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CHANGES IN RISK AND RISK MANAGEMENT: PART II - THE NEW ENVIRONMENT

Frank Fernandez

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SECURITIES INDUSTRY EMPLOYMENT DOWNTURN

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MONTHLY STATISTICAL REVIEW

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Page 7 **China's Capital Markets: Testimony of Marc E. Lackritz, President, Securities Industry Association, Before the U.S.-China Commission.** SIA's president, Marc Lackritz, appeared before the United States-China Commission on December 6, 2001, to testify about China's capital markets and the opportunities for U.S. firms, clients, and the U.S. economy to do business in China. The testimony focused on the U.S. economic relationship with China, specifically with respect to: 1) cross-border capital markets activity; and 2) the goals and objectives of the U.S. securities industry in our growing relations with China's economy.

Page 19 **Securities Industry Employment Downturn**, by George Monahan. An editorial expansion on our monthly employment statistics web page which can be found at: http://www.sia.com/reference_materials/html/research_reports.html

More details on this and other aspects of industry's trends over the past year and decade will be provided in SIA's year-end *Securities Industry Trends* publication to be released during the last week of December, at: http://www.sia.com/reference_materials/html/securities_industrytrends.html

Page 30 **Monthly Statistical Review**, by Grace Toto. Notwithstanding the sharp rebound in stock prices during the last two months, the major market indices remain below their year-end 2000 levels, with the Nasdaq Composite, S&P 500 and DJIA down 21.9%, 13.7% and 8.7%, respectively. Trading activity on both Nasdaq and the NYSE slowed in November but is still running ahead of 2000's record levels. Overall underwriting activity in the U.S. market declined in November. Year-to-date underwriting volume of $2.3 trillion already exceeds 1999's full-year record of $2.0 trillion.

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CHANGES IN RISK AND RISK MANAGEMENT:
Part II - The New Environment

The broadening recognition of the increased frequency and severity of serious financial shocks in the past twenty years prompted intensive examination of the nature and origins of these widely varying events.[1] As a result, the process of evaluation and adaptation of risk management systems and responses has, in recent years, become nearly continuous. This in turn has helped mitigate the impact of recent events: terrorist attacks, belated recognition of the arrival and the severity of the recession, the sudden sharp reversal of Treasury bond market prices this month and most recently, the collapses of Argentina and Enron. These new "shocks," or "extreme market events," have prompted yet another round of review and response by industry participants.

The general view is that the nature of risk confronting financial institutions has not changed as markedly as has the community's perception about the likelihood of certain risks. Recent events have also reinforced the strongly felt need to integrate the assessments of different types of risks (particularly liquidity, market and credit risk), which tend to be mutually reinforcing during periods of extraordinary market stress. The change in perception has real-world implications on the level of modeling and pricing risk, as well as on the level of physical/operational risk mitigation strategies. This is reflected in the current watchwords in the financial community: security and risk aversion.

Scenario planning, which gauges the effects of different political and economic phenomena on portfolio positions, (along with stress testing and back testing of systems), had become an increasingly important tool used by risk managers, which now is drawing more attention.[2] The operational, liquidity and credit risks that market participants faced following the attacks, which arose from the loss of connectivity and problems resulting from the closing of the markets and their staggered reopening, always existed as a theoretical possibility, but was assigned a low probability and hence largely ignored. Anecdotal evidence suggests that many firms had incorporated neither these possibilities, nor the extensive and extended disruption of communications and information systems and physical facilities into their analyses. Although concerted action, rapid (and at times Herculean) responses, past disaster recovery planning, and luck helped significantly mitigate the impact of these largely unanticipated events, vulnerabilities were exposed.

For example, the "globalization of risk," or risk generated by the interconnectivity and interdependence of markets, was manifested in new forms. For example, when U.S. fixed income markets reopened, while U.S. equity markets remained closed, unanticipated problems arose. Firms were confronted with the necessity of incurring additional operational risk (reopening equity markets without full operational capability assured) in order to mitigate rising problems associated with settling fixed-income trades where the means of payment was in instruments (commercial paper, money markets, etc.) whose markets remained closed. Extending settlement dates helped but did not solve the problem while generating new ones.

Similarly, the closure of U.S. markets, while other global financial centers such as London remained functional, both helped ease the strains in the immediate aftermath of September 11, as well as generating additional problems that were not anticipated. Although U.S. markets were closed, European markets remained open, trading and "pricing" some U.S. financial instruments. Some U.S. managers were forced to "shift their book" to London while informally applying "fair value" pricing to portfolios when U.S. "marks" were not available in order to value their holdings and assess their risk exposures. Hedging these exposures proved more problematic and in some cases impossible.

These problems were compounded when some but not all U.S. fixed income markets reopened but equity and derivative markets remained closed. Both the selective closing of markets and staggered reopenings led to "gapping" or "gap" risk, which could not be immediately mitigated. Prices of U.S. securities fell sharply or "gapped down" in overseas trading and in U.S. markets when they later reopened. However, managers could not fully or easily reduce or mitigate these exposures in a continuous manner as risk management systems were designed for them to do until all markets were reopened on September 17 and access to all asset classes, instruments and market was restored. Nor was it possible to adequately assess shifts in counterparty risk in this environment. Fortunately, the market correction during the week of September 17-21 was at the low end of expectations and well within the limits implied by risk capital allocations of major market participants. These problems along with additional complications associated with recreating, clearing and settling trades, and an inordinate number of failed trades, further increased credit risk.[3] Risk management systems will have to be adapted accordingly.

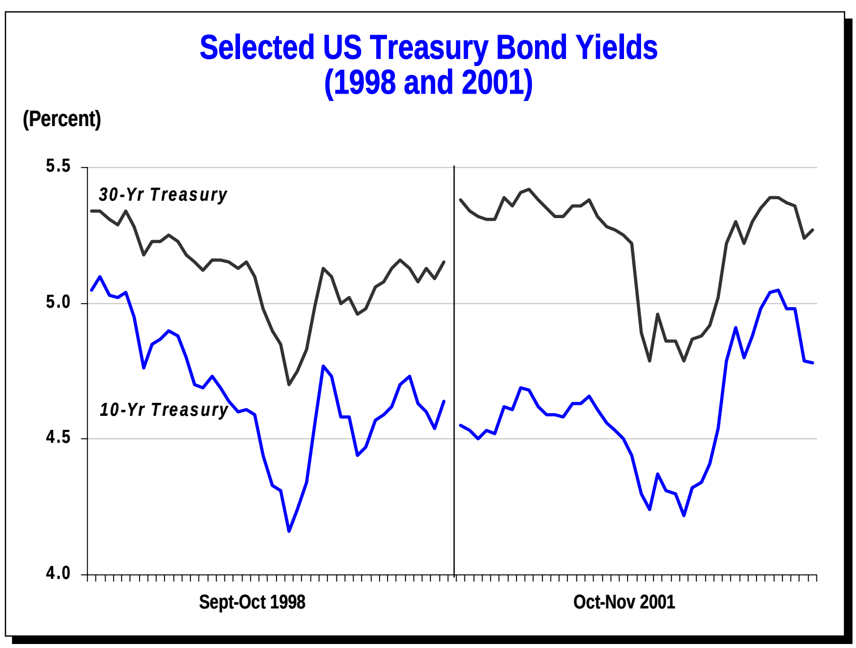
New appreciation for the universe of possible risks to the financial system has prompted other changes on the level of modeling and pricing risk. Perception drives spreads, and as such we have seen rising risk premiums, widening risk spreads and higher costs of portfolio insurance after the attacks. There is also recognition that information such as summary risk numbers generated by risk management models may be needed sooner than the next morning, even if that means trading some degree of accuracy for speed in formulation of this information.

In terms of physical and operational risk mitigation, it has become clear that contingency planning is absolutely crucial. Even those firms that had contingency plans learned lessons about the importance of key details of those plans. Disaster recovery experts have some useful recommendations about these plans.[4] For example, six weeks is often the maximum amount of time that firms are allowed to stay at recovery sites. Therefore, having a long-term plan could be as important as having the short-term one.

Furthermore, a recovery plan will not be effective unless company leaders know what their role is in case of emergency. This is why testing should be done with the same people who will be doing the recovery. These leaders should also know where and how backup data storage takes place. Employees should know about an alternate area where they can meet other employees in case of emergency. Most importantly, updated and easily accessible contact lists need to be maintained for people in every firm.

The loss of connectivity was one of the most debilitating aspects for companies affected by the September disaster, exceeded only by the loss of life. Firms admit that having one system running multiple offices proved problematic. Moreover, it is not only data itself that needs to be backed up; actual connections, processes and personnel need to be backed up as well. Greater appreciation of the need for physical separation of systems and facilities and of the ability to access information remotely now exists. The risk of physical concentration is real. Just as a portfolio may benefit from diversification, so too may one's offices and operations. This would include reducing dependence on a single transportation or communications system serving those offices.

The sharp fall in U.S. Treasury bond prices during November also raised new concerns. The sharp, sudden shift in the yield in current benchmark Treasury bond, the 10-year maturity, which rose from 4.18% to 5.08% in the space of 12 days, surprised many market participants. While a distinctly different event, this "spike" was comparable to the sharp moves in the (then benchmark, "on-the-run") 30 year Treasury in the fall of 1998. While significant losses on trading portfolios were recorded last month as a result of this sudden, unanticipated shift, the losses were not near the magnitude nor the concentration of those that occurred three years ago, when systemic stability was at risk as a result of the collapse of LTCM and the withdrawal of credit to leveraged market players in the ensuing liquidity crisis. However, in both cases there is evidence of "herding behavior" by highly leveraged market participants, which contributed to a sharp jump in volatility in what were thought to be relatively stable instruments.



The ongoing debacle in Argentina, while anything but a surprise, is still capable of delivering a "shock." This debacle involves the freezing of bank deposits, the confiscation of pension fund assets, increasing capital flight, the depleting of foreign exchange reserves, the rescheduling of domestic debt, and the pending default on external bonds. That "shock" may come from a long-lasting and severe restriction in portfolio flows to emerging market debtors. That expected shift will be driven less by the now relatively commonplace "proximate event" (effective default on its bond obligations) than by the way in which this long awaited event is being handled. Specifically, the recent and expected "voluntary" swaps of Argentine obligations are likely to dramatically reduce bond holders' rights and the enforceability of existing contracts with sovereign borrowers. Many underwriting firms active in this market have already concluded that the still nascent "wholesale" business in these issues will languish for years to come and have already sharply scaled back or eliminated these functions supporting this business line. The resultant reduced access to external financing makes defaults elsewhere much more likely.

The collapse of Enron presents a different set of issues entirely. While it is too soon to fully judge this event, it would appear that a combination of factors contributed to this debacle. Enron Corporation has been a provider of products and services related to natural gas, electricity and communications. It has been a market maker in related commodities, and has also been a provider of financial and risk management services. In November, Enron announced that it had overstated its earnings over the past four years by $583 million. It has filed for bankruptcy, and its stock is now trading around $1 per share, down from almost $90 per share a year ago. Questions over the adequacy of corporate governance, disclosure and auditing (particularly with respect to off-balance sheet contingent liabilities) and an unwise, over-levered bet that oil prices and Treasury bond prices would not move sharply in the same direction appear to lay at the heart of this problem.

Perhaps the essential lesson to be learned (or more correctly, recalled) as a result of the succession of "shocks" in recent months is that risk is a dynamic process and by definition true risks are those that arise from unanticipated events. Events that are anticipated can be mitigated, hedged or transferred. Planning for the unthinkable and the unimaginable must become the norm. Risk management systems are already making the adjustment to respond to these events, to the expected "ripple" effects that might ensue and the next "hundred year storm" that will surely arrive sooner than most expect.

Frank A. Fernandez
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Footnotes

1 *SIA Research Reports*, "Changes in Risk Management", Vol. I, No. 7, July 2000.

2 See "Scenario Planning: The Next Big Surprise," *The Economist*, October 13, 2001, p. 60.

3 See "Restoring Industry Functionality After 9/11," *SIA Research Reports*, Vol. II, No. 9, 11/2/01.

4 See "Contingency Plans in the Spotlight," *E-Securities*, Nov. 2001, p.6 and presentations at the SIA Operations Update Conference, November 28, 2001.

CHINA'S CAPITAL MARKETS

TESTIMONY OF MARC E. LACKRITZ, PRESIDENT, SECURITIES INDUSTRY ASSOCIATION BEFORE THE U.S.-CHINA COMMISSION

December 6, 2001

I am Marc E. Lackritz, President of the Securities Industry Association.[1] I am pleased to appear before the Commission today to testify about China's capital markets and the opportunities for U.S. firms, our clients, and the U.S. economy to do business in China. My testimony will focus on our economic relationship with China, specifically with respect to: 1) cross-border capital markets activity; and 2) the goals and objectives of the U.S. securities industry in our growing relationship with China's economy.

At the outset, I should note that the U.S.-China relationship is still in its infancy. The United States only "normalized" relations with China in 1978, and then in 1999 made them "permanent" when Congress passed legislation to eliminate the annual "Normal Trade Relations" review process. This process has now culminated in China's accession to the World Trade Organization ("WTO"). During this period, the U.S.-China relationship has often been rocky and uncertain. While the U.S.-China relationship has matured, and is increasingly based on mutual economic and political interests, the U.S. securities industry still has substantial concerns related to China's capital markets and the access provided to U.S. securities firms.

SIA has long supported more open, fair and transparent markets, and has strongly advocated liberalization in U.S. multilateral and bilateral trade discussions – including China's WTO accession talks. The economic benefits of financial services sector liberalization reverberate throughout the world from widespread increased opportunities created by new entrants, innovative products and services, and capital markets with greater depth and efficiency. In the global economy, open and fair markets are essential to ensuring that markets operate efficiently so that investors can easily and quickly buy and sell shares across borders, while businesses can access capital at the lowest price. The international financial system has been a major and contributing factor in the marked increase in living standards of those countries that participate in it.

China's WTO accession commitments for financial services, and more specifically for the securities industry, show a reluctance to open this sector fully to foreign competition. We believe China should improve and accelerate its financial sector reform so that it will have the financial tools necessary to sustain and improve the quality of its economic growth.

China's Economy – Transformation and Opportunity

Since 1978, the Chinese government has increasingly realized that private companies would operate more efficiently than government-owned or -managed companies. As a result, the Chinese economy has become progressively more based on competition and open markets. China's recent accession to the WTO will further enhance the development of a thriving private sector, now estimated to account for about one third of gross domestic product (over 50 percent if China's agricultural output is included).

