bearer, are divided into two main classes: those dealt in for cash, and those dealt in for future account, and on each type of transaction commissions and taxes are heavy. Although only about 80 issues are listed officially for future trading, operations of this type are the more important since they lend themselves more readily to speculation, and permit firm purchases in large volume without forcing prices up. Future transactions in turn are divided into two classes: firm and optional. For future transactions there are two settlement periods a month, and carry-overs can be arranged in much the same manner as in the case of the London contango. Options are dealt in more extensively in Paris than on most stock exchanges, and the future market permits great latitude both in short selling and in margin arrangements.

The curb market was developed to handle the increasing number of stocks not admitted to the list of the official market and there is no limit either as to the number of curb brokers or as to the number of securities on that market, but curb brokers cannot deal in any stock quoted on the official market. They can, however, act as both broker and dealer, can give

their clients investment advice, and in fact are subject to very little regulation other than that which they impose on themselves. Fewer restrictions, more liberal margin requirements, and greater freedom generally have combined to create a larger volume of business on the curb than on the official market. Future settlements on the curb take place at the end of the month only.

The third section of the Paris market, the outside or over-the-counter market, is largely in the hands of the curb brokers, and provides a means of dealing in securities between the time of their issue and their admission to one of the other two markets. It is also a market for the stocks of small companies which are not traded in extensively. This market grew rapidly after the War, and in 1929 its activities called the Government's attention to a need for some sort of regulation and supervision for the general protection of investors. As a result the outside market now has space of its own in the colonnade of the stock exchange, and is subject in a general way to the same sort of private regulations as govern the curb.

Trading in the Paris markets has quite a different character from that in London and New York, due largely to the greater relative importance of Government loans and the national debt as compared with corporate

securities. Large stock corporations with wide public distribution of their securities are relatively few in France, due to the fact that industry and commerce are still organized very much on family lines with closely concentrated family ownership. Thus there exists a relatively small supply of French corporate securities to be traded on the Paris exchanges. This situation has given rise to efforts to introduce American and other foreign securities, but with the exception of Canadian Pacific, for which there is a larger market in Paris than anywhere else in Europe, there are few foreign securities dealt in. One reason may be that in addition to high costs and heavy taxes on security transactions and financial enterprise in general, the French Government taxes income from foreign securities something over 30%. Therefore, the French resort to concealing their ownership of foreign securities, which would hardly be possible if they were purchased on the Paris exchange. The last official effort by French brokers to introduce American securities was made in 1931, but the opposition of the French Treasury caused it to be abandoned. Since then France has been constantly in more or less of a state of crisis, and the time has not been thought ripe for further efforts. Recently a group of French, Swiss, and English bankers have seen what

they apparently feel is an opportunity to replace the extensive interest of the French public in commodity dealings, speculation in which has now been curbed, with an interest in American securities in bearer certificate form, and to this end are planning an organization similar to the Dutch Administration offices for the importation and general distribution of leading American shares. Paris opinion is divided as to whether the French public will respond by buying in any great volume.

As things stand, most French business in American securities, although much of it originates in Paris, is executed in London or New York, just as most of the American holdings of the French are in Swiss, Dutch, English, and American banks. It is difficult to say whether more of this business reaches London than New York, but it is thought that London derives a definite advantage from its greater freedom in the matter of margins, short sales, and term settlements, and also from the tax of 2 per mill on the total consideration of security transactions consummated in France, since orders may be telephoned to London, whereas cables to New York create a record of transactions on the basis of which the tax may be assessed. The question as to whether or not this tax applies to orders

given to Paris representatives of American brokerage houses for execution in New York is currently being litigated, and in the meantime the tax is not being paid on them. It is said that the sixteen or seventeen representatives of American brokerage houses in Paris do not do directly as much as one-tenth of the total French business in American securities, since the main part of it goes through Swiss, Dutch, and English banks, who deal in New York, London, or Amsterdam. As to the business that is done by these American branch offices, their books are reported to show very few accounts of individual French customers, as compared with the names of banks, since almost all French security owners keep their securities with banks.

