

REPORTS

Volume V, No. 4

April 20, 2004

RECENT DEVELOPMENTS REGARDING REGULATION OF INITIAL PUBLIC OFFERINGS

Scott C. Kursman

MONTHLY STATISTICAL REVIEW

Grace Toto

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Table of Contents

Page

- 3....**Recent Developments Regarding Regulation of Initial Public Offerings**, by Scott C. Kursman. The Securities Industry Association (SIA) is closely following two regulatory actions relating to Initial Public Offerings (IPOs) that are summarized in this article.
- 5....**Monthly Statistical Review**, by Grace Toto. In the first quarter of 2004, the major market indices showed mixed results. The DJIA and Nasdaq Composite posted slim losses of 0.9% and 0.5%, respectively, while the S&P 500 rose 1.3% during 1Q'04. Average daily share and dollar volumes on the NYSE and Nasdaq increased from 2003 levels. IPO activity in 1Q'04 slowed somewhat from 4Q'03 levels, but remained well above year-earlier results.

RECENT DEVELOPMENTS REGARDING REGULATION OF INITIAL PUBLIC OFFERINGS

The Securities Industry Association (SIA) is closely following two regulatory actions relating to Initial Public Offerings (IPOs) that are summarized below.

NASD IPO Regulation and Pricing Transparency

SIA's Capital Markets Committee submitted a comment letter to the NASD in response to a recent rule proposal addressing IPO practices (Notice to Members 03-72). The proposed rules are intended to implement the recommendations of the NYSE/NASD IPO Advisory Committee (IPO Advisory Committee) relating to transparency of pricing in the IPO process. The proposed rules would:

- Require underwriters to disclose indications of interest and final allocations to the issuer's pricing committee;
- Prohibit acceptance of market orders to purchase IPO shares during the first day of trading;
- Set policies for the disposition of returned shares;
- Extend lock-up provisions to shares bought by officers of the issuer in "friends and family" programs; and,
- Impose new notification requirements when underwriters waive lock-ups.

In the Notice to Members, the NASD also requests comment on possible additional steps to promote transparency in the pricing of IPOs. These include requiring underwriters to:

- Retain an independent broker/dealer to opine that the initial IPO price range and the final offering price are reasonable (and require disclosure of the opinion in the prospectus); or
- Use an auction or other system to collect indications of interest to help establish the final IPO price; or
- Include a "valuation disclosure" section in the prospectus with information about how the managing underwriter and issuer arrived at the initial price range and final IPO price, such as the issuer's one-year projected earnings or P/E ratios and share price information of comparable companies.

While generally praising the goals of the price transparency proposals, which draw on the recommendations of the report of the IPO Advisory Committee, SIA suggested modifications to the proposed rules to better serve issuers and investors. SIA also raised substantive concerns in response to the "potential regulatory initiatives" for which the NASD seeks comment in the Notice.

SIA would make the proposed rules relating to price transparency direct requirements of the issuer or underwriter, rather than requiring these provisions to be included in underwriting

agreements. SIA supports a requirement to report indications of interest of institutional investors in the institutional “pot,” as well as rules intended to govern the disposition of shares returned to the underwriter. Finally, SIA would impose some limits on the scope of the proposed ban on market orders on the first day of trading, to ensure that there is sufficient liquidity in the market for a new issue.

SIA objects to the potential regulatory initiatives calling for independent pricing and use of auction models. An independent pricing opinion from a third-party broker-dealer would add considerable cost to the IPO process with little meaningful benefit to issuers or investors. Requiring the use of an auction system would clearly run counter to the recommendation of the IPO Advisory Committee Report, which states that markets, and not regulators, should determine which capital-raising model is appropriate for IPOs. SIA agreed that additional disclosure of company data, like financial projections, should be explored further; however, requiring a valuation disclosure section in the prospectus will only give investors a false or incomplete impression of how the offering price was derived.