China's tremendous progress over the past decades has, not surprisingly, also been accompanied by significant problems. China faces enormous internal challenges, including non-performing bank loans; the closing down and/or conversion of inefficient state-owned enterprises; and an agricultural sector of 330 million people (about 45 percent of China's workforce) that faces lower prices and more competition. In spite of the tremendous challenges that China's economy faces, it presents the U.S. with 1.3 billion potential consumers, myriad export opportunities for the U.S. goods and services sector, and an economy expected to double in size by 2006. By the end of the 1990s, China's GDP increased by 10.7 percent per annum – a rate more than three times that of the United States during the same period. Foreign investment has played a key role in supporting China's growth. Foreign-funded firms employ more than 18 million Chinese, and account for 16 percent of all industrial and commercial taxes. The U.S. investment in China to date has been modest, accounting for only eight percent of total foreign direct investment.[2]

Propelled by this economic growth, China is now our fourth largest trading partner, with imports and exports totaling a combined $116.2 billion in 2000. Moreover, since 1993, U.S. exports to China have nearly doubled to almost $16.2 billion annually, providing a market for U.S. exporters comparable to the size of France ($20.4 billion) and the Netherlands ($21.8 billion). Increased U.S. exports lead to more U.S. jobs at home. As China phases in its WTO commitments and continues its economic growth, U.S. firms will find their ability to export significantly enhanced, bolstering U.S. job creation and economic growth. The export opportunities in China – where ownership of new technology products such as fax machines, mobile phones, and personal computers stands well below its Asian neighbors – are enormous. China's WTO accession is a certain catalyst for greater U.S. exports.

Expanding Business Opportunities for U.S. Financial Services Firms

Prior to WTO accession, many of SIA's leading member-firms identified China as the largest single emerging market opportunity. Indeed, with China scheduled to begin implementation of its WTO commitments in the near future, U.S. securities firms will be able to broaden their role in China's capital markets. Financing China's infrastructure presents the U.S. financial services industry with an especially important opportunity. Analysts predict that China will invest more than $1 trillion in transportation and communications infrastructure improvements and energy-related capital equipment over the next decade.

Moreover, China's nascent pension system must deal with a rapidly aging population. In 1995, the percent of China's population over 65 was 6.1 percent; it is projected to reach almost 14 percent by 2025. World Bank estimates indicate that by 2030, the Chinese pension system will total $1.8 trillion. Already, several U.S. and other foreign firms have begun to capitalize on the enormous opportunities in China's retirement market by signing technical assistance agreements with local fund management companies.

China's capital markets have grown significantly over the past decade and helped finance the country's domestic growth. China did not have a functioning stock market until 1991. By 2000, China's equity market capitalization totaled $581 billion and was the largest emerging stock market in the world.

Impressively, between 1995 and 2000, China's stock market capitalization soared by nearly 70 percent per annum, increasing the value of Chinese stocks to 20 percent of all emerging markets. China also boasts 1,086 listed companies, exceeded only by Korea (1,308) and India (5,937).

China's domestic capital markets will benefit from the entry of U.S. securities firms and their technology, capital, innovative products and services, and best practices. As local firms prepare for this increased competition, they will adopt new technologies and improve the quality of products and services they offer. More competitive and efficient capital markets will also improve the allocation of capital to borrowers and users, facilitate the hedging and diversifying of risk, and assist the exchange of goods and services. As China's capital markets develop, Chinese firms will be better able to raise low-cost capital and support job creation.

Eighty percent of Chinese firms recently surveyed by the International Financial Corporation, however, consider access to financing a moderate or major constraint. Since financial markets are inextricably linked to increased investment and economic growth, strengthening China's domestic capital markets will help to alleviate the significant financing constraints that Chinese firms currently face.[3]

China's private and public sectors alone cannot mobilize the massive financial resources, advice and expertise that are necessary to sustain its economic growth. Much of the infrastructure development will, by necessity, be funded through foreign sources, and this opportunity has generated substantial interest by the U.S. securities industry. Indeed, despite difficulties entering and operating in China, numerous U.S. securities firms have established offices in China and have participated in China's international securities offerings.

China has also reached out to the international capital markets to fund its growth. Private and state-owned Chinese companies raised nearly $75 billion in debt and equity issues in the international markets from 1991-2000. Of this total, a robust $48.3 billion in equity capital was raised, with nearly 88 percent raised in internationally targeted offerings. About seven percent was raised in targeted U.S. offerings and about five percent in Asia. The large disparity in international- versus U.S.-targeted equity issues may be a result of the more stringent, if not better, disclosure and accounting requirements for U.S. listings that Chinese issuers currently find difficult to meet. In 2000, Chinese issuers raised $20.1 billion in equity capital, 17 times the $1.16 billion they raised only nine years earlier.

Chinese issuers also made use of the international debt markets, raising $26.6 billion during 1991-2000. Of this total, about $10.2 billion was raised in international placements, while nearly $9.7 was raised through access to the U.S. markets. The remaining $6.7 billion was raised in Hong Kong and other Asian markets.

China's remarkable economic reforms over the past 23 years have also begun to reverberate in the U.S. markets. Chinese companies have increasingly tapped the U.S. capital markets – the world's largest, deepest and most liquid – as they seek to expand their businesses. Trading of Chinese issuer shares on the New York Stock Exchange soared more than six-fold in the past four years, from $872 million in 1996 to $5.6 billion in 2000. The 21 Chinese issues now listed on the NYSE represent the largest concentration of listings in the region, and the fifth largest in the world. Although the United States faces stiff competition for these listings – the introduction of the euro and the creation of a single European capital market are increasingly attractive to Chinese issuers – the U.S. markets are unrivaled in their depth, liquidity, and transparency, as well as their political and economic stability.

Chinese issuers, however, will have to improve their disclosure and corporate governance standards to meet the demands of the international investing community. Indeed, the China Securities Regulatory Commission has already promulgated regulations to raise the quality and level of disclosure. Stricter disclosure of financial information is now required for prospectuses, and companies must ensure they have independent directors. These rules will not only help China access foreign capital, but they will also set the foundation for building a more robust retail and institutional investor base in China.

China's WTO Commitments For Securities Firms

China's accession to the WTO gives U.S. firms some greater market access. The commitments from China for the securities industry represent a first step upon which to pursue additional liberalization of China's capital markets. Although China's accession terms still leave securities firms facing significant barriers to market access, they do contain several important commitments. For example, there are provisions for minority ownership in local securities underwriting, asset management firms, and advisory companies. Particularly noteworthy are China's commitments for the securities sector that include the grandfathering of existing activities and investments, national treatment, and the elimination of China's "economic needs test."[4]

CHINA'S WTO COMMITMENTS TO FOREIGN SECURITIES FIRMS

- Participate directly in B share transactions*
- Eligible for special membership on Exchanges*
- Establish securities joint ventures (1/3 ownership) to underwrite A shares, and to underwrite and trade B and H shares and government and corporate debt
- Establish funds management joint venture (1/3 ownership*, 49 percent after three years.)
- Grandfather existing investments
- Elimination of economic means test
- National treatment

*upon accession

In addition to its WTO commitments, China is taking other steps to open its markets. These include allowing foreign firms to list and issue local currency (renminbi) shares, and the establishment of foreign investment venture capital firms. Notwithstanding these liberalizing steps, SIA strongly urges China to make the following additional commitments in the ongoing WTO financial services discussions:

Market Access – Permit foreign firms to set up a securities company in China, either through a wholly-owned entity or other business ownership structure, with power to engage in a full range of securities activities, including underwriting, secondary trading of government and corporate debt and A shares, etc. Firms should have the right to establish offices without geographical limitation.

Asset Management – Permit foreign firms to manage money for Chinese investors, both retail and institutional, as well as to sell internationally diversified mutual funds to individuals through qualified local distributors.

Foreign Ownership Limits – Lift foreign ownership restrictions and permit foreign investment in certain sectors and/or state-owned businesses, e.g., insurance, banking and asset management.

Although U.S. firms still lack the basic access needed to compete effectively, the lack of a strong legal foundation in China further complicates the ability of U.S. firms and their clients to participate. An unwelcome level of regulatory risk characterizes China's business climate and acts as a severe tax on capital. A recent PriceWaterhouseCoopers' report measured the adverse effect of opacity on the availability of capital in 35 countries.[5] Not surprisingly, the report ranked China at the bottom with an opacity score equivalent to an additional 46 percent corporate income tax.[6] China also placed last in legal and judicial opacity, as well as regulatory uncertainty and arbitrariness.

If China is to sustain long-term economic growth and continue to attract the foreign capital it needs, it must improve its legal infrastructure. Greater transparency will be a critical part of improving the rule of law in China. Transparent and fair regulatory systems play an integral role in the development of deep, liquid capital markets that, in turn, attract market participants, increase efficiency, and spur economic growth and job creation. A high level of transparency also ensures that foreign firms are accorded national treatment. Perhaps most importantly, transparency enhances investors' trust and assists international capital flows. Lack of transparency in the implementation of laws and regulations can seriously impede the ability of securities firms to compete.

SIA has published a paper (Appendix I) that serves as a blueprint for establishing transparency. The paper underscores the key guiding principles of fair and transparent regulations as follows: 1) rules, regulations and licensing requirements should be considered and imposed, and regulatory actions should be taken, only for the purpose of achieving legitimate public policy objectives that are expressly identified; 2) regulation should be enforced in a fair and non-discriminatory manner; 3) regulations should be clear and understandable; 4) all regulations should be publicly available at all times; and 5) regulators should issue and make available to the public final regulatory actions and the basis for those actions, in order to enhance public understanding thereof.

We also note an American Chamber of Commerce in China White Paper[7] that commented on the importance that "consistency" has on building the rule of law. Defining "consistency" as "…the fair, reliable, and nondiscriminatory application and enforcement of both laws and contracts," the Chamber's report noted, "Inconsistent enforcement of contracts and laws continues to limit further increases in foreign investment." For example, local courts tend to rule in favor of local business in commercial disputes with foreign companies.[8] Rules and regulations on bankruptcy and intellectual property rights, among others, must be clear, fairly applied and enforceable. The development of such rules and regulations will attract and improve access to financing.

Continued liberalization of China's capital markets has clear benefits for China and the global economy. It is a long-established U.S. policy to promote economic growth through open financial services markets. Global economic integration facilitates the importation of capital and intermediate goods that may not be available in a country's home market at comparable cost. Similarly, global markets improve the efficient allocation of resources. Countries gain better access to financing, and the suppliers of capital – institutional investors or individual savers – receive better returns on their investments.

Finally, open, fair markets help increase living standards. We look forward to working with this Commission, the Administration, and Congress to further expand the U.S. securities industry's access to China through the use of bilateral and multilateral trade forums.

Thank you very much for the opportunity to testify.

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FOOTNOTES

[1] SIA represents the shared interests of nearly 700 securities firms. SIA member-firms (including investment banks, broker-dealers and mutual fund companies) are active in all phases of corporate and public finance. The U.S. securities industry manages the accounts of nearly 80 million investors directly and indirectly through corporate, thrift, and pension plans. In 2000, the industry generated $314 billion of revenue directly in the U.S. economy. Securities firms employ over 700,000 individuals in the U.S.

[2] The American Embassy In China, http://www.usembassy-china.org.cn/english/economics/

[3] Financial Liberalization and Financing Constraints: Evidence From Panel Data on Emerging Economies, Luc Laeven, World Bank, October 2000, http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/(attachmentweb)/wp002467/$FILE/wp002467.pdf

[4] Governments often use economic needs tests to discourage new foreign direct investment, and take into account, *inter alia*, the number of existing firms, level of competition, and the size of the market as criteria in the process of granting a license to establish a commercial presence.

[5] PriceWaterhouseCoopers, The Opacity Index, January 2001. Opacity is based on 5 different factors that impact capital markets: 1) corruption; 2) legal system; 3) government and macroeconomic and fiscal policies; 4) accounting standards and practices (including corporate governance and information release); and 5) regulatory regime.

[6] The study uses Singapore as the benchmark, so that an increase in opacity from the Singaporean level to the Chinese level has the same negative effect on investment as raising the tax rate by 46 percent.

[7] 2001 White Paper on American Business in China, February 3, 2001.

[8] China Tackles Murky Local Regulations To Ensure Adherence With WTO Pledges, Peter Wonacott, November 27, 2001.

APPENDIX I

PROMOTING FAIR AND TRANSPARENT REGULATION

DISCUSSION PAPER

I. Setting The Foundation for Open and Fair Securities Markets

Deep and liquid capital markets are the essential building blocks of today's economy, supplying the funds for economic growth and job creation. The firms that participate in the markets price risk, allocate capital, provide investors with advice and investment opportunities, and supply the liquidity needed to make markets work efficiently.

Just as capital markets underpin economic growth and job creation, transparent and fair regulatory systems are essential to the development of deep and liquid capital markets. A system of regulation that is transparent to market participants instills the confidence needed to attract both the suppliers and users of capital to make the best use of the markets.

Governments, regulators and the international financial institutions have undertaken substantial projects designed to improve the quality of the financial systems world-wide. Attention is now focused on building fair and transparent regulatory systems – grounded in the principles of market integrity and investor protection – to oversee those markets. Consistent with those goals and the principles of prudential regulation, discriminatory practices and considerations, such as the nationality of individuals or the place of origin of firms, should not be permitted to influence regulatory policies or actions.

This paper is based on the assumption that a country's relevant laws should promote fair and transparent regulation. The principles outlined in this paper are not intended to prevent a regulator from taking measures for prudential or legitimate public policy reasons recognized under the World Trade Organization, including protecting investors, ensuring that markets are fair, efficient and transparent, and reducing systemic risk.

A consensus view, supporting the development of active, sound and efficient markets based upon established principles for capital market regulation, is rapidly emerging. In September 1998, the International Organization of Securities Commissions (IOSCO) issued a paper entitled "The Objectives and Principles of Securities Regulation" that urged the adoption by all regulators of processes and regulations that are:

- consistently applied;
- comprehensible;
- transparent to the public; and
- fair and equitable.

The International Monetary Fund ("IMF") is developing a broad-based "Code on Good Practices and Transparency in Monetary and Financial Policies" that complements IOSCO's work.

The securities industry, which today operates on a global basis, supports the IMF and IOSCO efforts to establish principles of fair and transparent regulation. The securities industry strongly believes that by making regulation and the operation of regulators accessible and transparent and by treating foreign and domestic licensed market participants fairly and equitably, governments, regulators and international financial institutions will promote the best markets for investors throughout the world.

Building on the emerging regulatory consensus, this paper provides the views of the securities industry on fundamental regulatory principles and practices that will provide a fair and level playing field for market participants. It also sets the foundation for building strong and vibrant markets worldwide. Moreover, we strongly believe that the principles promoting fair and transparent markets are broadly applicable to all financial services firms participating in the global capital markets. In this regard, we are actively seeking the support of financial services firms worldwide in promoting these principles.