Extent of Paris Dealings
in American Securities:

As has been indicated above, dealings in American securities on the Paris exchange are practically non-existent. Nevertheless, Paris has real importance as a center of interest in American securities and of beneficial ownership thereof, and as a place of origin of dealing therein, which is why so much space has been given to outlining its characteristics. This importance is considerably magnified by such a lack of volume as existed in the New York market early this spring. At such

times, the concerted action of a group of wealthy Continental market operators (who are said to deal through the Paris offices of several American firms and thus simultaneously receive the same advice and act at the same time) may produce an effect on a thin New York market out of all proportion to the size and real importance of such dealings. Although buying of American securities by the French public is said to have decreased considerably in recent months because of uncertainty of United States Government policies and distrust of the dollar, the activity of this group of big foreign operators in Paris is thought to have been considerable in the same period of time.

P A R T III

FOREIGN DEALINGS BY AMERICANS

IN AMERICAN SECURITIES

The subject of dealings by Americans who normally reside in the United States but who carry on their transactions in American securities on foreign markets obviously is one into a discussion of which those who are the best informed are also the most reluctant to enter. In this matter, therefore, more than in any other covered by this report, it was necessary to rely

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on the gathering and careful sifting of impressions, since to ascertain the facts would have required the use of methods beyond the province of this report. Impressions on this subject were sought not only in London, Amsterdam, Zurich,, and Paris, but in Brussels, Luxembourg, Basle, Glarus, and in a number of other places as well. By comparing these impressions, by checking them in such quarters as were available, and by seeking to separate fact from hearsay, it was possible to draw from them conclusions in which it is felt that a certain amount of confidence is justified. These conclusions relate particularly to the extent, location, and origin of foreign dealings by Americans, to the motives that prompt them, and to the methods and agencies employed. In reaching these conclusions, it was necessary first to consider the broader subject of the general increase in dealings in American securities on foreign markets in the past several years and the extent to which this increase has been at the expense of the New York market.

As has been indicated above, London and Amsterdam have by far the most important European stock markets for American securities, and London is much more important in this respect than Amsterdam. Moreover, it is quite clear that there has been a sharp increase

in total dealings in American securities on both these markets, and particularly in London, during the past several years, although these dealings are not yet as large as they were before the War. It is also clear that although much of this increase has been due to growing foreign interest in American securities, a substantial part of it has been at the expense of the New York stock market. The latter market has not only lost some of the foreign business that was formerly executed there but also a certain amount of American business that has gone abroad. In each case the main cause seems to be that at times markets offering greater volume at closer prices exist abroad in certain leading American securities than exist in New York. This, in turn, is generally attributed by foreigners directly to the regulations and restrictions that have been imposed on the New York market. From these an unfortunate chain of cause and effect is thought to arise, wherein the smaller the volume on the New York market becomes and the more vulnerable it is to selling and volatile to buying, the greater becomes the spread between bid and asked and the more large transactions in leading shares are drawn to London, so that in time even Americans are led to negotiate their big blocks of stocks there because they feel that they can do so on better terms than in New York.

- Although the main reason for the diversion by foreigners of their American security business to London and Amsterdam appears to be that at times markets of greater volume and offering closer prices exist there in certain leading securities, other factors enter the picture. Lower margin requirements undoubtedly favor both London and Amsterdam. Banks receive a split of brokers' commissions there, and much European business is in the hands of banks. Some large investment trusts also receive a split of commissions in London. The fortnightly settlement in London undoubtedly attracts the foreign speculator. The London and Amsterdam markets open first, and are open during the European's business hours. Threats of the imposition of a capital gains tax on foreign dealings in the United States, and of higher withholding rates on income paid to foreigners have undoubtedly increased dealings in London and Amsterdam and have produced a reluctance on the part of certain foreigners to do business with any agency or in any market that would involve the likelihood of having to fill in forms or answer questions from the U.S. Bureau of Internal Revenue. This leads to the frequent specification of a London contract in American security dealings, which means a transaction consummated in London between a London broker and jobber. U.S. Federal and State Transfer taxes are

avoided by dealing in London and Amsterdam. Bank secrecy prevails in each place. Although most of these considerations apply to both markets, the London market attracts much more of the European business in American securities than does Amsterdam, because it is bigger and more liquid, more liberal in terms, and less costly in taxes and commissions.