The IPO Advisory Committee’s recommendations were carefully targeted at improving disclosure and price transparency, and ending specific practices relating to the allocation of securities. SIA encourages efforts by regulators to develop carefully targeted means of implementing these recommendations. At the same time, the IPO Advisory Committee also recognized that the U.S. system of capital raising is the most successful in the world and is the engine for our country’s economic growth, enabling companies to raise the capital they need to expand and hire employees. Strengthening this world-leading and time-tested system for the benefit of issuers and investors should always be the first order of duty for the industry and regulators.

NASD IPO Regulation and Allocation Abuses

The NASD filed proposed Rule 2712 with the SEC on September 15, 2003. This rule would prohibit certain abusive practices in the allocation and distribution of shares in IPOs, including “quid pro quo” allocations, “spinning” and inequitable penalty bids.

SIA previously submitted comments to the NASD Board on September 24, 2002, in response to the original rule proposal, which appeared as NASD Notice to Members 02-55, which supported this set of rule proposals as appropriately targeted to specific practices and not interfering with the legitimate activities of underwriters. SIA will submit comments to the SEC once the modified proposal is published in the Federal Register.

Scott C. Kursman
Vice President and Associate General Counsel

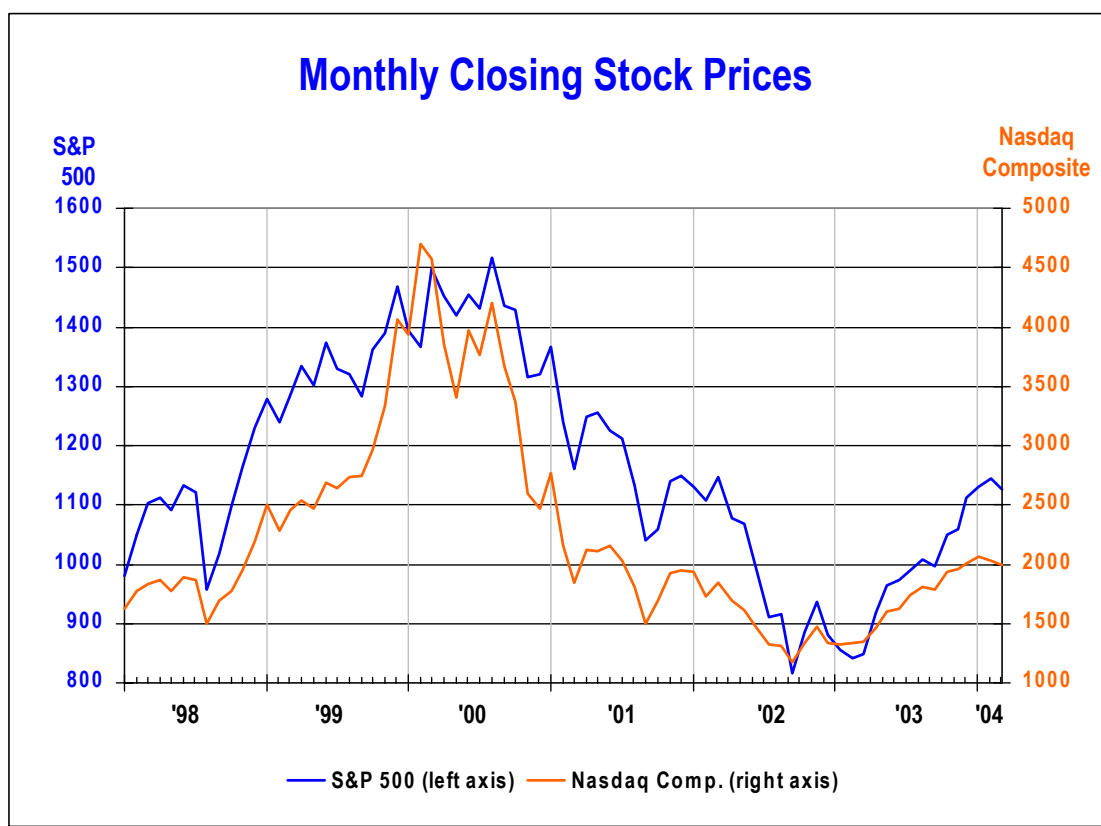
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices – After a year of solid gains, the U.S. stock market experienced a routine decline¹ in early March. Contributing to the decline were renewed fears of terrorism following the train bombings in Madrid, oil prices rising to a level not seen since 1990, presidential election uncertainties and slowing profit growth. Despite a late-March rally, all three major market indexes posted losses for the month, the first such occurrence since last September 2003. The Dow Jones Industrial Average (DJIA) fell 2.1%, and the S&P 500 and Nasdaq Composite (Nasdaq) dropped 1.6% and 1.8%, respectively.