II. Guiding Principles of Fair and Transparent Regulation

A. *Rules, regulations and licensing requirements should be considered and imposed, and regulatory actions should be taken, only for the purpose of achieving legitimate public policy objectives that are expressly identified, including, for example, investor protection, maintaining fair, efficient, and transparent markets, and reducing systemic risk.*

B. *Regulation should be enforced in a fair and non-discriminatory manner.*

1. *Regulations and regulators*[1] *should not discriminate among licensed market participants on the basis of the nationality or jurisdiction of establishment of the shareholders of a market participant or the jurisdiction of establishment of any entity that owns or controls the equity or indebtedness of a market participant.*

2. *The relationship between a regulator and a licensed market participant should be governed by the standards set forth in relevant rules and regulations, and should not be subject to political or other extraneous or improper considerations.*

3. *The introduction of new securities products and services by firms should be governed by the standards set forth in relevant rules and regulations*

C. *Regulations should be clear and understandable.* Clear and understandable regulations and rulings provide market participants with the predictability and necessary knowledge to comply with regulations. Opaque or ambiguous regulations and rulings create uncertainty among investors and licensed market participants.

D. *All regulations should be publicly available at all times.* All regulations should be made, and at all times remain, publicly available, including requirements to obtain, renew or retain authorization to supply a service. Disciplinary actions should not be taken based on violations of regulatory standards that were not in effect at the time the relevant activity took place.

E. *Regulators should issue and make available to the public final regulatory actions and the basis for those actions, in order to enhance public understanding thereof.*

III. Rulemaking and Implementation

A. *The rulemaking process*

1. *Regulators should utilize open and public processes for consultation with the public on proposals for new regulations and changes to existing regulations.* A reasonable period for public comment should be provided. Any hearings at which formal promulgation or adoption of new regulations or changes to existing regulations are considered, if open to a member of the public, should be open to all members of the public. Regulators should not take arbitrary regulatory action against those who participate in the consultation process.

2. *In considering whether rules, regulations, licensing requirements or actions are necessary or appropriate, regulators should also consider, in addition to the protection of investors, whether the action will promote efficiency, competition and capital formation.*

B. *Communicating and implementing new rules*

1. *New rules and regulations that provide advice for market participants should be made available to them and the public in a timely and efficient manner*. Such changes should be made available, in writing, by electronic media or other means of distribution so that all market participants have reasonable access to such material.

2. *Market participants should be given a reasonable period of time to implement new regulations.* The effective date of a new regulation should provide a reasonable period for market participants to take the steps needed to implement the new regulation under the circumstances.

C. *Interpretations of rules*

1. *Regulators should establish a mechanism to respond to inquiries on rules and regulations from market participants*. The titles and official addresses of the relevant regulatory offices should be provided.

2. *Interpretations and the grants or denials of regulatory relief or exemptions should be made available to the public*. Such interpretations, relief or exemptions should generally apply or should be applied upon proper request, to substantially similar licensed market participants and new products. Under limited circumstances it may be appropriate to delay the publication of individual grants of relief for reasonable periods of time to address legitimate competitive concerns.

IV. Licensing and New Product Procedures

A. *Procedures for licenses and introduction of new securities products and services*.

1. *Criteria governing licensing of firms and the introduction of new securities products and services by firms should be in writing and accessible, and should be the basis on which decisions are made*. All regulations and related explanatory materials governing the consideration and issuance of licenses to firms and the introduction of new securities products and services by firms should be reduced to writing and made publicly available to potential applicants upon request. No licensee should be denied a license, and no new securities product or service should be prohibited, on the basis of any factor not identified in such written regulations or explanations.

2. *The introduction of new securities products and services by firms should be governed by the standards set forth in relevant rules and regulations*. Where particular requirements are established in connection with the introduction of a product or service, such requirements should govern the introduction of complying products and services. In order to promote flexibility and efficiency in the capital markets, such standards and requirements should enable firms, to the maximum possible degree consistent with principles of prudence and investor protection, to introduce complying new products and services on the basis of sound internal procedures for compliance without additional regulatory review.

3. *Information supplied by applicants as part of an application process should be treated confidentially. Such information should be disclosed only in accordance with existing rules permitting public disclosures, such as those that may be triggered by the granting of a license or product approval.*

4. *Regulators should promptly review all applications by firms for licenses and required product or service approvals and should inform the applicant of any deficiencies*. No application for a license or approval that provides all information required pursuant to regulation and is made in good faith by an applicant that meets required criteria should be refused review and action by the relevant regulator. Action on all applications received should be taken within a reasonable period. Licenses should enter into force immediately upon being granted, in accordance with the terms and conditions specified therein.

5. *Where an examination is required for the licensing of an individual, regulators should schedule such examinations at reasonably frequent intervals*. Examinations should be open to all eligible applicants, including foreign and foreign-qualified applicants.

6. *Fees charged in connection with licenses and the introduction of new securities products and services should be fair and reasonable and not act to prohibit or otherwise unreasonably limit licensing requests or the introduction of new product and services.*

B. *Licensing of entities and their employees*

1. *An applicant's competence and ability to supply the service should be the criteria used for licensing entities and employees*. The terms and conditions for granting licenses should be made explicit, including education, experience, examinations and ethics. Procedures and criteria should not unfairly distinguish between domestic and foreign applicants. In addition, there should be no quantitative limits on the number of licenses to be granted to a particular class of market participants who are otherwise qualified.

2. *When imposing licensing requirements, regulators should endeavor to give consideration to comparable testing or other procedures confirming the qualifications of an applicant that already have been completed in another jurisdiction*. The ability of qualified and experienced market professionals to provide services in a foreign jurisdiction may be promoted where testing or other procedures used in the professional's home jurisdiction may satisfy all or part of the foreign jurisdiction's licensing requirements.

C. *Denials of licenses and product and service approvals*

1. *When denying an application for a license or a required securities product or service approval, regulators should, upon request, provide an explanation for that action*. Any total or partial denial of any application for a license or a required new product or service approval should, upon request, be accompanied by a written statement of explanation from the relevant regulator detailing the reasons for the denial, including the particular requirements of the regulations governing the issuance of such license or required approval that were not satisfied. Applicants should be given the opportunity to resubmit applications or to file additional or supplementary materials in support of their applications.

2. *Applicants should be afforded meaningful access to administrative or judicial appeal of a denial of a license or a required product or service approval (or failure to act on an application).*

3. *An appeal of a denial of a license or a required product or service approval should be decided within a reasonable time period after the appeal is filed.* An applicant's decision to pursue an appeal (whether formal or informal) should not prejudice its existing licensed operations.

V. Implementation of Regulatory Standards

A. *Inspections, audits, investigations and regulatory enforcement proceedings*[2]

1. *All inspections, audits, investigations and regulatory enforcement proceedings should be*

conducted pursuant to established regulatory and judicial standards and should not arbitrarily discriminate based on improper or other extraneous criteria like nationality.

2. *All inspections, audits, and investigations should be conducted in a manner that does not impinge on the rights of licensed market participants and their directors, officers and employees*.

3. *A regulatory authority*[3] *should not publicly disclose the fact that it is conducting an enforcement related inspection, audit or investigation of a particular entity until a determination has been made by the regulatory authority to take remedial or other enforcement-related action, unless otherwise subject to a legally enforceable demand unless made in connection with a generally applicable disclosure requirement imposed on the entity*. The inspection, audit or investigation should be conducted at all times with due attention to the privacy and confidentiality concerns of all affected parties, including licensed market participants, their directors, officers, employees, and clients.

B. *Regulatory proceedings to impose a sanction*

1. Notice and opportunity to be heard

   a. *Notice of applicable law and regulation*. A regulatory proceeding to impose a sanction should only be instituted based on the violation of laws or regulations that were in effect at the time that the relevant activity occurred and where the subject of the proceeding had timely notice of them.

   b. *Notice of determination to take action*. Licensed market participants should be notified in a timely manner both when: 1) a determination has been made to hold a regulatory proceeding concerning the conduct of that participant; and 2) a decision in, or on the status of, that proceeding has been made.

   c. *Opportunity to be heard*. Except in situations where emergency temporary relief is necessary, in all regulatory proceedings, licensed market participants should be given a reasonable opportunity to be heard and to submit, on the record, position papers and other documentary evidence.

2. Representation by counsel and access to evidence

   a. *Right to legal counsel*. The subjects of a regulatory proceeding should have the right to have legal counsel of their choice represent them in all meetings with, and interviews by, regulatory authorities. A regulatory authority should not suggest or imply that the attendance of counsel will in any manner alter the character of the proceedings being conducted, the level of supervisory review to be undertaken, or the manner in which the regulatory authority carries out its functions.

   b. *Access to evidence*. The subjects of a regulatory proceeding should, upon request, be permitted reasonable access to all documents and records that are relevant to the subject matter involved in the pending regulatory action. Documents and records to which access is denied based on privileges generally recognized in such proceedings should not be admissible in evidence in such regulatory proceeding.

   c. *Burden of proof*. The burden of proof to demonstrate that a licensed market participant has not conducted its business in accordance with the relevant law and regulation should rest with the regulatory authorities.

3. Sanctions and Appeals

   a. *Sanctions*. Sanctions by a regulatory authority should be imposed in a fair and nondiscriminatory manner based on the relevant facts and with an effort to treat similarly situated persons and entities in a similar manner. The basis for any decision to impose sanctions by a regulatory authority should be explained in a writing that is made available to the subjects of the proceeding.

b. *Appeals*. The subjects of a regulatory proceeding should have available to them a forum for appealing the decisions rendered and sanctions imposed. The body considering a particular level of appeal should be separate from that which made the decision or imposed the sanction that forms the basis of the appeal. Appeals to a regulatory authority should be decided in a timely manner and appeal determinations should be explained in a writing that is made available to the subjects of the proceeding.

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FOOTNOTES:

[1] The term "regulator" is intended to cover all bodies that are authorized pursuant to law to play a role in the licensing and supervision of the activities of financial services firms, as well as the bodies that formulate rules, regulations and policies relating to such firms. Where the legislature or authorized regulator delegates its authority to a non-governmental entity such as a self-regulatory organization or trade association, the term is intended to encompass such an entity.

[2] The term "regulatory enforcement proceedings" means administrative or judicial action authorized by the relevant regulatory authority and is intended to cover civil, administrative or criminal proceedings that involve a financial services firm and/or its employees based on their financial services activities.

[3] The term "regulatory authority" is intended to cover all regulatory bodies involved in the inspection, auditing, investigation or prosecution of the activities of financial services firms. Depending on the system, the term may encompass criminal and judicial authorities as well as non-governmental entities such as self-regulatory organizations.

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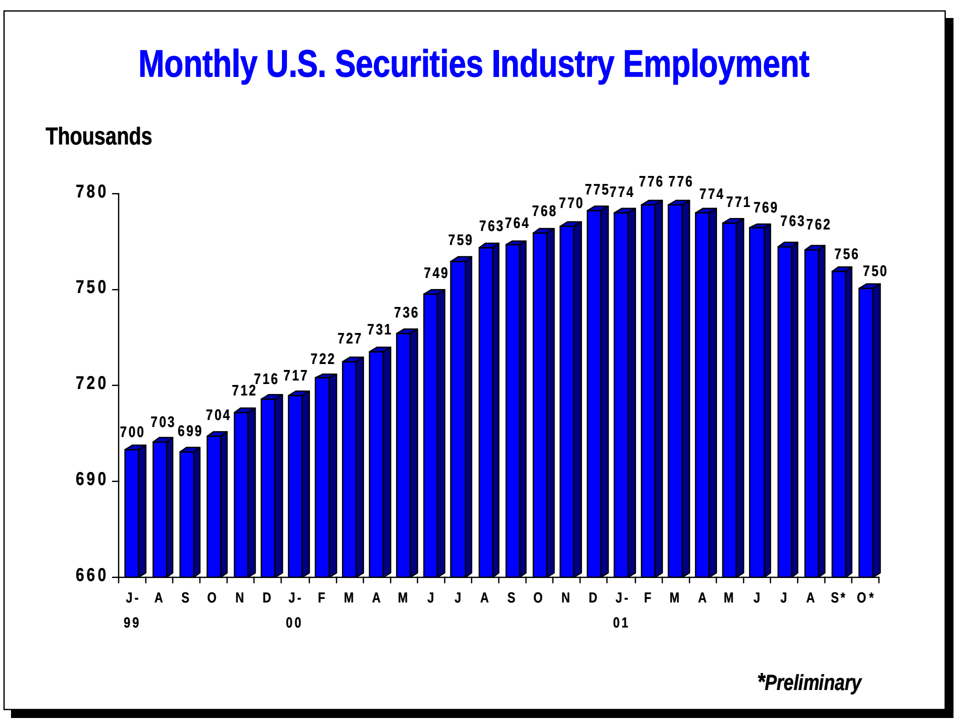
SECURITIES INDUSTRY EMPLOYMENT DOWNTURN

NOTE TO READERS: this month's article provides commentary on our monthly employment statistics web page which can be found at: http://www.sia.com/reference_materials/html/research_reports.html.

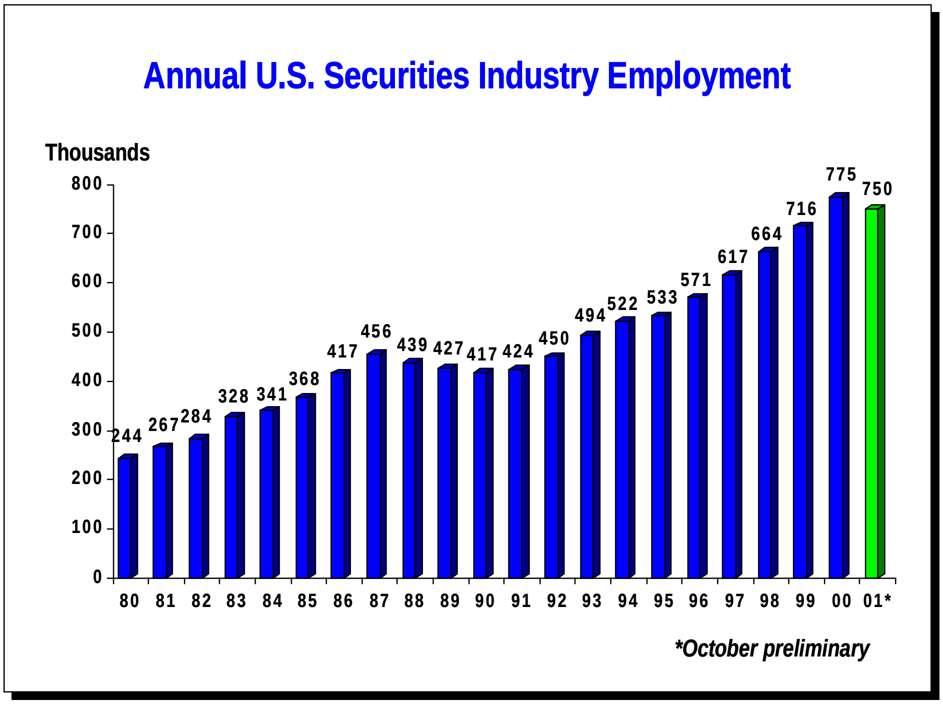
More details on this and other aspects of industry's trends over the past year and decade will be included in SIA's year-end *Securities Industry Trends* publication, a subscription-based publication to be released during the last week of December, at: http://www.sia.com/reference_materials/html/securities_industrytrends.html.

