

THE New York Stock  
Exchange

RESEARCH  
REPORT on:

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MEMBER FIRM FOREIGN ACTIVITY

International Finance  
RESEARCH DEPARTMENT

Prepared by: Jeffrey M. Schaefer  
Karen Silber

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## Introduction

In the autumn of 1973, the International Finance Division initiated a pilot data gathering project on member firm foreign activity. We have expanded this project in response to the reaction from member firms. The attached report for the first quarter of 1974 is based on data submitted by an expanded number of participating firms, and on additional information contained in the S-1 reports filed by member firms with the Federal Reserve of New York. (S-1 reports are used to monitor Foreign Purchases and Sales of U.S. Securities and U.S. Purchases and Sales of Foreign Securities through U.S. Intermediaries.)

One part of our report covers commissions generated from foreign activity. Included is the relative importance of foreign orders as compared to total trading activity, and the commissions generated on a country-by-country basis. Furthermore, each firm supplying us with complete data (both our questionnaire and Treasury Form S-1) is ranked according to its commissions from foreign activity and by the relative importance of this activity to its total commission business. Naturally, these rankings are on a confidential basis.

Another part includes the entire NYSE community filing an S-1 report. In this section, we utilize governmental data to determine what percentage of the total foreign pie goes to the member firm community. The data are available on an aggregate as well as a country-by-country basis.

Unfortunately, this report has been delayed by two factors. First, there is at least a two-month lag between the collection and publication of the Treasury Department's statistics on Foreign Purchases and Sales of U.S. Securities. Second, some firms did not return the data bank forms by the dates requested; since we are making every effort to maintain a consistent sample of data from month to month, it was necessary to delay preparation of the report pending the arrival of those forms.

In evaluating the statistics in this report, please bear in mind that they can only be as accurate and timely as the data from which they are compiled.

We hope you will find this material helpful, and we will welcome your comments and suggestions with regard to content and presentation.

List of Participating Data Bank Survey Firms

Bache & Company, Inc.  
Baker, Weeks & Company, Inc.  
Bear, Stearns & Company  
A.G. Becker & Company, Inc.  
William Blair & Company  
Blunt Ellis & Simmons, Inc.  
Alex. Brown & Sons  
Brown Brothers Harriman & Company  
Clark, Dodge & Company, Inc.  
Donaldson, Lufkin & Jenrette Securities Corporation  
Drexel Burnham & Company, Inc.  
Fabnestock & Company  
Faulkner, Dawkins & Sullivan, Inc.  
First Boston Corporation  
Goldman, Sachs & Company  
E.F. Hutton & Company, Inc.  
W.E. Hutton & Company  
Kidder, Peabody & Company, Inc.  
Kuhn, Loeb & Company  
Cyrus J. Lawrence & Sons  
Lazard Freres & Company  
Lehman Brothers Incorporated  
Loeb, Rhoades & Company  
Merrill Lynch, Pierce, Fenner & Smith, Incorporated  
Model, Roland & Company, Inc.  
Morgan Stanley & Company, Inc.  
Oppenheimer & Company  
Paine, Webber, Jackson & Curtis Incorporated  
Piper, Jaffray & Hopwood Incorporated  
The Robinson Humphrey Company, Inc.  
Salomon Brothers  
Shearson, Hammill & Company, Inc.  
Smith, Barney & Company, Inc.  
H.C. Wainwright & Company  
G.H. Walker, Laird Incorporated  
Wertheim & Company, Inc.  
White, Weld & Company, Inc.  
Dean Witter & Company, Inc.  
William D. Witter, Incorporated

Relative Importance of Foreign Business

During the first quarter of 1974, foreign activity declined at a faster rate than total trading volume. In the last quarter of 1973, foreign activity accounted for approximately 9.4% of total commissions received by participating data bank firms. For the first three months of 1974, this percentage dropped to 8.4%. Foreign commissions of the participating firms declined from \$30 million in the fourth quarter of last year to \$24 million in the first three months of 1974. This compared with a decline in total commissions earned by data bank firms from \$324 million in the fourth quarter of 1973 to \$296 million in the first quarter of 1974.

Undoubtedly, the dollar's weakness during the first quarter was a major factor in reducing foreign enthusiasm for U.S. corporate equities.

Based on the sample data, we estimate that the entire NYSE member firm community earned approximately \$33 million in commissions from foreign sources during the first quarter of 1974.