With this broad picture in mind, it is perhaps easier to gain a proper perspective of the extent to which Americans have transferred their security business from New York to foreign markets, and where these activities take place.

Extent, Location, and
Origin of Dealings:

Although it is not possible to determine in figures the extent to which Americans deal in American securities abroad, sufficient evidence exists in the form of well-founded opinion to shed considerable light on the subject, as well as on the location and origin of such dealings. From this it seems quite clear that most of these dealings take place in London. It seems equally clear that in the past several years there has been much more talk about them than there have been actual dealings. Also, that such dealings as go on are occasional rather than a matter of continued policy. Also,

that they are due much more to the existence at times in London of a market offering greater volume at closer prices in certain leading American securities, than they are to a desire on the part of individuals to avoid regulations and taxes. It is further believed that such operations as are prompted by the latter motives are almost entirely confined to a few wealthy men who are accustomed to undertake international operations on a large scale.

These are the high spots. In between are a number of facts that collectively are important. As to where Americans deal in American securities when they go out of their own country, some estimates indicate that as much as 90% of such dealings are in London. Certainly, the great majority are carried on there. The reasons for this are in many cases the same as those referred to above, which lead foreigners to do their American security business in London rather than in New York. In addition, London offers Americans certain particular advantages, under conditions that have existed during the past several years. The attraction of a bigger market at times has been referred to. Short selling can proceed via London brokers without restraint, as will be explained below. Syndicate operations can apparently now be carried on more readily in London than

in New York. Bank secrecy is such that British banks will only reveal a customer's name or disclose his affairs on a court order, or for the public welfare, or in the interest of the bank, circumstances unlikely to arise in the case of an American citizen. No information returns are made to United States authorities. London margins are liberal, and term settlements prevail, which offer the operator attractive opportunities. Costs are lower on transactions consummated within one or two account periods, and on low priced securities and on odd lots. U.S. Federal and State Transfer taxes are not involved, on transactions consummated in London. The London market opens five hours ahead of New York, which affords opportunities to act promptly on news received after the New York market closes. Under these conditions it is perhaps surprising that the American business that leaves New York for London is confined so largely to professional investors whose job it is to buy and sell in the best markets, and to a few big operators and rich men of international viewpoint. This would almost certainly not be the case if the average American investor were anything like as cosmopolitan as the European of similar status. But apparently the average American prefers to invest through channels and by methods with which he is familiar, rather than risk the

added complications of trading in a foreign market. This attitude seems even to have influenced the few Americans who do trade abroad, for the European who deals outside his country exhibits a much greater degree of resourcefulness and diversification in the methods that he employs.

As to the extent of this business, so much of it is done in London that conclusions based on the London part of it can be applied to the whole. It seems clear that during 1936 and 1937 there were periods when American short selling of American securities via London was extensive. At such times a number of big blocks of stock are thought to have been negotiated there. The operations of American controlled syndicates are also said to have centered in London in response to tempting situations which could best be taken advantage of there. But by and large these operations are universally thought in London to be occasional rather than steady, never to have averaged very much in volume over any period of time, and to be a much small part than is generally supposed of the general movement of business in American securities toward London in response to the existence there at times of a market offering greater volume at closer prices in certain leading securities than obtains in New York.