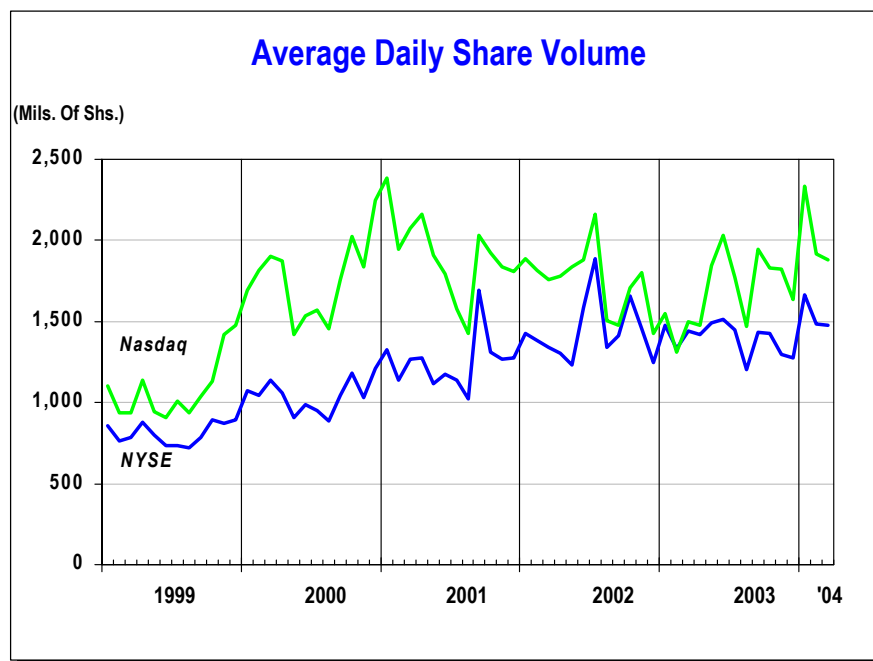
For the first quarter of 2004, the DJIA and Nasdaq registered marginal losses, while the S&P 500 posted a slim gain. The DJIA lost 0.9% to 10,357.70, its first quarterly decline since 1Q'03. The Nasdaq slipped 0.5% to 1,994.22, its first down quarter since 3Q'02. In contrast, the S&P 500 rose 1.3% to 1,126.21, marking its fourth straight quarterly increase. These results came on the heels of 4Q'03 gains of roughly 12% in each of the key market gauges.

Over the last twelve months, the Nasdaq has risen 48.7%, the S&P 500 32.8%, and the DJIA 29.6%.