DOMESTIC SECURITIES INDUSTRY EMPLOYMENT

The U.S. domestic securities industry reached an all time peak of 776,400 employees in February 2001. A short eight months later, national securities industry employment retreated to 750,400 by October 2001. This is expected to be revised downward from the preliminary count and all indications are that in November 2001 employment fell further. The February to October 2001 decline equaled a nationwide loss of 26,000 domestic securities industry positions, or 3.3% in just eight months. The current bear market was the main culprit for the position cuts but job reductions were accelerated by the World Trade Center (WTC) disaster. While obviously dramatic in scope, securities industry job losses so far during this bear cycle equate to only 62.4% of the industry's nationwide job losses suffered a decade ago during the 1988-1990 bear cycle, despite the fact that the industry was much, much smaller then than today. The percentage loss a decade ago was 9.1%, three times the current percentage decline for national securities industry employment.

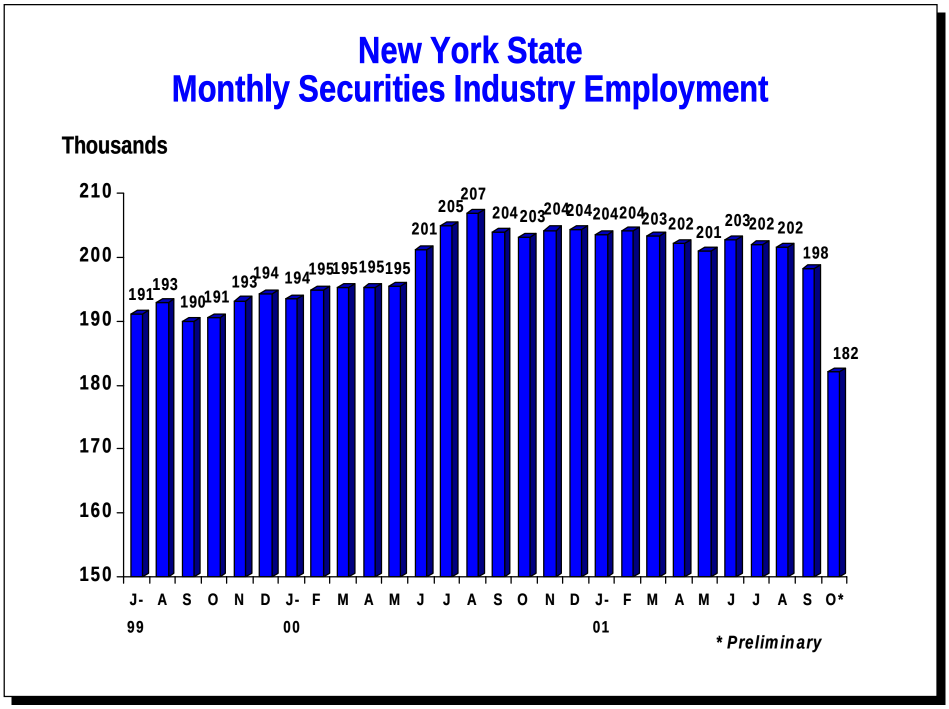


From the December 1987 peak of 456,300 domestic securities industry employees nationwide, immediately following the October 1987 stock market crash, to the contemporary trough of 414,600 employees in February 1991, the industry suffered a total nationwide securities industry job loss of 41,700, or 9.1%. Still, on a year-end to year-end basis, 2001 will remain either the second or third highest year for nationwide securities industry employment behind December 2000's 774,700, though the impact of business conditions, consolidation, downsizing and after effects of September 11th will extend into 2002.

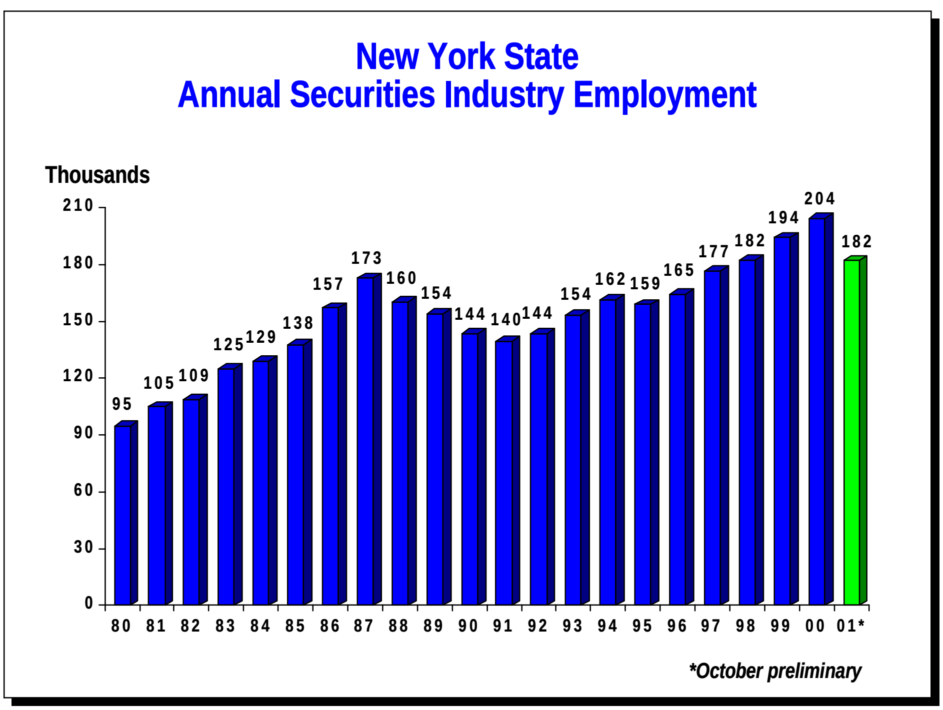


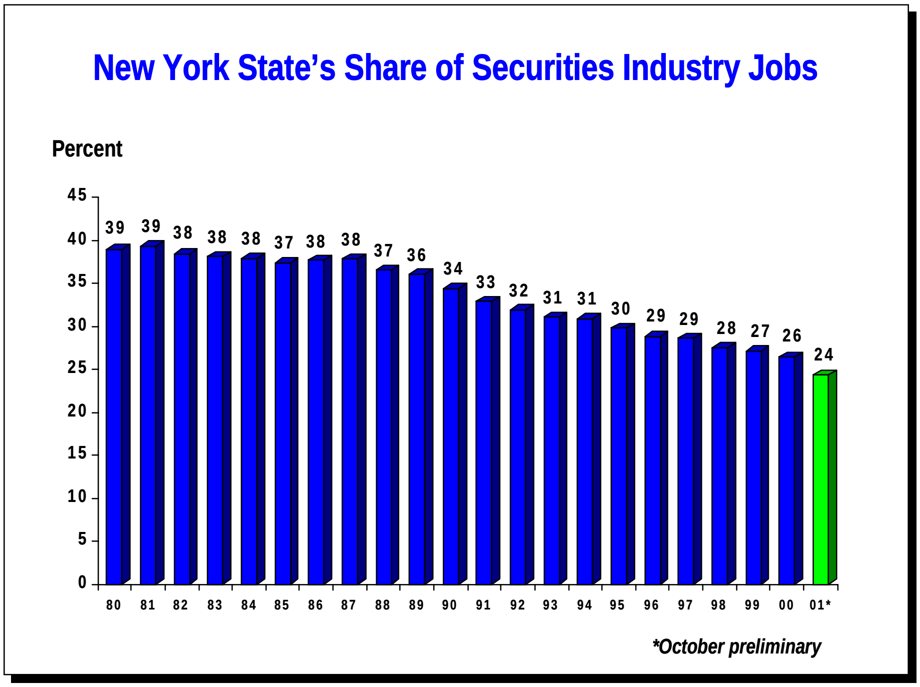
NEW YORK STATE SECURITIES INDUSTRY EMPLOYMENT

From the all time peak of 206,800 New York State's securities industry job base attained in August 2000, to the current, level of 182,100 positions as of this October 2001, the state lost 24,700 of its critical base of securities professionals. This has been a devastating effect on many of the state's highest quality and tax-generating jobs in slightly over one year, and the clock has not yet stopped ticking. With 91% of the state's securities industry job base located within New York City itself (mainly Manhattan), the effects on the city have been, and will continue to be, even more profound. This 24,700 statewide securities industry personnel job accretion was an 11.9% drop in just over one year. Further, this equates to 95% of all of the U.S. securities industry job losses nationwide this year. With this statewide (principally citywide) securities industry job reduction cycle still slightly over one year old, it already equates to 70.4% of the nationwide job securities industry job losses experienced during the nearly three-year post-1987 Crash securities personnel job loss cycle. The nationwide 3.3% fall in securities jobs this year pales in comparison to New York State's current 11.9% decline in securities personnel through October 2001, which, is far from over. Further, as bad as this is for the state, it doesn't nearly approach New York City's more severe and concentrated devastation.

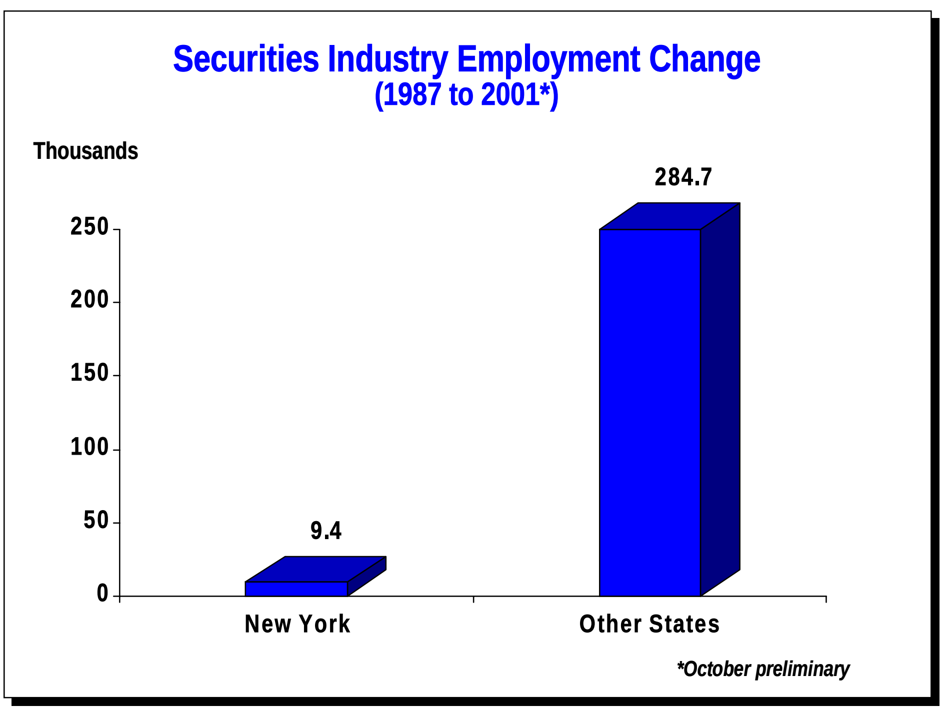


From the then-record peak of 172,700 New York State securities industry employees in December 1987 (principally in Manhattan), again immediately following the October 1987 stock market crash, to the ensuing trough of 137,600 employees by October 1991, the state's securities job market suffered a total loss of 35,100, or 20.3%, a record percentage drop for any state or the nation (data only goes back to 1947), and was devastating to the New York City and State economies. This was also 84.2% of the nationwide securities industry job losses during the recession which followed the 1987 stock market Crash. Both the unfortunate fatalities and job relocations across the river played as large a part in this recent drop as the bear cycle itself.





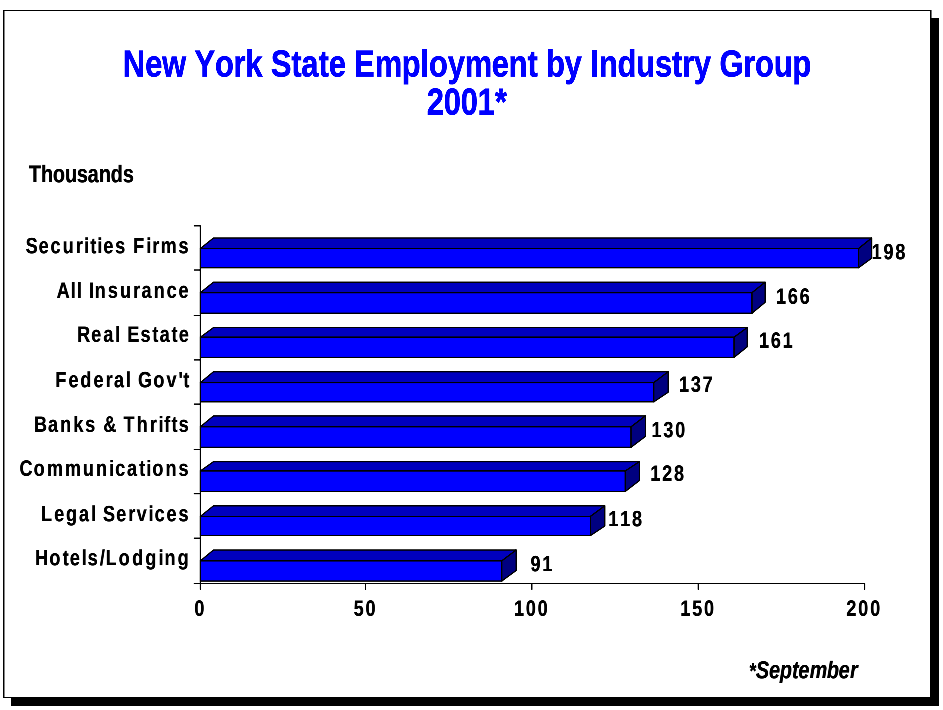
Although direct securities industry employment nationwide has more than tripled since the beginning of 1980, New York State's share of that employment has steadily declined from 39% to just 24% during the same time frame. These changes also brought a new awareness of the critical importance of controlling costs in a competitive and cyclical atmosphere. New York, in most respects, has higher rent, labor, tax and other costs of doing business than many other locations. Since year-end 1987 through this October, New York has gained a mere 9,400 net jobs vs. 284,700 jobs in the other 49 states, particularly large or neighboring states. That's a frightening 30.3x larger job creation for the securities industry in the 49 states outside of New York.



Although migration of New York securities industry jobs out of state has long been the case, the cost and other disadvantages (i.e., the just mentioned higher rent, labor, tax and other costs) New York now faces are far more significant in today's post September 11th environment. Forced relocations across the Hudson River or elsewhere, continued intense competition among both non-New York domestic and global financial service conglomerates for New York brokerages and borders that are becoming meaningless because of technological developments add to the undesirability of locating in lower Manhattan in the aftermath of the recent attacks.