Amsterdam is next in importance to London in American dealings, but Amsterdam is not used nearly as much as might be thought. There are a number of reasons for this. The language is different, and commissions and taxes are higher. Cash settlements prevail, and the advantage of Dutch bearer certificates in concealing identity is somewhat offset by their cost. Quotations are difficult to follow, being on the basis of the old guilder parity of 2.5 to the dollar. Margin terms on American stocks are not as liberal as elsewhere. The Amsterdam market is not always active, and execution is not according to American standards. American stock is relatively difficult to borrow because it is used by the Dutch for their own arbitrage operations. Finally, the political situation of the Continent keeps certain types of business away. Many of these factors directly favor London, with the result that little American business goes to Amsterdam since London is the logical choice. The bulk of the Amsterdam business in American securities is thus for the account of the Dutch and for foreigners, except in Shell Union Oil, in which at times a market exists in Amsterdam that is supposed to attract a certain amount of American business. Holland is said to harbor a few American holding companies, but both in number and size they are

thought to be unimportant. The dozen or so branch offices or representatives of American brokerage houses in Amsterdam serve principally to replace the old joint brokerage accounts. By dealing with them the Dutch can save cable charges, and they are only permitted to deal with Amsterdam banks and brokers.

Brussels is not thought to be the seat of any American transactions in American securities, nor are such transactions carried on elsewhere in Belgium. The Brussels exchange has no significance outside of Belgium. The only American stock traded in there is Canadian Pacific. Only one American brokerage house has a branch office there, and most Belgians deal in American securities through banks on the markets of London and New York, although Amsterdam is said to be gaining Belgian business because of the Dutch bearer certificates.

Luxembourg's significance in the field of international securities arises from its extensive use as a domicile for holding companies by wealthy British and Europeans who seek to capitalize their incomes, since there are no capital gains taxes abroad. Its taxes are low and its laws covering incorporation are very liberal. But its use by Americans is said to be negligible, and its use by Europeans is declining due

to its position between France and Germany. However, the amount of wealth behind its foreign holding companies is such that at times substantial amounts of American securities are located in Luxembourg, although the beneficial ownership rests elsewhere. Most of the transactions in these securities are said to go through Swiss, British, and Dutch banks.

Switzerland has an importance in the field of American security ownership out of all proportion to the size of its markets for American securities, because being a refuge for foreign capital, there rests in Swiss hands a volume of American securities far beyond what the Swiss themselves own. Nevertheless, although the secrecy of Swiss banks is proverbial, Swiss taxes are low, and Swiss joint accounts and business trusts (to be referred to below) have unique and appealing features for the tax evader, the number of Americans who have such accounts with Swiss banks is thought to be small, while the number of trading accounts is considered negligible. Some wealthy Americans who live in Europe and thus face the problem of its political instability undoubtedly keep their investments with Swiss banks, but American accounts in Switzerland are a fraction of those of other nationalities. Swiss bankers are said still to deal in American securities mostly with New York.

After New York, they deal with London and to a smaller extent with Amsterdam. There are reported to be fewer holding companies in Switzerland than in Luxembourg and Lichtenstein, because Swiss taxes on them are higher. Glarus is the principal place for them, but practically none are owned by Americans.

Lichtenstein is an isolated tax island with entirely liberal incorporation laws. In recent years it has enjoyed great popularity with the French and British as a place for the domiciling of holding companies. But as political tension in Europe has increased, the vulnerability of Lichtenstein's position in relation to Germany has caused it to be less and less favored. Apparently Americans have never used it to any appreciable extent.

Paris is a center of interest in American securities and of much beneficial ownership thereof, but Americans do not often deal in American securities through Paris. It has nothing to offer as a market, and other agencies are better if an indirect method of dealing is sought. London is direct, inviting, and safe, while Switzerland offers invulnerable indirect arrangements, and even Amsterdam would be a more logical place for such dealings than Paris. Dealing through Paris agencies would be both cumbersome and expensive,

and securities held there would be in danger of heavy French taxation. French banks are suspicious, which would make such arrangements difficult, and French brokers as a group do not inspire confidence. The business of wealthy Americans residing in France is undoubtedly handled in part through Paris agencies, but English brokers actively solicit Paris business in American securities, particularly short selling, and much of it is thought to go to them.

- Canada was so frequently mentioned by those whose impressions were sought on American dealings abroad, and its popularity for similar purposes is apparently growing so fast among Europeans that although it does not fall within the scope of this report, it deserves mention. The impression prevails quite widely in European financial centers that, whereas most security transactions carried on by Americans outside their own country are done in London, Canada is next in importance both for trading and as a seat of holding company operations, investment accounts, and such activities. Although this impression has not been verified, its prevalence and the sources from which it was received give it some claim to attention.