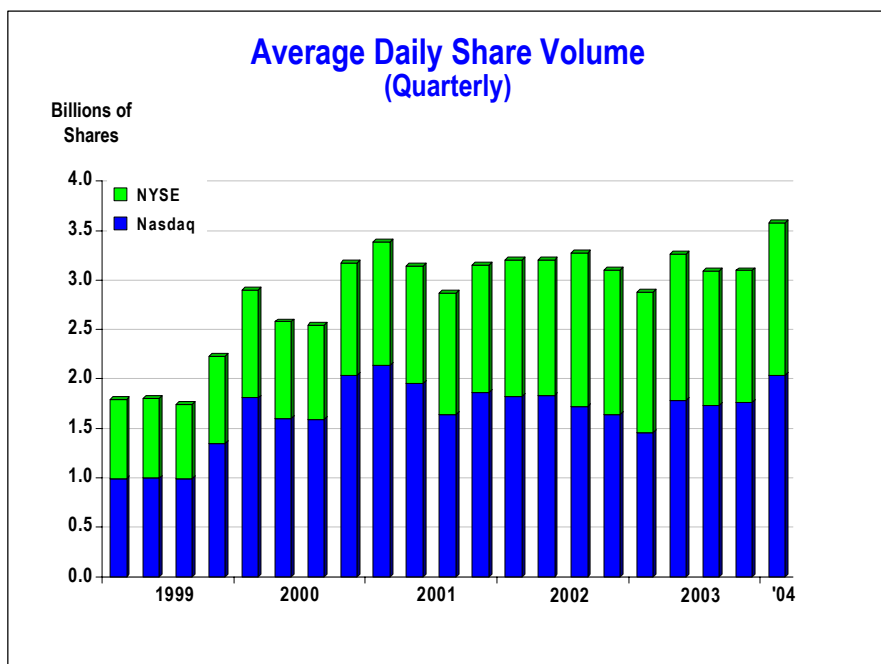


¹ Defined as a fall of at least 5 percent from a new peak. A “correction” is a decline of at least 10 percent (see SIA Research Reports, Volume V, No. 2 [March 4, 2004] p. 21).

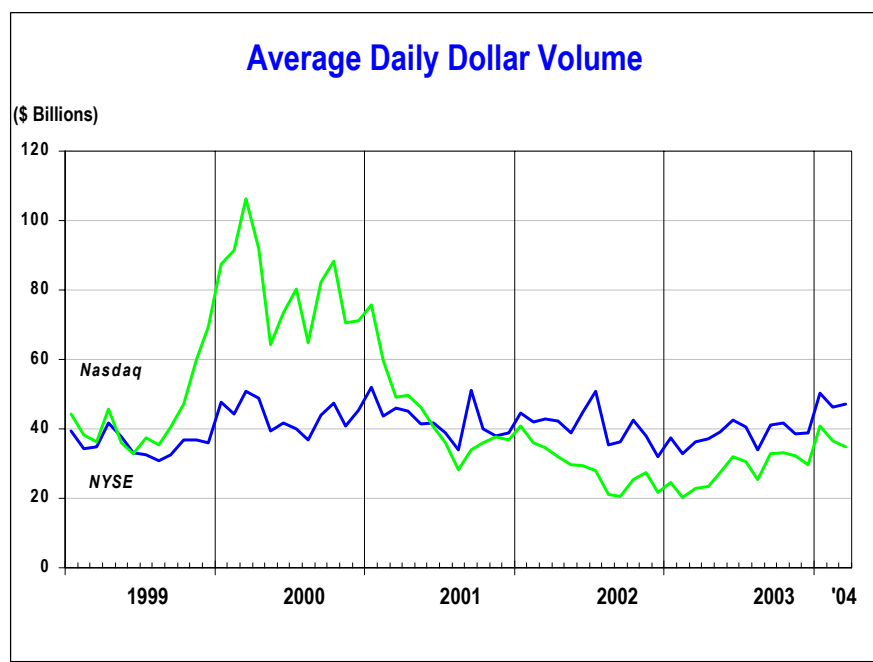
Share Volume – After surging in January amid strong mutual fund inflows into equities, trading activity slowed somewhat, but continued to be heavy throughout 1Q'04. New York Stock Exchange (NYSE) volume of 1.48 billion shares daily in March was essentially unchanged from February's level, while Nasdaq volume slipped 1.9% in March to 1.88 billion shares per day.