The events of September 11th, have also both exacerbated the need, and accelerated the trend, toward geographic disbursement for back-up or redundant facilities for technology, communications infrastructure, physical plant and, of course, personnel. These, along with transportation problems downtown and psychological reactions to the WTC site, are just some of the many issues which need to be addressed to prevent further permanent relocations from downtown, for both the securities industry and others. Even if migration continues from lower Manhattan, these positions do not necessarily have to leave New York City or State itself if addressed immediately.

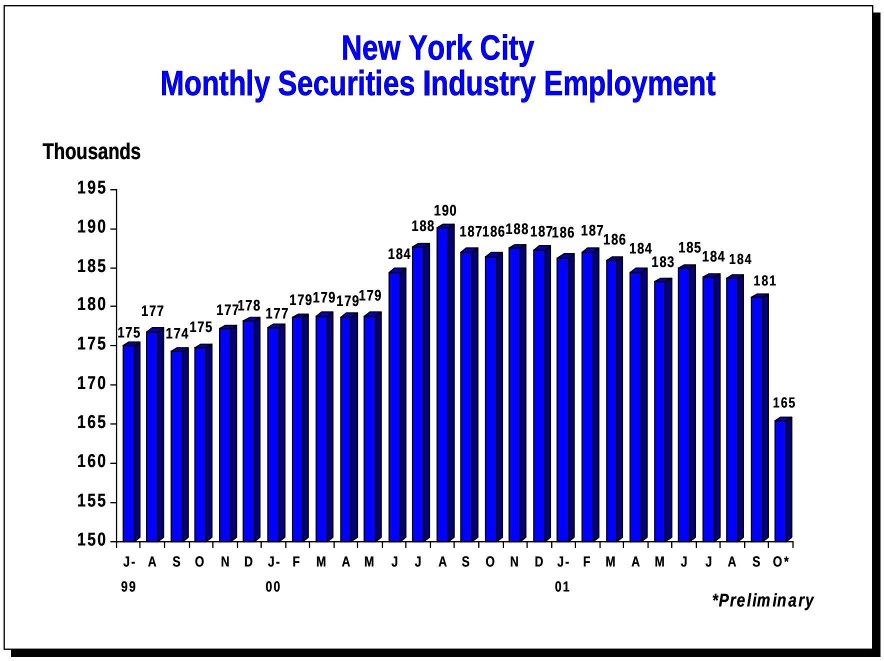
This exodus will also severely impact the many other New York industries serving the securities industry such as publishing, accounting, marketing, legal, computer, and business services companies which all supply key inputs to financial firms, and tend to locate in proximity to their customer base. Further, the fluctuations in Wall Street paychecks tend to influence the fortunes of the retail, restaurant, and entertainment industries in New York. These are challenges which need to be addressed immediately, in particular, as well as long-term by the State and City.



In addition to the industries supported either largely or in part by the state's securities industry, it is often overlooked how important in jobs, and much more important in tax revenue, that Wall Street is vs. other state industries. The above chart shows just a few of the state's key industries which are smaller in personnel alone, and much smaller in the state's tax revenue base.

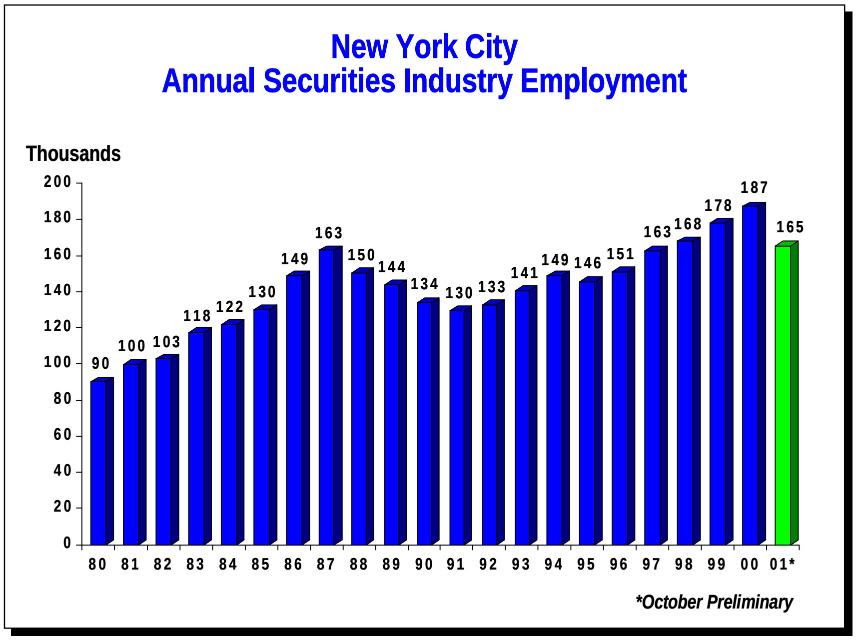
NEW YORK CITY SECURITIES INDUSTRY EMPLOYMENT

With the New York State securities industry totally concentrated in New York City (over 91% of statewide securities jobs are in the city, mainly in Manhattan), and just under one out of four nationwide securities positions are also in New York City (again all virtually in Manhattan), the picture was and is even bleaker for the city than that for the state during the current down cycle. Wall Street's woes a decade ago was one of the over-riding causes of a deep city depression which far outlasted and was far more severe than the nation's relatively minor and short downturn.

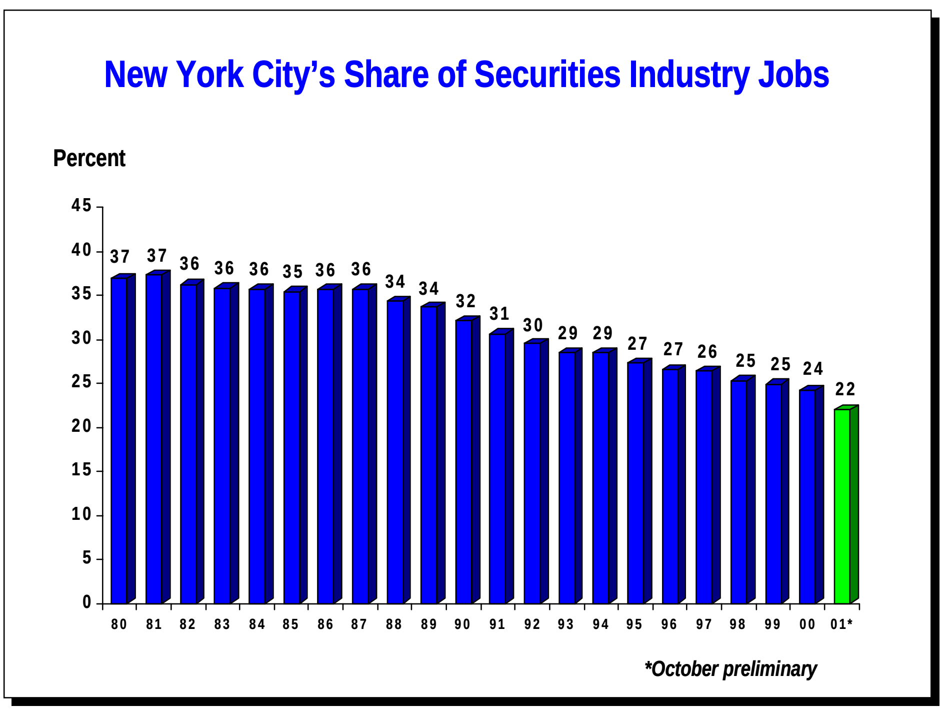


Following the WTC disaster, NYC securities industry employment plummeted to 165,400 in October from an all time peak of 190,100 posted merely one year earlier in August 2000. This was a devastating and unprecedented loss of 24,700 securities professionals in the city, a 13.0% fall – again, largely from adverse business conditions but exacerbated by fatalities and out-of-town relocations. Not surprisingly, the city's headcount drop exactly equaled the state's and accounted for 95% of the industry's nationwide job reductions during this cycle.

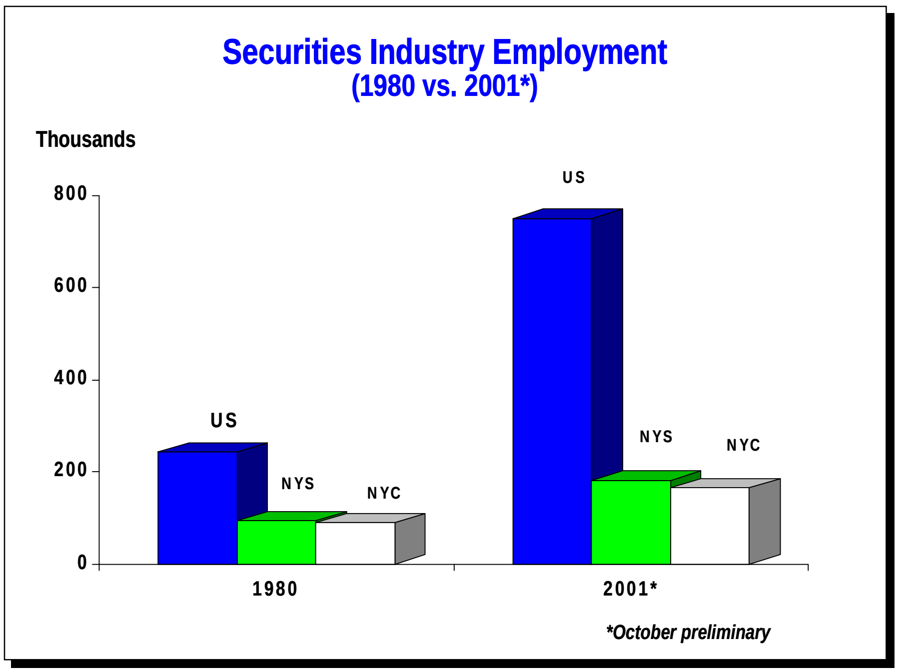
In the 1988-91 bear cycle, New York City's job losses accounted for a sizable 70.4% of America's lost securities professionals, not nearly as concentrated as today's situation but again, New York City always takes the brunt of losses for this industry since it still accounts for roughly a quarter of every securities job nationwide.



October 2001 alone saw the disappearance or migration of 15,800 securities industries jobs out of the city, by far the largest monthly decrease ever. Of the total, 83% were WTC related: 12,000 were relocations out of the city and over 1,100 were fatalities in the industry. Month to month this was an 8% decline and amazingly accounts for 63% of the city's securities industry job losses since September 2000 alone.



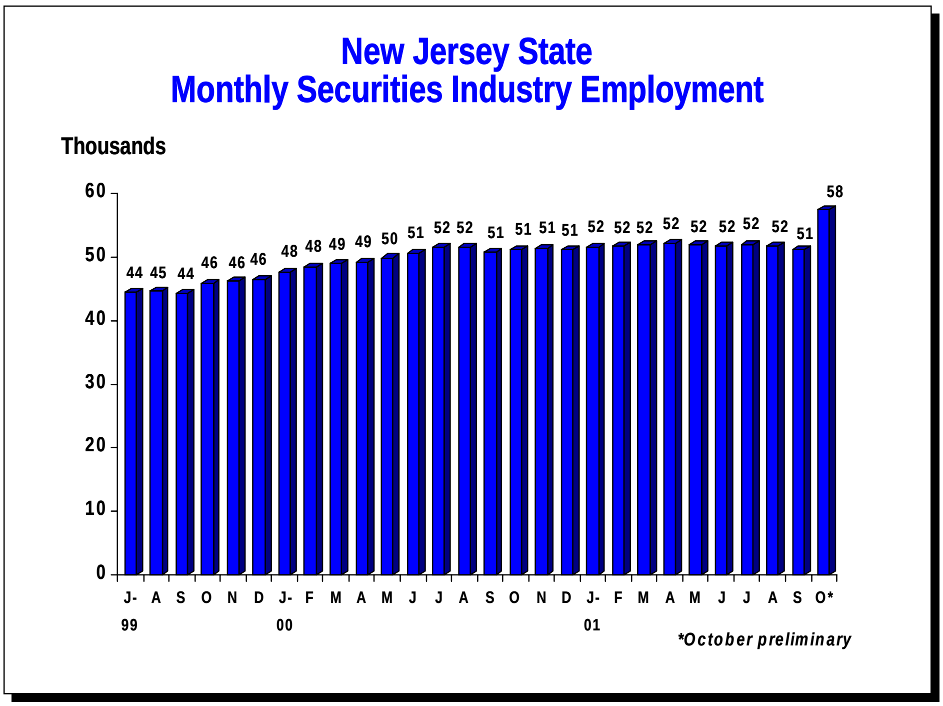
Not surprisingly, the city's headcount drop exactly equaled the state's during the current bear cycle, 27,400, while also amazingly accounting for 105% of the industry's total nationwide job reductions during the current bear cycle. In other words, outside of New York, there has been net job creation even during this bear period. The city's job losses will have a much greater impact on New York City's economy than the state and will even more severely impact many other New York industries. Taking into account the industries that directly support Wall Street or benefit from Wall Street income, the Commerce Department has estimated that each job in the city's securities industry generates about two additional city jobs. According to this estimate, roughly 14% of total employment in New York City is related, either directly or indirectly, to the securities industry.



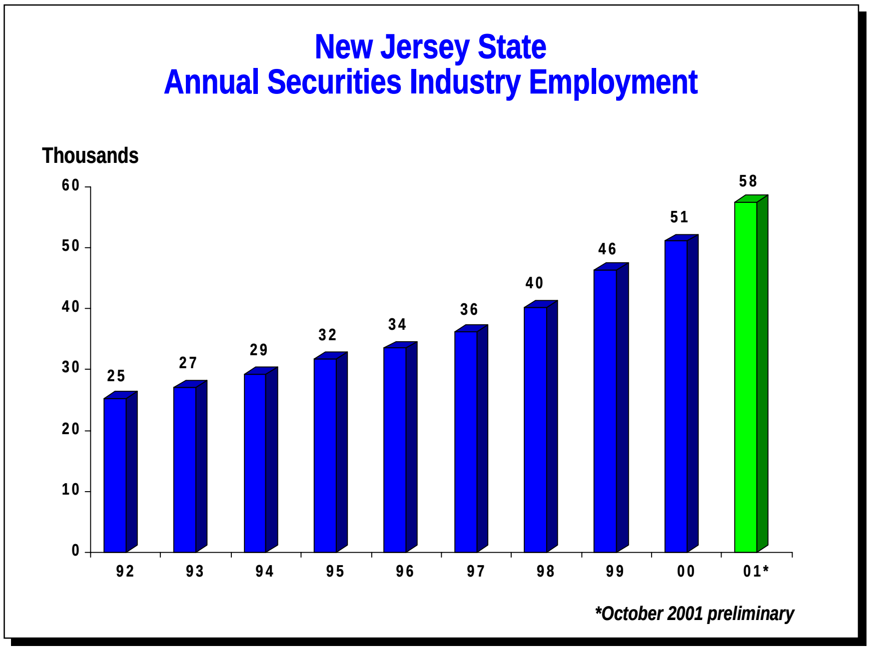
The Commerce Department noted that publishing, accounting, marketing, legal, computer, and business services companies all supply key inputs to financial firms and that fluctuations in Wall Street paychecks tend to influence the fortunes of the city's retail, restaurant, and entertainment industries. Again, these are challenges that need to be addressed immediately.