Table 1

Commissions Generated from Foreign  
Activity as a Percentage of Total Commissions\*  
(in millions of dollars)

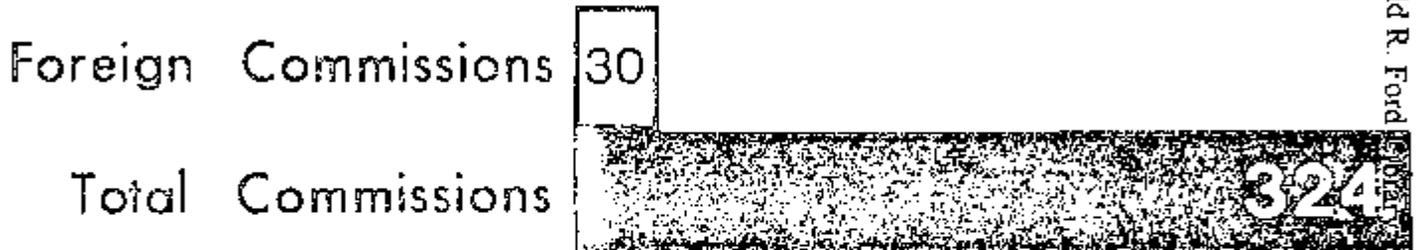
	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>1st Q. 1974</u>
Total Commissions	104.2	81.7	109.9	295.8
Commissions generated from foreign activity	9.2	7.3	8.3	24.8
Commissions generated from foreign activity as a percentage of total commissions	8.8%	8.9%	7.5%	8.4%

\*Participating Data Bank Firms Only

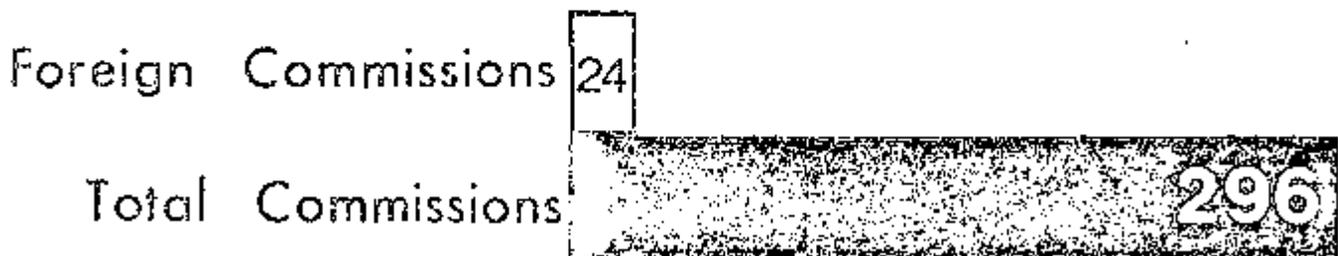
CHART I

COMMISSIONS GENERATED FROM FOREIGN ACTIVITY COMPARED TO TOTAL COMMISSIONS \*  
In Millions of Dollars

4th QUARTER 1973



1st QUARTER 1974



\* PARTICIPATING DATA BANK FIRMS ONLY. ALTHOUGH THE NUMBER OF FIRMS VARIES SLIGHTLY IN EACH QUARTER, IT DOES NOT SIGNIFICANTLY EFFECT THE FIGURES.

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Commissions as a Percentage of the Value  
of Foreign Agency Orders

For the participating sample firms, the value of foreign orders in U.S. corporate stocks fell from \$3.3 billion in the last quarter of 1973 to \$2.4 billion in the first quarter of 1974. Commissions as a percentage of the value of foreign agency orders continued to hover around 1%. This relationship has proven to be a good tool for estimating commissions generated from foreign activity. Naturally, the percentage can vary from firm to firm depending on the nature of its business.

Estimated Foreign Commissions by Country

Many data bank firms have requested a breakdown of aggregate foreign commissions on a country-by-country basis. Table 2 provides an estimated breakdown of these figures.

By far, the greatest amount of foreign commission revenue is generated through transactions originating in Europe. Switzerland (\$5.6 million) and the United Kingdom (\$4.7 million) accounted for more than half the total revenues generated in Europe during the first quarter of 1974, followed most closely by France (\$3.1 million). Canada, Japan, Hong Kong and the Netherlands Antilles are the largest non-European foreign sources of commission revenues.