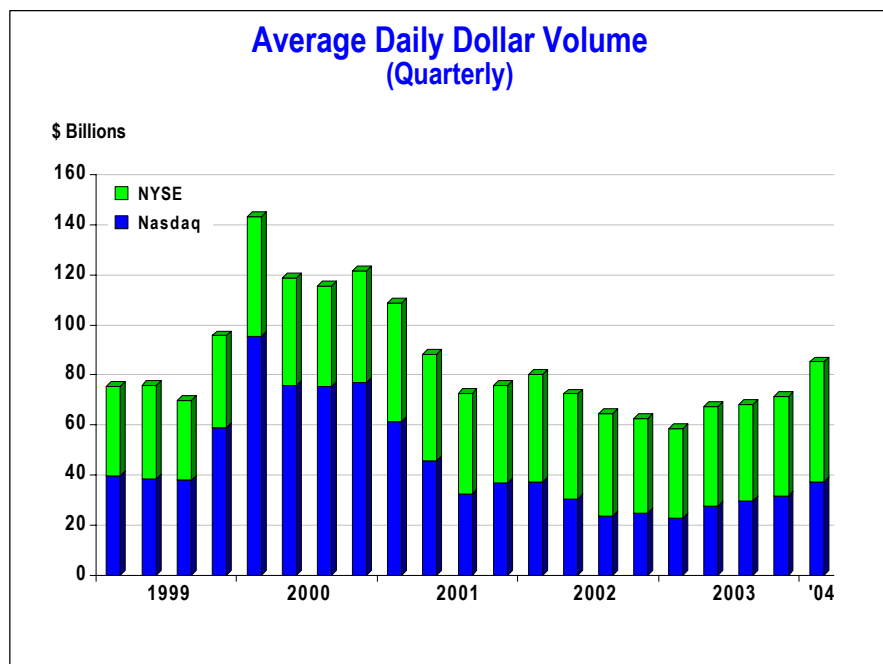
For the first quarter of 2004, NYSE volume averaged 1.54 billion shares daily, which was 10.0% above last year's average daily volume of 1.40 billion shares, and its second best quarterly result behind only 3Q'02's record average daily volume of 1.55 billion shares. Meanwhile, Nasdaq volume averaged 2.04 billion shares daily in 1Q'04, up 20.9% from 2003's 1.69 billion pace and second only to the record quarterly average daily volume of 2.14 billion shares set in 1Q'01. As a result, combined first quarter average daily volumes on these two markets totaled 3.58 billion, a new quarterly record.



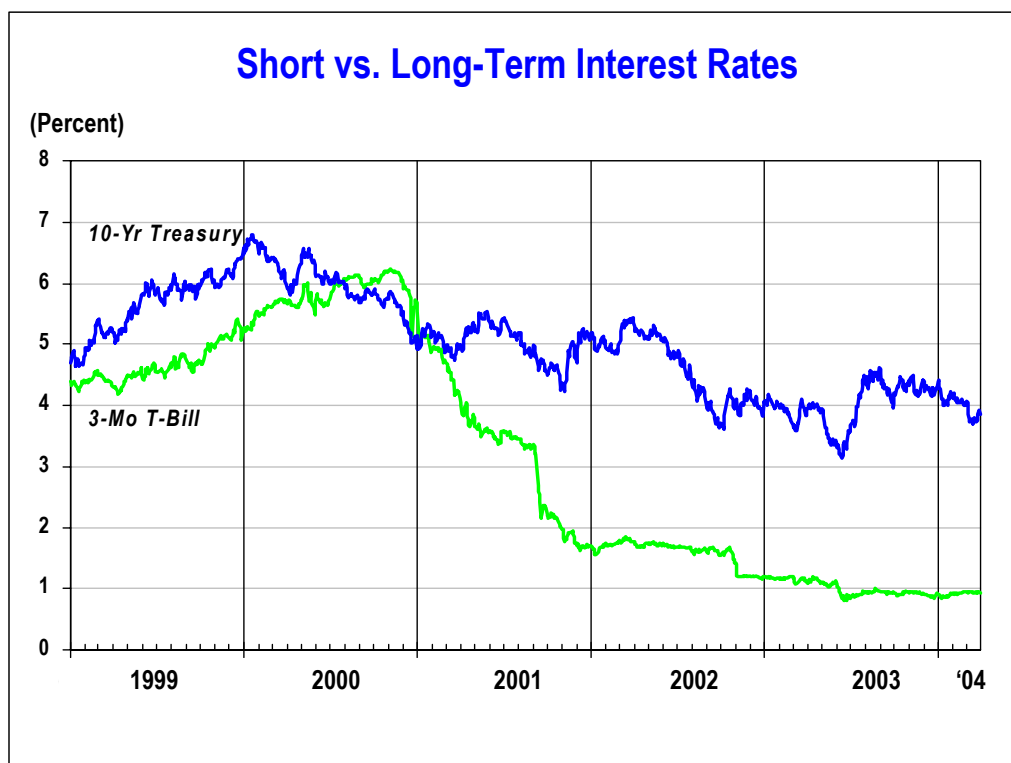
Dollar Volume – NYSE average daily dollar volume increased 1.7% in March to \$47.1 billion from February's level. For the first quarter overall, the value of trading in NYSE stocks averaged \$47.9 billion daily, a 24.4% increase over 2003's \$38.5 billion. Furthermore, the NYSE's average daily dollar volume in 1Q'04 marked a new quarterly record, surpassing the \$47.8 billion record previously set in 1Q'00.