Motives:

Most Americans who do their business in American securities abroad seem to be prompted by one of three main motives, namely, to deal on the market offering the greatest volume and closest prices, or to avoid regulations, or to evade taxes. The consensus of foreign opinion, based on experience with such American business, is that the relative strength and importance of these motives is in the order named, with a wide gap between the first two and the last. The desire to deal on the best available market for American securities is too logical and obvious to require further comment. It is a particularly compelling factor with professional investors who must deal in large blocks of securities. The existence at times of a better market in London than in New York has been dwelt on at length above. A substantial business has gone abroad on this account.

The desire to avoid regulations, restrictions, and controls in general is also a natural one, particularly in light of the American temperament. Specifically, the restrictions that are thought to drive most American business abroad, in order of their relative importance, are those against short selling, those governing margin accounts, those against syndicate operations, and those against dealings by insiders. Much blame is also laid

on the general multiplication of forms, questionnaires, policing activities, and the threat of legal actions. Supplementing a desire to avoid these things is the attraction of the London term settlement, of the general freedom and liquidity of the London market, and of being able to deal there without having the New York market know of one's dealings.

Tax evasion as a motive for the removal of American security business to foreign markets is thought by foreigners to be relatively unimportant. Foreign bank secrecy and the fact that foreign financial agents make no information returns to United States authorities opens doors to the evasion of income and capital gains taxes which make it easy and sure. Nevertheless, the general impression prevails that except for a few internationally-minded rich men, and for a certain type of big market operator fortunately not numerous, the number of Americans who do business abroad to evade taxes is entirely insignificant. It is thought to be as nothing compared with the number of foreign tax evaders, and the reason is believed to lie in the efficiency with which the United States Treasury Department collects taxes, and in the fear of the consequences of unsuccessful attempts at evasion.

Methods and Agencies Employed:

The three main methods used by Americans who deal abroad are to deal direct with London financial agencies, or with continental banks, or through foreign holding companies. Since the large majority of foreign transactions by Americans are carried on in London, and since so much of the business that goes there does so to take advantage of a better market than exists at times in New York, it is perhaps natural that the most used method is to deal directly with a London bank or broker. As it happens, this simple and direct method is also the most effective and the most used when the purpose is to avoid regulations or taxes, in which case one of the smaller and more flexible British banks or merchant banking houses would probably be selected. This method has everything in its favor, and only a few of the most cautious seek the more devious and also more costly methods that are available. The customary procedure in establishing a channel for such dealings in London is to present a careful letter of introduction and to open an account, to establish credit and margin arrangements and then to cable or write orders to London. In so doing, it is usual to specify a London contract, which causes the business to be consummated between a London broker and jobber, keeping it entirely off American

records and saving American brokerage commissions and costs and American transfer taxes as well. Sometimes the interposition of the London agent is felt to be sufficient protection to warrant permitting him to deal at his discretion either with a London jobber or with a branch office of an American brokerage house, whichever makes the better price. This the American branch office can occasionally do, for it makes its income from commissions, whereas the jobber must live from his "turn" on profit. In active times, however, and in leading stocks the jobber almost always has the advantage, for he reflects the advantage that the London market has over New York. There are thirty or so branches of American brokerage houses in London, and since they are subject to the same rules and regulations as their head offices in New York (many foreigners regarding them simply as adjunct to the Treasury Department and the SEC), much wonder is expressed abroad as to how they can survive in competition with London houses not subject to such regulation. The impression exists almost universally that these offices are maintained for reasons of international prestige and international contact, and that they are non-remunerative. Apparently, their business comes mostly from investment trusts, insurance companies, English and European banks and brokers, and from such individuals

as do not mind being on American records. It is most unlikely that the American avoider of either market regulations or taxes would use them directly. Nor does the demand for American stocks in London greatly exceed the large floating supply available there, which makes drawing on New York the exception rather than the rule.