NEW JERSEY, THE HANDS DOWN WINNER

New Jersey's securities industry job base has steadily grown for years but shot up massively since the WTC relocations were necessitated. Some of these jobs may migrate back to New York City, but many will not and groups of securities firms (and their vendors) are planning new building across the Hudson, or new leases, for redundant back up facilities. Despite a slight dip of 600 securities jobs in New Jersey in September (not surprisingly), in October, the state gained 6,300 new securities industry positions. That is a *one month gain* of 12.0% for New Jersey vs. New York City's 8.0% loss for October and a national decline of a mere 0.7%, totally New York City loss driven.



Put another way, New Jersey's securities industry job gain of 6,300 in October equaled 40% of New York City's October job loss of 15,800 securities professionals. Thus, if not for New York City's job losses, the nation's securities industry job base would have increased by 4,200, and relocations are in no way part of this calculation.



On an annual basis, in just under nine years (January 1983 through October 2001), New Jersey's securities industry job market has increased 2.3-fold.

SECURITITIES INDUSTRY EMPLOYMENT
(in thousands)

Year End	U.S.	Change From Prior Year (U.S.)	N.Y. State	Change From Prior Year (N.Y. State)	N.Y. State as % of U.S.	N.Y. City	Change From Prior Year (N.Y. City)	N.Y. City as % of N.Y. State	N.Y. City as % of U.S.
1973	182.1	-9.6%	77.4	-15.1%	42.5%	74.5	-15.0%	96.3%	40.9%
1974	167.1	-8.2%	69.0	-10.9%	41.3%	66.1	-11.3%	95.8%	39.6%
1975	171.3	2.5%	69.4	0.6%	40.5%	67.0	1.4%	96.5%	39.1%
1976	177.4	3.6%	72.8	4.9%	41.0%	70.1	4.6%	96.3%	39.5%
1977	183.4	3.4%	73.3	0.7%	40.0%	70.2	0.1%	95.8%	38.3%
1978	194.3	5.9%	77.0	5.0%	39.6%	73.7	5.0%	95.7%	37.9%
1979	214.2	10.2%	82.1	6.6%	38.3%	78.4	6.4%	95.5%	36.6%
1980	243.7	13.8%	94.8	15.5%	38.9%	90.0	14.8%	94.9%	36.9%
1981	267.0	9.6%	105.0	10.8%	39.3%	99.6	10.7%	94.9%	37.3%
1982	283.8	6.3%	108.9	3.7%	38.4%	102.7	3.1%	94.3%	36.2%
1983	328.3	15.7%	125.0	14.8%	38.1%	117.5	14.4%	94.0%	35.8%
1984	341.1	3.9%	129.2	3.4%	37.9%	121.7	3.6%	94.2%	35.7%
1985	367.5	7.7%	137.6	6.5%	37.4%	130.0	6.8%	94.5%	35.4%
1986	417.1	13.5%	157.1	14.2%	37.7%	148.8	14.5%	94.7%	35.7%
1987	456.3	9.4%	172.7	9.9%	37.8%	163.0	9.5%	94.4%	35.7%
1988	438.7	-3.9%	160.3	-7.2%	36.5%	150.4	-7.7%	93.8%	34.3%
1989	426.9	-2.7%	154.1	-3.9%	36.1%	144.0	-4.3%	93.4%	33.7%
1990	417.4	-2.2%	143.5	-6.9%	34.4%	133.9	-7.0%	93.3%	32.1%
1991	424.1	1.6%	139.5	-2.8%	32.9%	129.6	-3.2%	92.9%	30.6%
1992	450.1	6.1%	143.5	2.9%	31.9%	132.8	2.5%	92.5%	29.5%
1993	494.0	9.8%	153.5	7.0%	31.1%	140.6	5.9%	91.6%	28.5%
1994	522.3	5.7%	161.6	5.3%	30.9%	148.8	5.8%	92.1%	28.5%
1995	533.0	2.0%	159.0	-1.6%	29.8%	145.5	-2.2%	91.5%	27.3%
1996	570.6	7.1%	164.5	3.5%	28.8%	151.0	3.8%	91.8%	26.5%
1997	616.6	8.1%	176.6	7.4%	28.6%	162.8	7.8%	92.2%	26.4%
1998	664.0	7.7%	182.4	3.3%	27.5%	167.9	3.1%	92.1%	25.3%
1999	715.8	7.8%	194.3	6.5%	27.1%	178.2	6.1%	91.7%	24.9%
2000	774.7	8.2%	204.3	5.1%	26.4%	187.3	5.1%	91.7%	24.2%
Jan:01	774.0	8.1%	203.5	5.2%	26.3%	186.3	5.0%	91.5%	24.1%
Feb:01	776.4	7.5%	204.1	4.7%	26.3%	187.0	4.7%	91.6%	24.1%
Mar:01	776.3	6.7%	203.3	4.1%	26.2%	185.9	4.0%	91.4%	23.9%
Apr:01	774.0	5.9%	202.2	3.5%	26.1%	184.4	3.2%	91.2%	23.8%
May:01	770.8	4.7%	200.9	2.8%	26.1%	183.2	2.5%	91.2%	23.8%
Jun: 01	769.2	2.8%	202.7	0.8%	26.4%	184.9	0.3%	91.2%	24.0%
July: 01	763.4	0.6%	201.9	-1.5%	26.4%	183.8	-2.0%	91.0%	24.1%
Aug: 01	762.3	-0.1%	201.5	-2.6%	26.4%	183.6	-3.4%	91.1%	24.1%
Sept: 01*	755.7	-1.1%	198.2	-2.8%	26.2%	181.2	-3.1%	91.4%	24.0%
Oct: 01*	750.4	-2.2%	182.1	-10.4%	24.3%	165.4	-11.3%	90.8%	22.0%

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MONTHLY STATISTICAL REVIEW

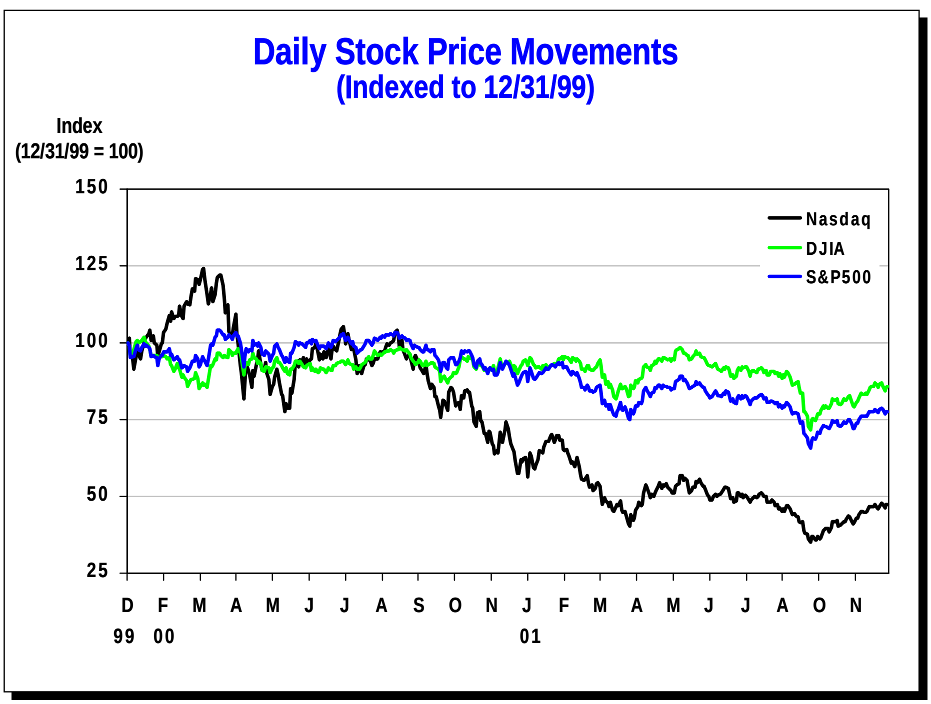
US Equity Market Activity

Stock Prices – In November, the US stock market recorded its biggest monthly gain since April. Several factors contributed to the strong rally, including military victories in Afghanistan, a further interest rate cut by the Fed, expectations of an economic recovery by mid-2002, and investor optimism for renewed profit growth next year.

The Nasdaq Composite surged 14.2% to end November at 1930.58. Meanwhile, the DJIA advanced 8.6% to 9851.56, and the S&P 500 rose 7.6% to 1139.45. It was the first time since November-December 1999 that all three major market gauges managed to string together two consecutive monthly gains.

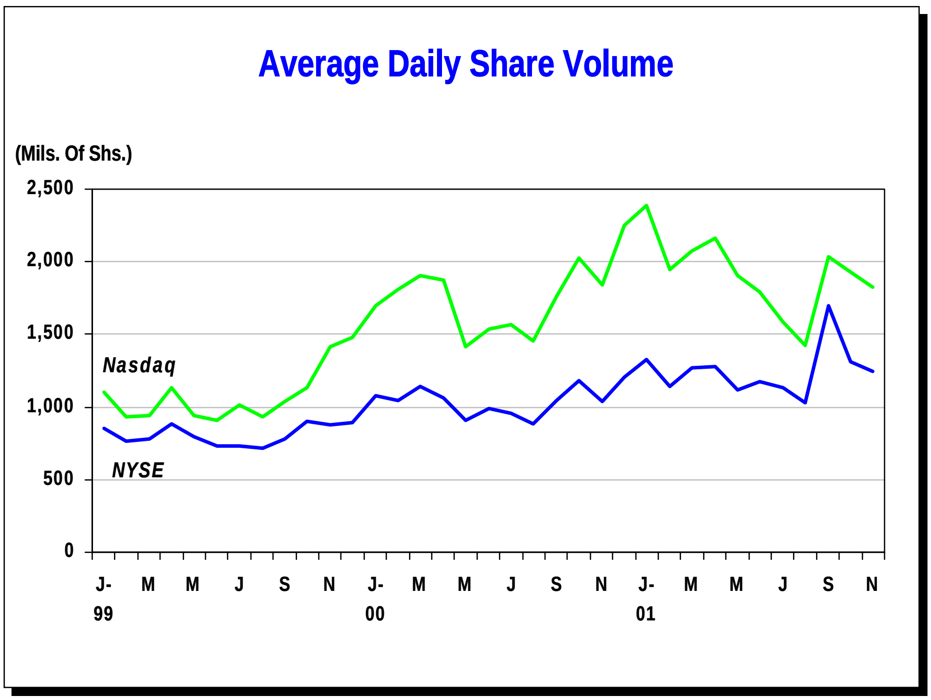
Since sinking to three-year lows on September 21 in the wake of the terrorist attacks on the WTC and the Pentagon, the Nasdaq, DJIA and S&P 500 indices have risen 35.7%, 19.6%, and 18.0%, respectively, through November 30. The evolution of the market prior to September 11 had led some technical analysts to point to signs of "bottom formation" and trading during the week of September 17-21 may have accelerated this process. As November came to a close, the market appeared to be at an "intermediate top". Trading activity is expected to stay strong in early December before seasonably slumping just prior to the holidays. Expected pre-announcement of fourth quarter earnings disappointments and year-end selling for "window dressing" purposes is expected to put a cap on the market's advance (particularly on small and medium cap listings), until the "January effect" comes into play in the New Year.

Even though rebounding sharply the last two months, the major market indices remain down for the year. The Nasdaq Composite has lost 21.9% year-to-date, while the S&P 500 shed 13.7% of its value and the DJIA dropped 8.7% over the same period. Further, all indices are still well below their all-time highs, with the Nasdaq Composite and S&P 500 down 61.8% and 25.4%, respectively, from their March 2000 highs, and the DJIA down 16.0% from its January 2000 peak.



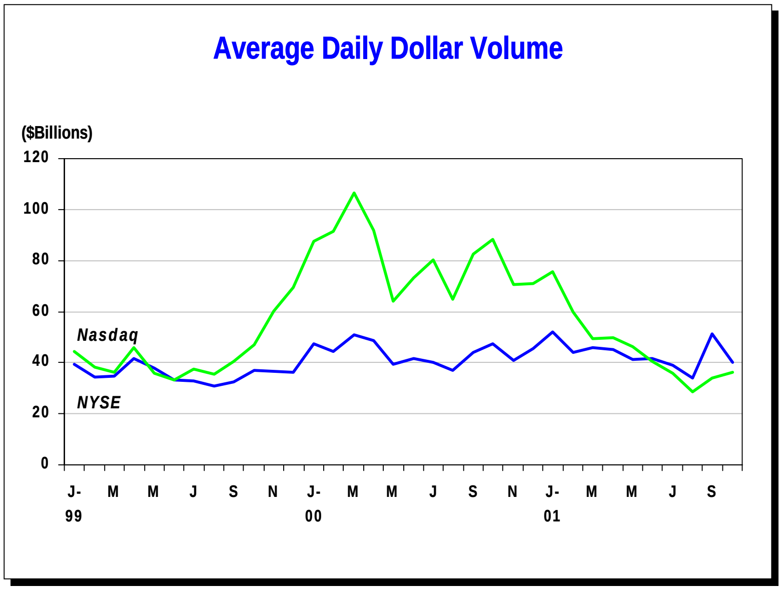
Share Volume – Trading activity eased slightly on the major US equity markets in November, as it typically does around the Thanksgiving holiday. NYSE average daily volume slipped 5.4% from October's level to 1.24 billion shares daily. Nasdaq's daily share volume of 1.82 billion shares in November was 5.3% short of October's average.

Despite the slowdown in trading during November, volume on both Nasdaq and the NYSE year-to-date remain ahead of 2000's record levels. At 1.91 billion shares daily, volume on Nasdaq is 8.5% higher than 2000's 1.76 billion average, while NYSE daily volume of 1.23 billion shares year-to-date is 18.5% above last year's 1.04 billion daily average.