The following procedure was used to obtain the figures above: First, for each firm, the relationship between the total value of gross foreign equity activity and the reported commissions from such activity was computed. This ratio was then used to estimate the amount of commissions received by each firm on a country-by-country basis. Finally, the estimates for each participating firm were combined to produce the aggregate estimates shown in Table 2.

Table 2

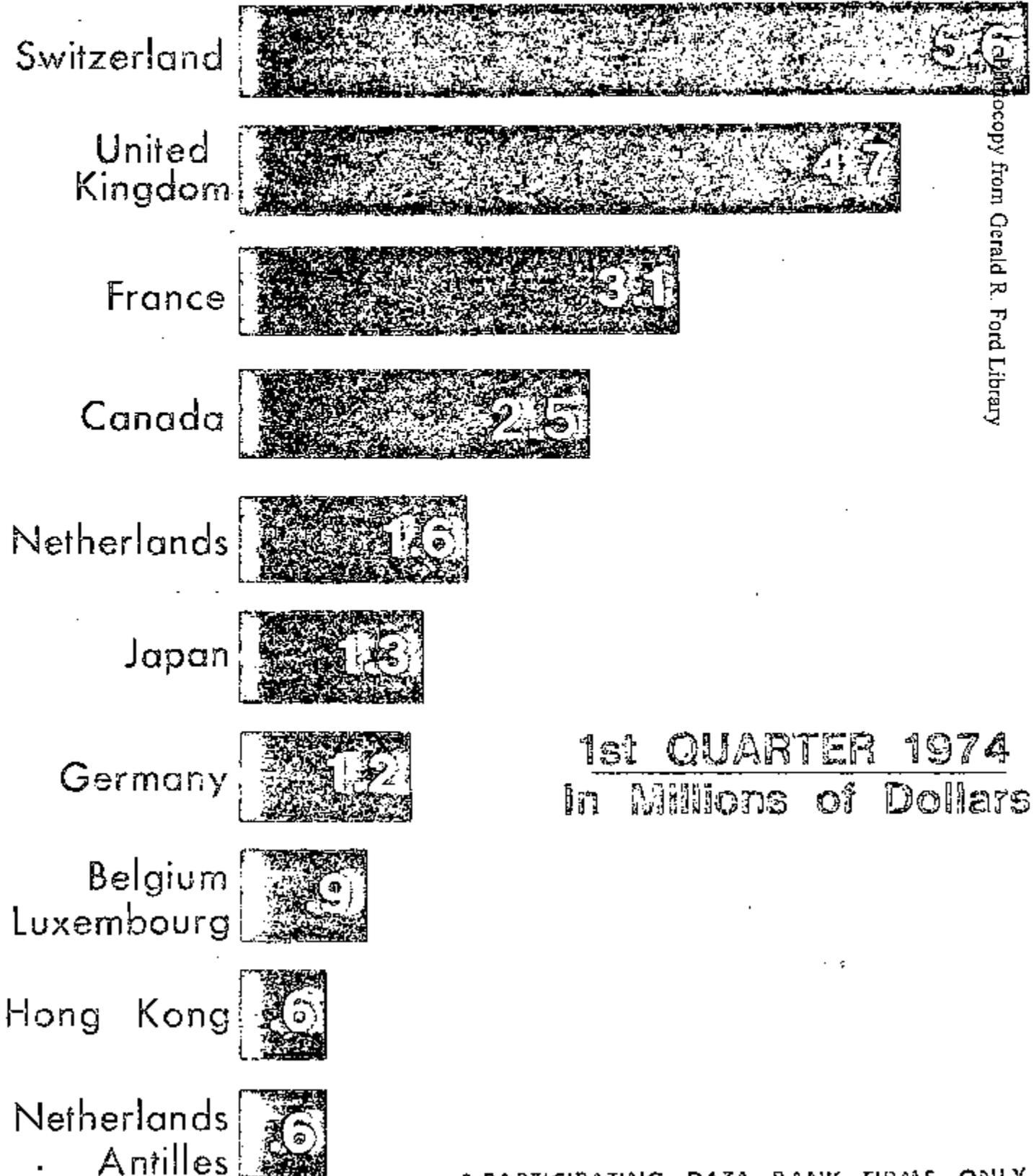
Estimated Foreign Commissions by Country\*  
(in thousands of dollars)