The value of trading in Nasdaq stocks subsided over the past two months, reflecting the decline in the Nasdaq Composite from its 2-½ year high reached in late January 2000. After averaging \$40.9 billion daily in January, dollar volume on Nasdaq fell back to \$34.9 billion daily in March. Nevertheless, the year-to-date average of \$37.3 billion daily was one-third above full year 2003's average daily pace of \$28.0 billion. Although Nasdaq average dollar volume in 1Q'04 was 63.6% higher than the five-year low of \$22.8 billion in 1Q'03, it was still 61.0% below the record \$95.6 billion level set in 1Q'00.

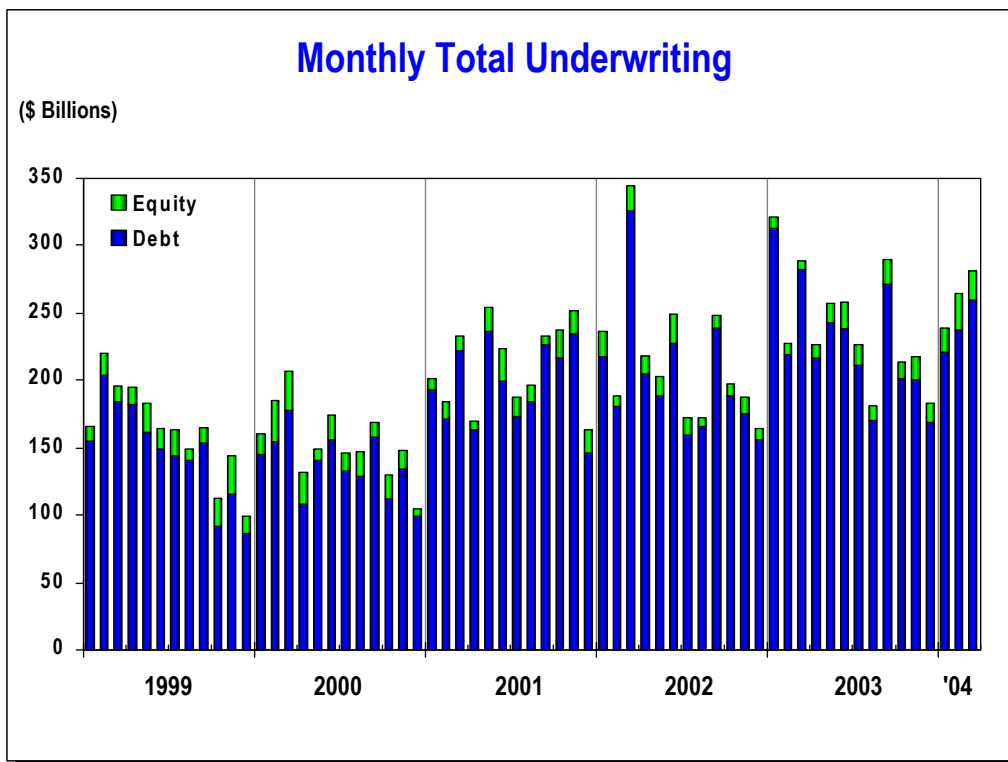
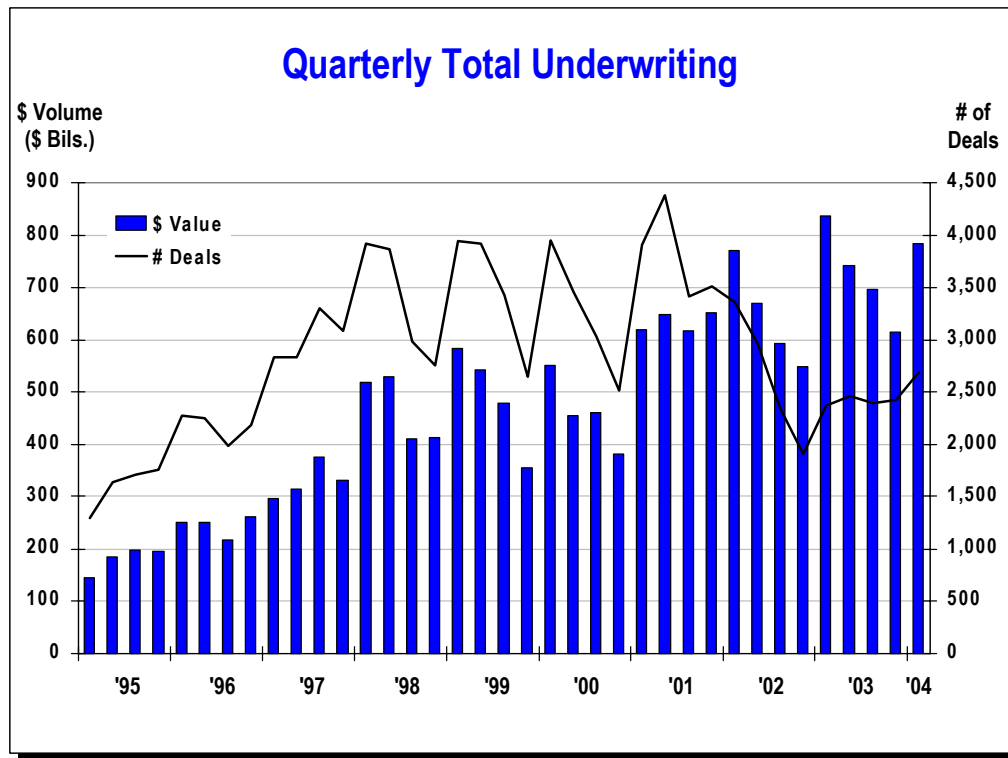


Interest Rates – The 10-year Treasury yield continued to decline in March after a disappointing payrolls report released on March 5 showed that job creation in February was much weaker than expected, raising expectations that the Fed can hold rates low for a while longer. Indeed, at its March FOMC policy meeting, the Fed left the federal funds target rate unchanged at 1% and repeated that it can be "patient" about increasing rates because of sluggish labor market conditions and low inflation. Yields were also driven down as investors sought the safe haven of government debt following the Madrid terrorist attack. By mid-March, 10-year Treasury yields fell to an eight-month low of 3.70%. Yields subsequently backed up and ended the first quarter at 3.86%, down 41 basis points from 4.27% at the end of 2003.