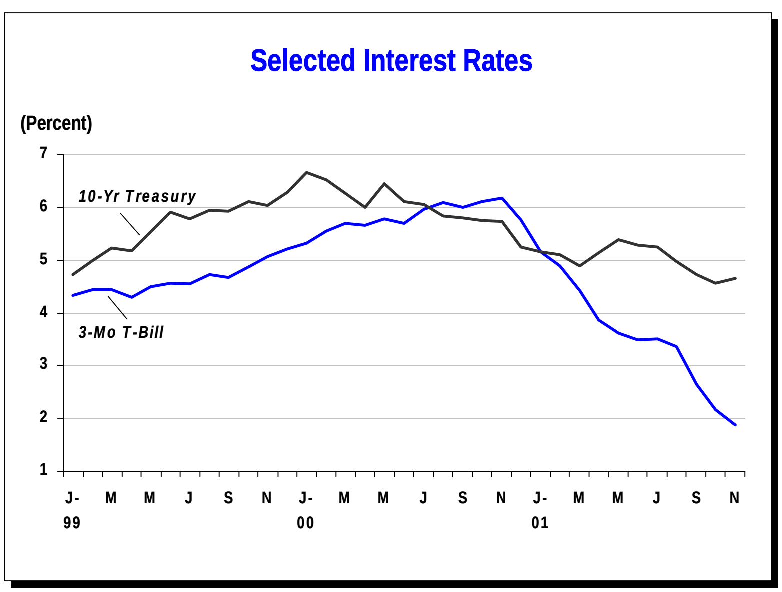


Dollar Volume – Although November's dollar volume figures are still unavailable, rising stock prices during the month should lift the value of trading on both major markets. Since sinking to a two-year low of $34.0 billion in August, the average daily dollar value of trading on the NYSE shot up 50.6% to $51.2 billion per day during September's shortened trading cycle before falling back to $40.1 billion daily in October. Through the first ten months of 2001, the NYSE's daily value of trading averaged $43.1 billion, just 1.9% shy of 2000's record $43.9 billion daily pace.

The value of trading in Nasdaq stocks, which tumbled to a 34-month low of $28.4 billion daily in August, has since climbed steadily to $36.1 billion daily in October. Despite the recent increases in dollar volume, the value of trading on Nasdaq year-to-date averaged $45.5 billion daily, a steep $43.8% drop from 2000's record $80.9 billion daily average.

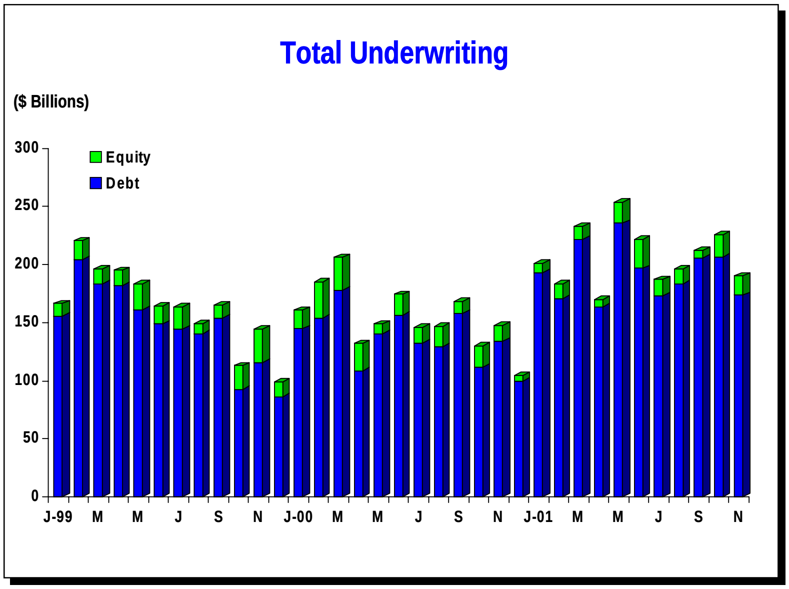


Interest Rates – The Fed slashed interest rates for the tenth time this year on November 6, taking the Fed funds rate down to a 40-year low of 2%. Treasury's announcement that it would discontinue its issuance of 30-year bonds led to increased demand for 10-year Treasuries, which pushed down yields even further. But yields quickly reversed direction amid signs of an economic recovery, temporarily increasing expectations that the Fed's interest rate cuts were nearing an end. For the month of November, yields on 10-year Treasuries inched up to 4.65%, 8 basis points higher than October's average yet still 107 basis points below where it stood a year ago. Meanwhile, yields on 3-month T-bills averaged 1.87% in November, down 29 basis points from October and 430 basis points below its year-earlier level. Thus, the spread between 3-month and 10-year Treasury securities gapped to 279 basis points, the widest spread since October 1994. In sharp contrast, the yield curve was inverted last November, with the 3-month T-bill yield 45 basis points above the yield on 10-year Treasuries.



U.S. Underwriting Activity

Dollar proceeds from new issuance of corporate stocks and bonds slumped once again in November, despite an increase in deal volume. Total underwriting activity fell to $190.3 billion, down 15.8% from October's level and the slowest pace since August. Nevertheless, this brought 2001's year-to-date total to $2.3 trillion, 30.2% above the same period last year. This already exceeds 1999's full-year record of $2.0 trillion. As always, the much larger bond market drove up the overall underwriting total.

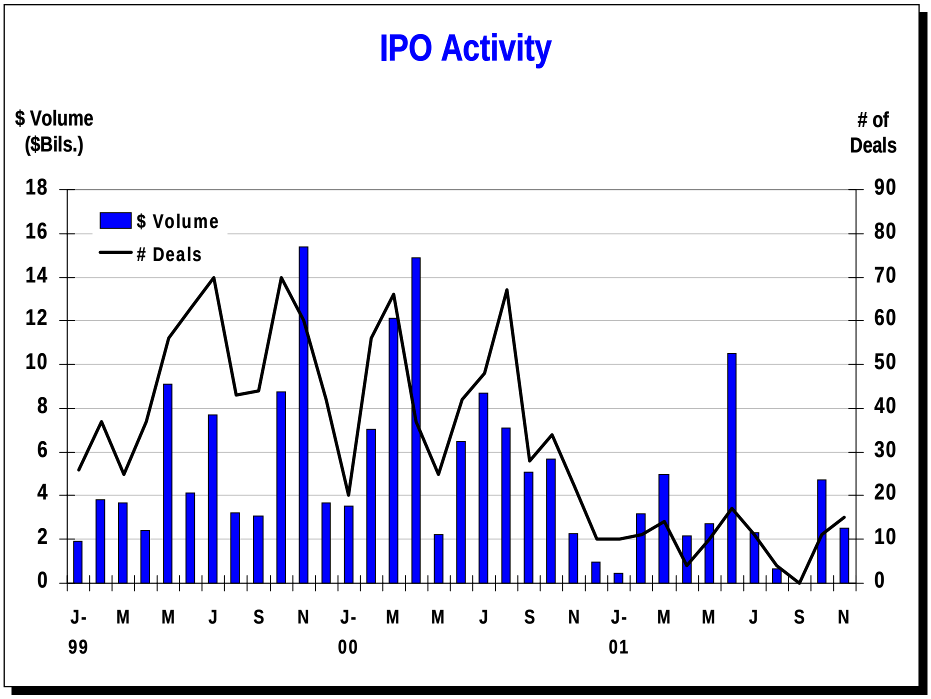


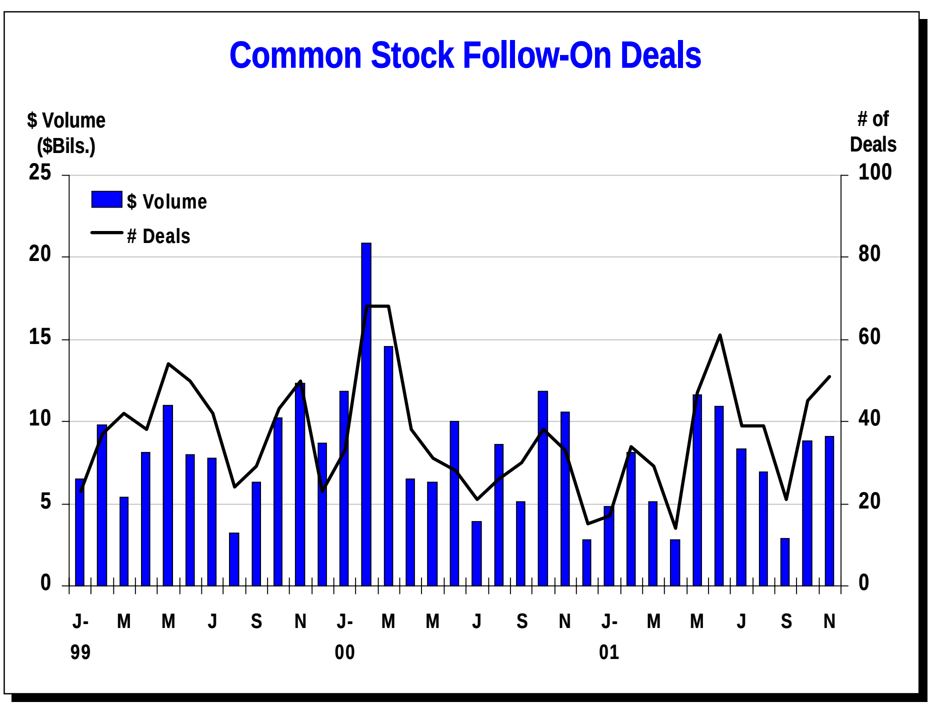
Equity Underwriting – The number of IPOs brought to market in November reached its second highest monthly level this year (although anemic by historic measures), as both issuers and investors reentered the market amid the recent stock market rally. However, the average deal size was small, as only $2.5 billion was raised via 15 deals compared with $4.7 billion on 11 deals in October. So far this year, 107 companies raised $34.2 billion in the IPO market. By contrast, 445 companies raised $75.2 billion in the similar period a year earlier.

IPO deals in November reportedly were priced strongly and traded up in the after-market. But the syndicate calendar for December, as usual, is sparse. According to Dealogic, just nine offerings are expected in December, slated to raise $4.8 billion. That total includes the $3 billion mega-deal from Prudential's demutualization, which is expected the week of December 10.

Follow-on offerings increased for the second straight month to $9.1 billion in November, up 3.4% from October's level and their best results since June. Even so, follow-on volume year-to-date, at $79.4 billion, is running 27.9% behind the $110.1 billion offered over the same time frame a year ago.

If 2001's trend holds, full-year annualized equity underwriting (including both common and preferred stock) would fall 20% short of last year's record $204.5 billion.


IPO Activity
$ Volume
($Bils.)
of
Deals
18
16
14
12
10
8
6
4
2
0
90
80
70
60
50
40
30
20
10
0
$ Volume
# Deals
J-
99
M
M
J
S
N
J-
00
M
M
J
S
N
J-
01
M
M
J
S
N


Common Stock Follow-On Deals
$ Volume
($Bils.)
of
Deals
25
20
15
10
5
0
100
80
60
40
20
0
$ Volume
# Deals
J-
99
M
M
J
S
N
J-
00
M
M
J
S
N
J-
01
M
M
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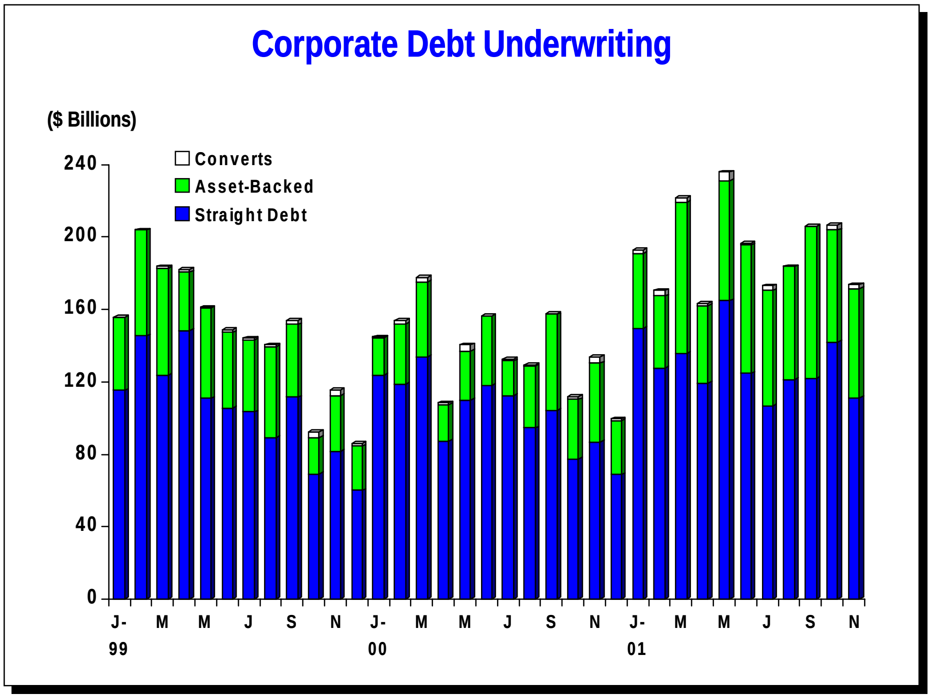
S
N

Corporate Debt Underwriting – Total corporate debt issuance slipped 15.9% to $173.6 billion in November from October's $206.5 billion. Yet, despite this setback, corporations have raised $2.1 trillion so far this year, which is 37.3% higher than the amount raised during last year's first 11 months and already surpasses 1999's annual record of $1.8 trillion. This year's strong results were largely due to issuers taking advantage of historically low interest rates, and shaky equity investors seeking the relative stability of fixed-income securities.



Straight corporate bond offerings, which climbed steadily to $142.1 billion in October from the 2001 monthly low of $106.8 billion in July, fell back 21.6% in November to $111.4 billion. But because of the first half's vigorous activity, the year-to-date total of $1.4 trillion is 22.0% above the $1.2 trillion posted a year earlier and already surpasses 1999's full-year record $1.3 trillion.

Asset-backed bond issuance in November, at $60.1 billion, was down minimally from $61.7 billion in October. Still, asset-backed volume is running 86.2% ahead of last year's pace, as issuance now stands at $677.3 billion year-to-date compared with $363.7 billion in the same period last year. The 11-month 2001 total already exceeds 1998's annual record of $566.8 billion.

New offerings of convertible securities slipped to $2.1 billion in November from October's $2.7 billion. Although down in November, the year-to-date total of $21.8 billion is up 36.3% from the same period last year and eclipses 2000's full-year record of $17.0 billion.