Having bought American stock either through a jobber or an American branch office, the London agent might be instructed to keep it in London or in New York. It would make little difference because in New York the stock would probably come to rest in the name of a bank nominee entirely unaware of its real ownership. The dividends would be paid to London, 10% being withheld for the Federal tax.

If the order to the London agent were to sell American stock, he would undoubtedly use London facilities and not an American branch, if the sale were short. In London a sale can proceed with equal facility whether it is long or short. The English bank or broker simply sells the stock to a jobber dealing in it, who in turn sells it as long stock either in London or New York. So far as he is concerned he is long of it, nor does any London seller have to disclose what kind of sale he has made until settlement day, which may be as much

as fourteen days later. The only hitch to short selling in London is the difficulty that is encountered at times in borrowing stock. A big short position in the London market may make stock for borrowing very scarce because so much English buying is for investment and the stock is put away. Also, stock is usually carried with banks, who are not disposed to urge customers to loan it because the return is not a sufficient inducement.

Next to the direct method of dealing with an English bank or broker, which is by far the most widely used, comes the use of an international bank such as one of the Dutch or Swiss banks. Both the Dutch and the Swiss banks offer numbered accounts, in which only the manager knows the owner's name. Brokers are apparently seldom used outside of London. The Dutch banks undoubtedly receive some of this type of business notwithstanding the cost involved, but the Swiss banks draw from Swiss laws the advantage of being able to offer other expedient arrangements such as joint accounts and business trusts. Under Swiss law the former can be created subject to a power of attorney good after death. Thus a man may create such a joint account with his wife, son, or whomsoever he plans to leave his property to, putting cash or American securities in it, and paying

no further taxes of any kind, if he is so minded, except the 10% withheld at source on income paid to the Swiss bank. In the meantime, if he wishes, his securities may be kept in New York in the name of an American bank nominee, and dealings in them may proceed there as usual. Or, if the London market becomes more attractive or short selling promises a reward, dealings in London can be arranged through the Swiss bank's London branch or representative. A business trust is an arrangement whereby a bank engages another bank or fiduciary agent to create a trust for its client. Between the two banks trustees are appointed who have control of the funds in trust and pay the income to the beneficiary who, although actually the maker of the trust, appears on the trustee bank's records only as the beneficiary. His plans for disposing of the body of the trust at the time of his death can be incorporated in the terms of the trust.

It is thought abroad that schemes like these two and scores of others more complicated and less expedient for Americans are devised for the most part by accountants and lawyers, whose services are usually needed to set them up. This is particularly true of holding companies, which are the third principal method used by such Americans as carry on foreign dealings.

Holding companies are too common in the United States and the purposes for which they are formed are too familiar to require comment. Foreign holding companies are usually located where the law governing incorporation gives them the greatest latitude of operation and requires the least disclosure of beneficial ownership and control. Among the places most favored at present by foreigners are the Channel Islands, the Isles of Guernsey, Jersey, and Wight, Holland, Switzerland, England, Monte Carlo, Tangiers, Palestine, and Calcutta. Also, Prince Edward Island, Newfoundland, Canada, Bermuda, the Bahamas, and Panama. The latter places are thought to be much more often used by Americans than those more remote from the United States, but Americans are thought to use such holding companies very infrequently as compared with foreigners.

Most American holding companies in Europe seem to be there to further American corporate activities and to comply with foreign laws and regulations governing such activities, rather than for such purposes as the avoidance of American market regulations or taxes.

P A R T IV

SUMMARY

At the outset of this report its purpose was stated as being to indicate where, how, and to what extent American securities are dealt in and held in England and Europe, both by foreigners and by Americans who use foreign facilities.

What has been set forth above may be summarized by saying first, that no foreign estimates of the foreign investment in the United States are available, but that informed foreigners generally agree that the Department of Commerce and Treasury Department estimates cited herein are as accurate as circumstances will permit.

It is a matter of record that the growth and development of the United States was largely financed by foreign funds. Thus, up to the World War the United States was a debtor nation, indebted principally to England, Germany, the Netherlands, and France.