<u>Country</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>1st Q. 1974</u>
Belgium-Lux	291	213	432	936
Denmark	11	6	17	34
France	1,463	927	724	3,114
Germany	423	355	410	1,188
Italy	128	134	160	422
Netherlands	576	648	372	1,596
Spain	49	49	67	165
Sweden	13	14	22	49
Switzerland	2,118	1,592	1,918	5,628
United Kingdom	1,527	1,430	1,749	4,706
Total Europe	6,699	5,434	5,973	18,106
Canada	791	739	1,001	2,531
Argentina	19	10	7	36
Brazil	1	1	0	2
Venezuela	34	44	44	122
Bahamas	115	104	124	343
Netherlands Antilles	162	202	211	575
Total Latin America	660	571	592	1,823
Hong Kong	238	166	191	595
Israel	4	10	12	26
Japan	647	232	388	1,267
Total Asia	1,038	545	706	2,289
Total Africa	5	4	6	15
Other	49	26	5	80
Grand Total	9,240	7,319	8,283	24,842

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\*Participating Data Bank Firms Only

# ESTIMATED COMMISSIONS GENERATED THROUGH FOREIGN ACTIVITY BY SELECTED COUNTRIES\*



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1st QUARTER 1974  
In Millions of Dollars

\* PARTICIPATING DATA BANK FIRMS ONLY.

### Gross and Net Foreign Activity in U.S. Equities

Table 3 shows foreign purchases and sales of U.S. equities, country-by-country, for the first quarter of 1974. The figures under the column headed "All Banks and Brokers" were taken from the Treasury Bulletin. "Member Firms Participating in the Study" are those firms submitting complete data sets. The third column, "All Member Firms with Foreign Activity," contains the figures representing the participating firms plus all additional member firms filing S-1 reports.

The Treasury Bulletin shows gross foreign activity (gross purchases plus gross sales) in U.S. corporate equities amounting to \$4.8 billion in the first quarter of 1974 (Table 4). NYSE member firms accounted for an estimated \$2.9 billion or 60.6% of this total. Participating data bank firms alone accounted for 50% of total foreign activity during the quarter.

Of the reported total activity, NYSE members accounted for 71%, 60%, 56% and 54% in Canada, Europe, Asia and Latin America, respectively.

On a country-by-country basis, NYSE members' market share varied greatly -- from 42% of the Japanese and 53% of the Swiss markets, to 80% of the British and 71% of the Canadian markets.

The estimates of the relative importance of NYSE members in these markets may be slightly understated. Orders received from the U.S. subsidiaries of foreign institutions are normally treated as domestic business. Therefore, these orders are not included in the S-1 reports filed by NYSE member firms. However, they would be reported as foreign business by the U.S. subsidiaries and therefore are included in the Treasury Bulletin figures. Hence, when NYSE member firm foreign activity (based on their S-1 reports) is taken as a percentage of total foreign activity (as shown in the Treasury Bulletin), the results tend to be slightly on the low side.