Grace Toto
Assistant Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	**TOTAL DEBT**	High-Yield Bonds	Common Stock	Preferred Stock	**TOTAL EQUITY**	All IPOs	Follow-Ons	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	14.2	24.7	8.6	33.3	8.5	16.2	138.0
1986	149.8	10.1	67.8	227.7	31.9	43.2	13.9	57.1	22.3	20.9	284.8
1987	117.8	9.9	91.7	219.4	28.1	41.5	11.4	52.9	24.0	17.5	272.3
1988	120.3	3.1	113.8	237.2	27.7	29.7	7.6	37.3	23.6	6.1	274.5
1989	134.1	5.5	135.3	274.9	25.3	22.9	7.7	30.6	13.7	9.2	305.5
1990	107.7	4.7	176.1	288.4	1.4	19.2	4.7	23.9	10.1	9.0	312.3
1991	203.6	7.8	300.0	511.5	10.0	56.0	19.9	75.9	25.1	30.9	587.4
1992	319.8	7.1	427.0	753.8	37.8	72.5	29.3	101.8	39.6	32.9	855.7
1993	448.4	9.3	474.8	932.5	55.2	102.4	28.4	130.8	57.4	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	33.3	61.4	15.5	76.9	33.7	27.7	716.4
1995	466.0	6.9	152.4	625.3	28.9	82.0	15.1	97.1	30.2	51.8	722.4
1996	564.8	9.3	252.9	827.0	37.2	115.5	36.5	151.9	50.0	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	31.4	120.2	33.3	153.4	44.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	42.9	115.0	37.8	152.7	43.7	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	36.6	164.3	27.5	191.7	66.8	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	25.2	189.1	15.4	204.5	76.1	112.9	1,851.0
2000											
Jan	123.9	0.5	20.5	144.9	4.1	15.3	0.5	15.8	3.5	11.8	160.7
Feb	118.8	1.8	33.4	153.9	3.1	27.9	3.3	31.2	7.1	20.9	185.1
Mar	134.0	2.7	41.2	177.9	3.3	26.7	1.7	28.3	12.1	14.6	206.3
Apr	87.2	0.7	20.4	108.3	0.4	21.4	2.3	23.8	14.9	6.5	132.0
May	109.8	3.2	27.3	140.3	0.8	8.5	0.1	8.6	2.2	6.3	148.9
June	118.0	0.3	38.3	156.5	1.9	16.5	1.4	17.9	6.5	10.0	174.4
July	112.5	1.1	19.0	132.6	4.5	12.6	0.6	13.2	8.7	3.9	145.8
Aug	94.6	0.4	34.3	129.3	1.9	15.7	2.0	17.6	7.1	8.6	146.9
Sept	104.5	0.3	52.9	157.7	3.8	10.2	0.6	10.9	5.1	5.1	168.6
Oct	77.3	1.6	33.0	111.9	0.7	17.5	0.9	18.4	5.7	11.8	130.3
Nov	86.9	3.6	43.5	134.0	0.0	12.9	0.9	13.8	2.3	10.6	147.8
Dec	68.8	1.0	29.7	99.5	0.6	3.8	1.2	4.9	1.0	2.8	104.4
2001											
Jan	149.6	1.7	41.5	192.9	5.9	5.3	2.7	8.0	0.4	4.8	200.8
Feb	127.5	3.3	39.8	170.6	4.1	11.3	1.5	12.8	3.2	8.1	183.4
Mar	135.5	2.3	83.8	221.6	1.3	10.1	1.4	11.5	5.0	5.1	233.1
Apr	119.3	1.1	42.9	163.4	3.1	5.0	1.5	6.5	2.2	2.8	169.9
May	164.8	4.8	66.1	235.7	3.1	14.3	3.3	17.7	2.7	11.6	253.4
June	124.6	1.0	71.1	196.7	3.6	21.4	3.5	24.9	10.5	10.9	221.5
July	106.8	2.6	63.7	173.1	0.2	10.6	3.3	13.9	2.3	8.3	187.0
Aug	121.1	0.2	62.5	183.7	2.7	7.6	4.7	12.3	0.6	6.9	196.0
Sept	122.0	0.0	84.1	206.1	0.2	2.9	3.4	6.3	0.0	2.9	212.3
Oct	142.1	2.7	61.7	206.5	1.9	13.5	6.0	19.5	4.7	8.8	226.0
Nov	111.4	2.1	60.1	173.6	2.8	11.6	5.1	16.7	2.5	9.1	190.3
Dec											
YTD '00	1,167.4	16.0	363.7	1,547.1	24.7	185.3	14.2	199.5	75.2	110.1	1,746.6
YTD '01	1,424.7	21.8	677.3	2,123.8	28.8	113.6	36.3	149.8	34.2	79.4	2,273.6
% Change	22.0%	36.3%	86.2%	37.3%	16.8%	-38.7%	154.9%	-24.9%	-54.5%	-27.9%	30.2%

Note: High-yield bonds is a subset of straight corporate debt. IPOs and follow-ons are subsets of common stock.
Source: Thomson Financial Securities Data

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
<u>2000</u>										
Jan	1.0	5.2	6.2	2.0	1.3	3.4	9.5	5.32	6.66	1.34
Feb	0.8	7.0	7.8	3.3	1.2	4.5	12.3	5.55	6.52	0.97
Mar	1.3	11.1	12.4	2.4	2.3	4.7	17.1	5.69	6.26	0.57
Apr	0.6	9.9	10.5	3.1	1.8	4.9	15.5	5.66	5.99	0.33
May	0.8	8.8	9.7	2.6	3.0	5.6	15.3	5.79	6.44	0.65
June	1.4	12.7	14.0	4.5	4.1	8.6	22.6	5.69	6.10	0.41
July	1.2	9.5	10.7	2.4	1.6	4.0	14.7	5.96	6.05	0.09
Aug	0.8	10.3	11.2	2.8	2.8	5.5	16.7	6.09	5.83	(0.26)
Sept	1.4	7.8	9.2	3.0	3.8	6.8	16.0	6.00	5.80	(0.20)
Oct	1.8	11.8	13.6	3.6	2.2	5.8	19.4	6.11	5.74	(0.37)
Nov	1.5	12.6	14.0	3.7	2.2	5.8	19.9	6.17	5.72	(0.45)
Dec	1.0	9.4	10.4	1.6	3.1	4.6	15.1	5.77	5.24	(0.53)
<u>2001</u>										
Jan	1.2	4.9	6.1	4.4	1.9	6.3	12.4	5.15	5.16	0.01
Feb	0.9	10.3	11.2	4.7	5.1	9.8	21.0	4.88	5.10	0.22
Mar	1.2	16.2	17.4	2.7	5.1	7.8	25.1	4.42	4.89	0.47
Apr	1.0	10.5	11.5	3.6	3.5	7.0	18.5	3.87	5.14	1.27
May	1.2	18.4	19.6	4.4	4.5	8.9	28.5	3.62	5.39	1.77
June	1.8	18.1	19.9	5.1	4.8	9.9	29.9	3.49	5.28	1.79
July	1.5	12.9	14.5	3.8	2.3	6.1	20.6	3.51	5.24	1.73
Aug	1.6	12.3	14.0	3.9	5.8	9.7	23.6	3.36	4.97	1.61
Sept	0.9	8.7	9.6	2.2	2.0	4.1	13.8	2.64	4.73	2.09
Oct	3.0	14.5	17.4	4.7	8.7	13.5	30.9	2.16	4.57	2.41
Nov	1.9	16.8	18.7	3.3	4.7	8.0	26.8	1.87	4.65	2.78
Dec										
YTD '00	12.5	106.7	119.3	33.5	26.2	59.7	179.0	5.82	6.10	0.28
YTD '01	16.2	143.7	159.9	42.8	48.3	91.1	251.0	3.54	5.01	1.47
% Change	29.2%	34.7%	34.1%	27.9%	84.1%	52.6%	40.3%	-39.1%	-17.9%	423.2%

Sources: Thomson Financial Securities Data; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				STOCK MARKET VOLUME (Daily Avg., Mils. of Shs.)			VALUE TRADED (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	121.58	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	138.58	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	138.23	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	156.26	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	195.04	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	180.49	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	229.44	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	240.21	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	259.08	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	250.94	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	329.51	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	392.30	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	511.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	595.81	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	650.30	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	656.87	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2000									
Jan	10,940.53	1,394.46	621.73	3,940.35	1,074.2	49.5	1,693.0	47.6	87.5
Feb	10,128.31	1,366.42	592.64	4,696.69	1,045.9	52.9	1,812.0	44.3	91.4
Mar	10,921.92	1,498.58	647.70	4,572.83	1,138.4	61.4	1,902.8	51.0	106.4
Apr	10,733.91	1,452.43	644.16	3,860.66	1,060.0	65.5	1,876.2	48.8	92.0
May	10,522.33	1,420.60	643.60	3,400.91	905.4	46.2	1,417.5	39.4	64.2
June	10,447.89	1,454.60	642.93	3,966.11	986.5	44.3	1,537.5	41.8	73.3
July	10,521.98	1,430.83	640.63	3,766.99	953.8	38.5	1,567.9	40.0	80.4
Aug	11,215.10	1,517.68	674.53	4,206.35	886.1	37.5	1,458.7	36.9	65.0
Sept	10,650.92	1,436.51	663.04	3,672.82	1,041.3	48.9	1,756.7	44.0	82.4
Oct	10,971.14	1,429.40	666.02	3,369.63	1,180.6	59.7	2,026.9	47.4	88.3
Nov	10,414.49	1,314.95	629.78	2,597.93	1,033.4	58.1	1,840.4	40.8	70.7
Dec	10,786.85	1,320.28	656.87	2,470.52	1,208.8	73.9	2,247.4	45.5	71.1
2001									
Jan	10,887.36	1,366.01	663.64	2,772.73	1,325.9	72.5	2,387.3	52.0	75.6
Feb	10,495.28	1,239.94	626.94	2,151.83	1,138.5	70.9	1,947.6	43.8	59.7
Mar	9,878.78	1,160.33	595.66	1,840.26	1,271.4	82.5	2,071.4	45.9	49.2
Apr	10,734.97	1,249.46	634.83	2,116.24	1,276.5	78.4	2,162.8	45.1	49.6
May	10,911.94	1,255.82	641.67	2,110.49	1,116.7	66.7	1,909.1	41.4	46.4
June	10,502.40	1,224.42	621.76	2,160.54	1,175.0	63.8	1,793.9	41.6	40.6
July	10,522.81	1,211.23	616.94	2,027.13	1,137.1	56.0	1,580.7	39.0	36.0
Aug	9,949.75	1,133.58	587.84	1,805.43	1,025.7	49.1	1,426.4	34.0	28.4
Sept	8,847.56	1,040.94	543.84	1,498.80	1,694.4	72.8	2,033.0	51.2	33.9
Oct	9,075.14	1,059.78	546.34	1,690.20	1,314.3	64.8	1,926.0	40.1	36.1
Nov	9,851.56	1,139.45	579.27	1,930.58	1,243.0	56.9	1,824.8	N/A	N/A
Dec									
YTD '00	10,414.49	1,314.95	629.78	2,597.93	1,027.2	51.0	1,714.7	44.1	82.9
YTD '01	9,851.56	1,139.45	579.27	1,930.58	1,234.4	66.4	1,906.8	43.1	45.5
% Change	-5.4%	-13.3%	-8.0%	-25.7%	20.2%	30.1%	11.2%	-2.2%	-45.1%

MUTUAL FUND ASSETS

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.3	349.7	808.0	1,845.3	6,965.2
<u>2000</u>					
Jan	3,951.6	368.8	793.9	1,657.3	6,771.6
Feb	4,218.5	360.7	796.7	1,680.5	7,056.4
Mar	4,441.6	371.6	793.1	1,697.0	7,303.3
Apr	4,250.3	359.8	781.0	1,649.4	7,040.5
May	4,106.5	348.1	777.3	1,675.6	6,907.4
June	4,316.6	350.8	791.5	1,658.6	7,117.5
July	4,246.3	348.6	801.1	1,697.7	7,093.7
Aug	4,579.8	363.0	802.5	1,729.8	7,475.1
Sept	4,397.5	354.9	797.8	1,728.0	7,278.2
Oct	4,293.4	354.2	795.4	1,760.0	7,203.0
Nov	3,854.9	342.9	795.3	1,821.3	6,814.3
Dec	3,962.3	349.7	808.0	1,845.3	6,965.2
<u>2001</u>					
Jan	4,093.3	356.9	830.0	1,955.5	7,235.7
Feb	3,689.7	344.4	845.2	2,019.3	6,898.6
Mar	3,408.0	333.4	852.8	2,035.5	6,629.7
Apr	3,716.0	347.9	846.6	2,031.5	6,942.0
May	3,744.9	353.2	859.0	2,071.7	7,028.8
June	3,677.0	350.6	861.3	2,052.6	6,941.5
July	3,590.1	352.4	882.7	2,069.7	6,894.9
Aug	3,384.7	342.6	908.2	2,104.1	6,739.6
Sept	3,020.0	324.1	909.8	2,161.6	6,415.5
Oct	3,111.4	330.2	934.8	2,239.5	6,615.9
Nov					
Dec					
YTD '00	4,293.4	354.2	795.4	1,760.0	7,203.0
YTD '01	3,111.4	330.2	934.8	2,239.5	6,615.9
% Change	-27.5%	-6.8%	17.5%	27.2%	-8.2%

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.6	-31.8	-48.6	159.6	388.8	229.2
<u>2000</u>						
Jan	44.5	-6.3	-12.7	41.8	67.3	25.6
Feb	55.6	-5.1	-8.2	14.8	57.2	42.3
Mar	40.2	-5.7	-7.7	12.7	39.5	26.8
Apr	35.5	-1.9	-6.7	-52.2	-25.4	26.9
May	17.3	-2.1	-5.1	18.7	28.8	10.1
June	22.0	-1.9	0.1	-23.0	-2.8	20.2
July	16.8	-1.7	-0.2	33.7	48.5	14.9
Aug	24.0	-1.3	-1.8	22.5	43.3	20.9
Sept	17.6	-1.7	-3.6	-8.5	3.8	12.3
Oct	19.3	-1.2	-2.0	26.0	42.1	16.1
Nov	5.5	-0.3	-0.6	56.1	60.7	4.6
Dec	11.6	-1.6	-0.7	16.4	25.8	9.3
<u>2001</u>						
Jan	25.1	1.1	8.8	103.0	138.0	34.9
Feb	-3.3	1.2	8.8	58.0	64.7	6.7
Mar	-20.6	-0.4	7.9	13.6	0.6	-13.1
Apr	19.2	1.3	1.3	-10.5	11.3	21.9
May	18.1	1.4	6.2	35.0	60.8	25.8
June	10.8	1.2	2.2	-24.4	-10.2	14.2
July	-1.2	1.3	9.3	12.0	21.4	9.4
Aug	-4.8	-0.7	16.7	26.5	37.6	11.2
Sept	-29.4	-1.3	7.7	53.9	30.9	-23.0
Oct	0.8	1.6	13.5	73.9	89.8	15.8
Nov						
Dec						
YTD '00	292.7	-29.0	-47.8	86.4	302.3	215.9
YTD '01	14.7	6.7	82.5	341.1	445.0	103.8
% Change	-95.0%	N/M	N/M	294.7%	47.2%	-51.9%

New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges
Source: Investment Company Institute

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