During the War, America's foreign creditors liquidated approximately \$4,225,000,000 of their long term American investments, while the United States increased its loans and investments abroad substantially,

so that it emerged from the war a creditor nation.

Since the War, long term foreign investments in the United States have steadily increased, a trend that is continuing at present, although it is estimated that the total is still substantially below the pre-war total. From the outline of the growth of the foreign investment in the United States set forth herein, it is clear that most of it was acquired before the depression, and that a substantial part of it was acquired before the War.

Foreign short term credits have more than tripled since 1914, indicating that safety rather than profit is an increasingly strong motive in the movement of European funds. Since 1914 America's investments abroad have increased more than three-fold and are now over half again as large as the foreign investment in America, while income from America's foreign investments is more than twice as large as that paid to foreigners on their American securities.

The principal trends followed by long term foreign investors in recent years have been away from American bonds and preferred stocks toward common stocks, and away from direct holdings toward nominee holdings, indicating that foreign holdings are becoming increasingly volatile, an impression borne out by the strong

movement in recent years of foreign funds to the United States for deposit, a movement apparently led by Swiss funds.

England still has the largest foreign investment in American securities, but Canada now stands second, where Germany formerly stood, while the Swiss investment, which is fourth in size, seems to be growing faster than that of any other European country. Among all foreign-owned American securities common stocks are the prevailing type, but it is estimated that at the end of 1937 only 4.08% of the outstanding common stocks of such of the large American corporations as had foreign-owned shares was owned abroad, both by foreigners and by non-resident Americans combined, while for such smaller corporations as had foreign-owned stock, the figure was only something like 1/2 of one percent.

The main factor influencing the growth of foreign markets for American securities has been the relative interest of various foreign countries in them, tempered by their political and economic stability. Thus London is by far the most important of such markets. Amsterdam is next, and beyond these two there are no others of real importance in Europe, although some dealings go on in Switzerland, which holds much foreign capital invested in American securities. No

dealings in American securities take place on the Paris exchange, but much interest in and beneficial ownership of them is centered in France.

Certain significant features are common to these foreign markets. They are all except London under some form of government control. Term settlements are available on all of them. Listing requirements are broad. Banks play a very important role and either receive a split of brokers' commissions or act as brokers themselves. Branch banking is widespread but of branch brokerage offices there are very few. Option dealings are general. Mechanical facilities and particularly ticker systems are limited, and do not quote volume of sales.

Dealings in American securities in London were much larger before the War than now, reflecting English holdings that were then more than twice as large. While the present volume cannot be determined with any accuracy, experienced estimates indicate that it varies from 20,000 shares on an inactive day to as high as 500,000 shares on a day of great activity. It is further thought that whereas any American security listed on an American exchange can be traded on the London exchange and although London newspaper market quotations have indicated that the British public may be

Interested in as many as 350 American issues, there is seldom a time when more than 80 to 100 are actively dealt in.

The volume of American securities dealt in on the Amsterdam exchange is estimated to occasionally reach 225,000 shares, a figure which would exceed the total of Dutch shares dealt in on such a day. The activity of the Dutch public's interest in American securities is indicated by nightly Dutch radio broadcasts of the New York closing prices of most leading American stocks, of which the number listed on the Amsterdam exchange is something like 280, together with some 115 American bonds.

Dealings in American stocks in Switzerland are concentrated in Zurich, Geneva, and Basle. Dealings on the Zurich exchange are as large as on the other two combined. In Zurich seven American stocks are listed, and it is estimated that dealings in them may reach 25,000 shares on an active day. The big Swiss business in American securities is done in New York and London.

Paris has no market in American securities worth mentioning, but heavy French ownership of them in other names and large operations in them originating in Paris give it a real importance, particularly when the New York market is thin. At such times the dealings

of a group of big continental operators, who are said to deal through Paris, are magnified out of all proportion to their real significance.

It is estimated in reliable quarters that the rapid growth of dealings in American securities on foreign markets in the past several years has been accompanied by the loss of a substantial amount of business by the New York market, both foreign business that was formerly done there and American business that has gone abroad. This situation is believed to be due largely to the existence of markets abroad which at times offer closer prices and greater volume than obtain in New York. This in turn is believed to be due to the effect of regulations and restrictions on the New York market.