TABLE 3 QUARTERLY REPORT

FOREIGN PURCHASES AND SALES OF U.S. CORPORATE STOCKS  
(ALL FIGURES IN THOUSANDS OF DOLLARS)  
FOR QUARTER ENDED 3/31/74

SELECTED COUNTRIES AND TOTALS	ALL BANKS AND BROKERS		MEMBER FIRMS PARTICIPATING IN STUDY				ALL MEMBER FIRMS WITH FOREIGN ACTIVITY				
	PURCHASES	SALES	NET FOREIGN PURCHASES	PURCHASES	SALES	NET FOREIGN PURCHASES	GROSS FOREIGN ACTIVITY: PARTICIPATING FIRMS TO ALL BANKS AND BROKERS (%)	PURCHASES	SALES	NET FOREIGN PURCHASES	GROSS FOREIGN ACTIVITY: ALL MEMBER FIRMS TO ALL BANKS AND BROKERS (%)
BELGIUM-LUX	162,000	80,000	82,000	60,145	33,389	26,756	38.7%	65,645	40,461	25,184	43.8%
DENMARK	5,000	5,000	(7,000)	790	2,688	(1,898)	43.5%	967	9,832	(11,865)	47.5%
FRANCE	510,000	189,000	121,000	172,719	124,924	47,795	59.6%	192,798	132,337	60,461	65.3%
GERMANY	132,000	150,000	(18,000)	52,826	63,469	(10,643)	41.2%	58,278	70,242	(11,964)	45.6%
ITALY	50,000	31,000	(1,000)	10,629	20,987	(358)	68.2%	26,878	28,462	(1,584)	90.7%
NETHERLANDS	201,000	73,000	128,000	110,636	42,454	68,182	55.7%	122,521	47,938	74,583	62.2%
SPAIN	13,000	9,000	4,000	10,063	6,287	3,776	74.3%	11,505	7,938	3,567	88.4%
SWEDEN	3,000	3,000	0	2,074	2,009	(65)	81.4%	2,168	2,880	(712)	84.1%
SWITZERLAND	712,000	603,000	109,000	293,411	256,510	36,901	41.8%	366,627	332,808	33,819	53.2%
U.K.	345,000	310,000	35,000	237,960	225,225	12,735	70.7%	274,651	247,046	27,605	79.6%
TOTAL EUROPE	1,938,000	1,482,000	456,000	975,360	791,121	184,238	51.7%	1,139,946	929,560	210,386	60.5%
CANADA	250,000	298,000	(48,000)	109,631	140,597	(30,966)	45.7%	178,599	209,775	(31,176)	70.9%
ARGENTINA	2,000*	2,000*	*	1,689	1,543	346	*	2,023	1,713	310	*
BRAZIL	*	*	*	148	77	71	*	170	141	29	*
VENEZUELA	8,000	6,000	2,000	6,865	5,134	1,731	85.7%	7,318	5,725	1,593	93.3%
BAHAMAS	37,000	63,000	(26,000)	15,485	18,274	(2,789)	53.7%	18,065	23,771	(5,706)	41.8%
NETH. ANTIL	66,000	77,000	(11,000)	29,510	27,149	2,361	39.6%	35,335	34,617	718	48.9%
LATIN AMER.	186,000	218,000	(32,000)	91,733	85,735	6,198	44.0%	110,106	109,274	832	54.3%
HONG KONG	36,000	31,000	5,000	29,598	28,366	1,232	86.5%	34,207	30,249	3,958	96.2%
ISRAEL	3,000	5,000	(2,000)	1,134	1,516	(382)	33.1%	1,640	2,256	(616)	48.7%
JAPAN	145,000	155,000	(10,000)	68,455	53,991	14,464	40.8%	70,730	56,076	14,654	42.4%
TOTAL ASIA	207,000	212,000	(5,000)	119,151	102,681	16,470	52.9%	127,864	108,535	19,329	36.4%
TOTAL AFRICA	1,000*	*	*	760	718	42	*	1,078	1,014	64	*
TOTAL OTHER	4,000	2,000*	*	2,319	2,111	208	*	2,766	2,162	604	*
INTER. ORG.	21,000	16,000	5,000	1,951	939	1,012	7.8%	4,870	3,279	1,591	22.0%
GRAND TOTAL	2,607,000	2,228,000	379,000	1,301,105	1,123,903	177,202	50.2%	1,565,229	1,363,599	201,630	60.6%

\*LESS THAN \$500,000 FOR ONE OR MORE OF THE MONTHS IN THE QUARTER. NET AND PERCENTAGE FIGURES CANNOT BE CALCULATED FOR THESE LINES.

Table 4

Gross Foreign Purchases and Sales  
of U.S. Corporate Equities  
First Quarter 1974  

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(in millions of dollars)

<u>Country</u>	<u>Total Gross Foreign Activity</u>	<u>NYSE Member Firm Gross Foreign Activity</u>	<u>Percent of NYSE Member Firm Gross Foreign Activity to Total Gross Foreign Activity</u>
Switzerland	1,315	699	53%
United Kingdom	655	522	79%
France	499	325	65%
Netherlands	274	170	62%
Belgium	242	106	43%
Canada	548	388	70%
Japan	300	127	42%
Grand Total	4,835	2,929	60%

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Ranking by Dollar Value of Foreign Commissions

Appended to each participant's copy of this report is the firm's confidential ranking with regard both to its reported commissions from foreign activity and to its foreign commissions as a percentage of total commissions. Each firm was ranked only for those months for which it submitted a complete set of data. Those months for which either no data or partial data were submitted are left blank. Only those firms which submitted complete data sets for all three months are ranked for the first quarter.