

# NEW YORK STOCK EXCHANGE

## MEMORANDUM

May 14, 1963

**TO:** Mr. A. J. Meigs

**FROM:** Norman C. Miller

**SUBJECT:** SEC Data in Chapter 1 -- Report #2

As I reported to you orally last week, after considerable prodding the SEC admitted to substantial errors in some of the statistics in Chapter 1 of their Special Study. They 'phoned me "corrections" for Tables 11 and 12, which show percentage distributions of securities industry gross income (see attached photostats). The most vivid error -- and the most drastic revision--was in Table 12 where they originally showed NYSE member firms earning 19.5% of their gross income from corporate bond volume (underwritings not included). This was changed to 2.1%. All other changes were minor by comparison.

The SEC stated that they might not be able to introduce these changes into the final printed version of the Report. If not, errata sheets will be inserted.

### What Do These Income Data Now Mean?

Frankly, very little. Even as corrected the data on gross income distribution obviously contain errors of such magnitude as to cast a shadow over all of the income figures, including the concentration data given you the other day. After having a few additional discrepancies pointed out to him (which he admitted did not look right), the SEC statistician on the case said he would look into it and 'phone me back. A week has now elapsed and nothing has happened. I assume nothing will.

Note the following discrepancies:

1. Relative Importance of NYSE -- On page 21, NYSE member firms are credited with earning 75% of the industry's total gross income. This statement is inconsistent with the data in Table 12. The only way in which the per cent distribution in the "All Firms" column in Table 12 is possible in relation to the other columns is for income to be distributed as follows: NYSE Members - 15%; Other Exchange Members - 23%; Non-Exchange Members - 62%. (The method of arriving at these figures is described in the Appendix to this memo.)

The point can be seen better by looking at the Mutual Fund Sales line in Table 12. If NYSE member firms account for 75% of the industry's total gross income, how is it possible for 37.4% of total industry income to come from mutual fund sales when among NYSE members it is only 4.6% (corrected figure)? Like questions can be asked about other lines as well.

2. Relative Importance of Income from Mutual Fund Sales -- Both Tables 11 and 12 show 37.4% of the industry's gross income stemming from mutual fund sales while stocks traded on exchanges account for 16.3%, less than half as much. This is clearly ridiculous. In 1961, mutual fund sales amounted to \$2,950,860,000. Assuming an 8% commission on all such sales (an assumption which may be on the high side because of no-load funds and graduated commissions), total gross income would amount to \$236,000,000. In comparison, total NYSE member firm commissions subject to our 1% charge amounted to \$703,000,000 in 1961. Add to this the income from "stocks traded on exchanges" among other exchange and non-exchange members and you may get close to \$1 billion, or roughly 4 times the mutual fund figure.
3. Relative Importance of Mutual Fund Firms -- Table 14 shows that "mutual fund firms" -- those deriving more than half their gross income from mutual fund share sales -- accounted for 7.6% of the industry's total gross income. If each of these firms derived 100% of ~~their~~ income from mutual funds, there would still remain 29.8% (37.4% minus 7.6%) which must be accounted for by the non-mutual fund firms. 1/ This means that all non-mutual fund firms at the very least derived almost one-third of their gross income from mutual fund sales (29.8/92.4). This has to be wrong; Table 11 shows 9.7%, not one-third.

#### What Is the Answer?

At this point, it is probably too late for us to offer our services to help them straighten out their data. Once upon a time, this may have been the only course of action open if we ever expected to make use of the statistics to achieve a better understanding of our industry's income structure.

Therefore, one possible answer may be to use these errors, those to be "published" and those remaining, as a means of discrediting much of the Report. If these figures are wrong, why not others? Has the rest of this report, both quantitative and qualitative, been put together with the same degree of precision and care? Can we be sure that the responses from other questionnaires have not been treated in like manner? This last question might become pertinent with respect to NYSE member floor activity. 2/

- 1/ To clarify, 37.4% of all income came from mutual fund sales. If 7.6% out of this was due to "mutual fund firms," the remainder (29.8%) came from "other firms" (which accounted for 92.4% of the industry's income).
- 2/ During the testimony given by NYSE specialists last year before the SEC, the SEC people frequently quoted erroneous figures on aggregate specialists' positions in early 1962.

However, the SEC may still send me further corrections in the next day or so, although I don't expect it. If they do, the new data can be evaluated for strategic purposes.

Further Reports

We are trying to measure the size of the OTC market in relation to our own by using transfer tax data. As has been found in the past, this is an extremely difficult task, if not impossible. My next report will deal with this subject, no matter the results.

NCM/mf

cc: J. A. Brown

A. L. Meentemeier

Attachment

## APPENDIX

### METHOD FOR DERIVING THE DISTRIBUTION OF GROSS INCOME BY EXCHANGE AFFILIATION FROM TABLE 12

Problem: To derive the percent distribution of industry total gross income by exchange affiliation -- NYSE Members, Other Exchange Members, and Non-Exchange Members.

Method:

Assume - Total Gross Income = 1  
Let - NYSE Member Income = A  
Other Exchange Member Income = B  
Non-Exchange Member Income = C

Select any two lines in Table 12 other than the total and set up three equations as follows:

$A + B + C = 1$	(total income)
$.046A + .188B + .522C = .374$	(mutual fund sales)
$.546A + .236B + .044C = .163$	(stocks traded on exchanges)

Solving these equations produces the following values for the three unknowns:

A = .15  
B = .23  
C = .62