It is generally felt that there has been much more talk about Americans doing their security business abroad than the size of such dealings justifies. Most of this business is thought to be done by professional investors whose job it is to find the market offering the most advantageous terms, and by a few wealthy men and big operators. Its nature is occasional rather than continual, and it is thought to be due more to better markets abroad than to a desire by Americans to avoid regulations or taxes.

By far the greater part of such dealings are carried on in London, directly through British banks and brokers. The next most popular method is the use of continental banks, principally Dutch and Swiss, although dealings through Canada, which was not within the scope of this report, were also frequently mentioned. European holding companies are not used extensively by Americans, nor is it thought that they engage in anything like as much of this general type of activity as do foreigners.

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This report has presented facts and impressions bearing on foreign dealings in American securities, as was requested. Although conclusions and recommendations may be reached from it, they do not fall within its assigned province.

A handwritten signature in dark ink, appearing to read "Alfred R. Mansfield". The signature is written in a cursive style with some flourishes, particularly a large loop at the end of the name.

SOURCES

The information and impressions on which this report is based were gathered for the most part from conferences with the following, or their representatives:

London-

Fifteen firms of brokers.

Eight firms of jobbers.

Seven branch offices of American brokerage firms.

Six branch offices of American banks.

Three British banks.

Seven private banking firms.

Four London offices of Continental banks.

Three Investment Trusts.

Six professional economists.

Seven financial writers for London papers.

Three lawyers.

Officials of the Stock Exchange.

Officials of the British Inland Revenue Service.

Members of the American foreign service and individuals.

Amsterdam -

Two firms of brokers.

Five Dutch banks.

Five Dutch private banking firms.

Five Administration offices.

Editors of the leading Dutch financial papers.

Two branch offices of American brokerage firms.

Two lawyers.

Officials of the Stock Exchange.

Members of the American foreign service and private investors.

Brussels -

One Belgian bank.

Two branch offices of American banks.

One lawyer.

Members of the American foreign service.

Luxembourg -

Members of the American foreign service, bankers and officials of the Duchy.

Basle -

Officials of the Bank of International Settlements.

Two Swiss banks.

One American banking agency.

Members of the American foreign service.

Zurich -

Four Swiss banks.
Two Swiss private banking firms.
One American banking agency.
One lawyer.
Officials of the Stock Exchange.
Members of the American foreign service.

Paris -

Two French banks.
Three French private banking firms.
One firm of brokers.
Three branch offices of American banks.
Two branch offices of American brokerage houses.
Two American banking agencies.
Two lawyers.
Two financial editors of Paris papers.
The Minister of Finance of the French Government.
Officials of the French fisc.
Officials of the Stock Exchange.
Members of the American foreign service, private investors and industrialists.

In addition, the following published information was examined:

American Foreign Investments

- Robert W. Dunn

How the Stock Market Really Works

- W. Collin Brooks



- The English Capital Market - F. Lavington
- Stock Market Forces - T.W.H. Caudwell
and Sir Ellis A. Ellis-
Griffieth
- Wall Street and Lombard St. - Francis W. Hirst
- Stock Market Control - 20th Century Fund
- The Security Markets - 20th Century Fund
- The Book of The Stock
Exchange - F. E. Armstrong
- Stocks and Shares - Hartley Withers
- The Report on Finance &
Industry Presented to Parliament by the
Macmillan Committee
- A Study of the Capital
Market in Post-War Britain - A.T.K. Grant
- Rules and Regulations of the
London, Amsterdam, Zurich, and Paris
Stock Exchanges.
- The Paris Bourse - H. Merle Cochran
- History of the Paris Bourse - Vidal
- America's Stake in
International Investments - Brookings Institution
- Foreign Investments in the
United States - U.S. Dept. of Commerce
- Survey of Current Business - U.S. Dept. of Commerce
- Statistics of Capital Movements
between the United States
and Foreign Countries - U.S. Treasury Dept.

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