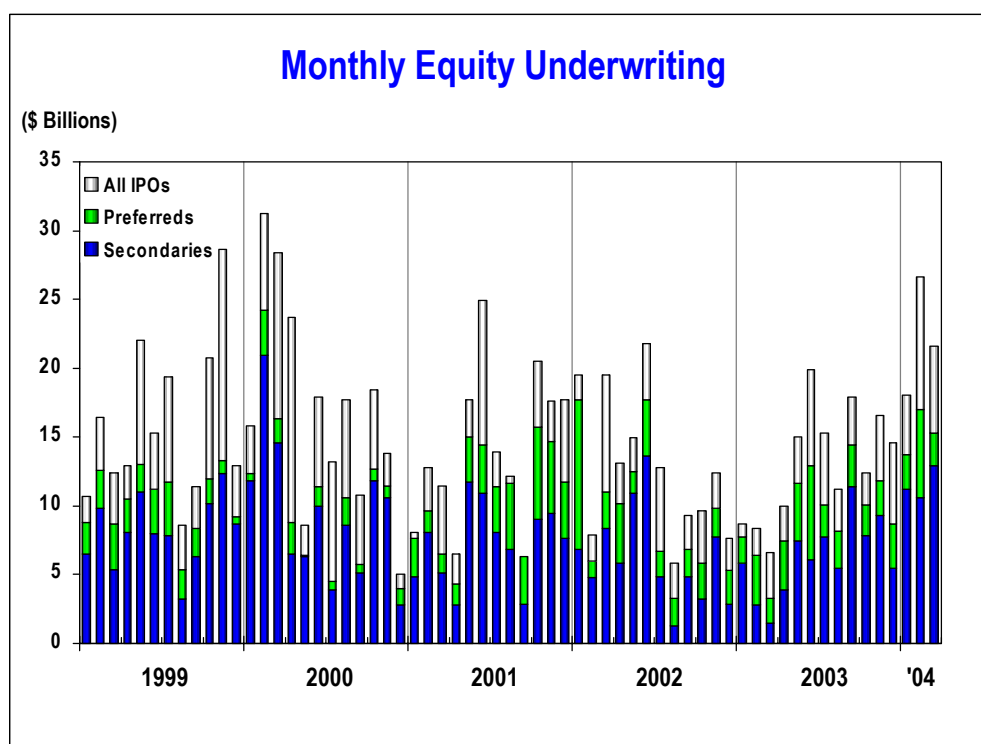
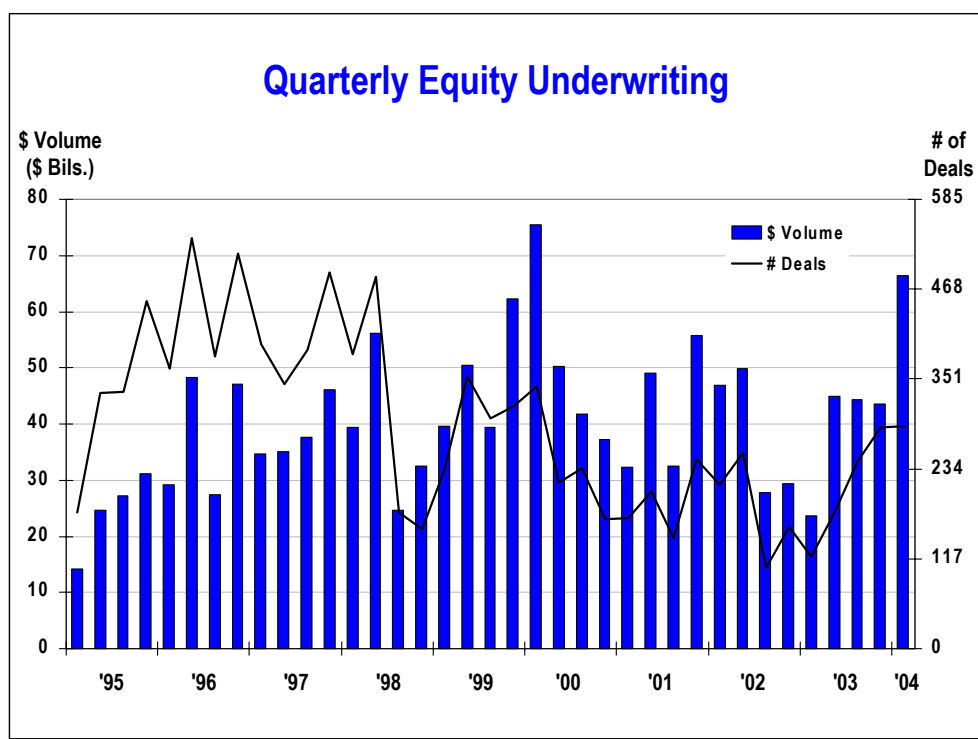


U.S. Underwriting Activity

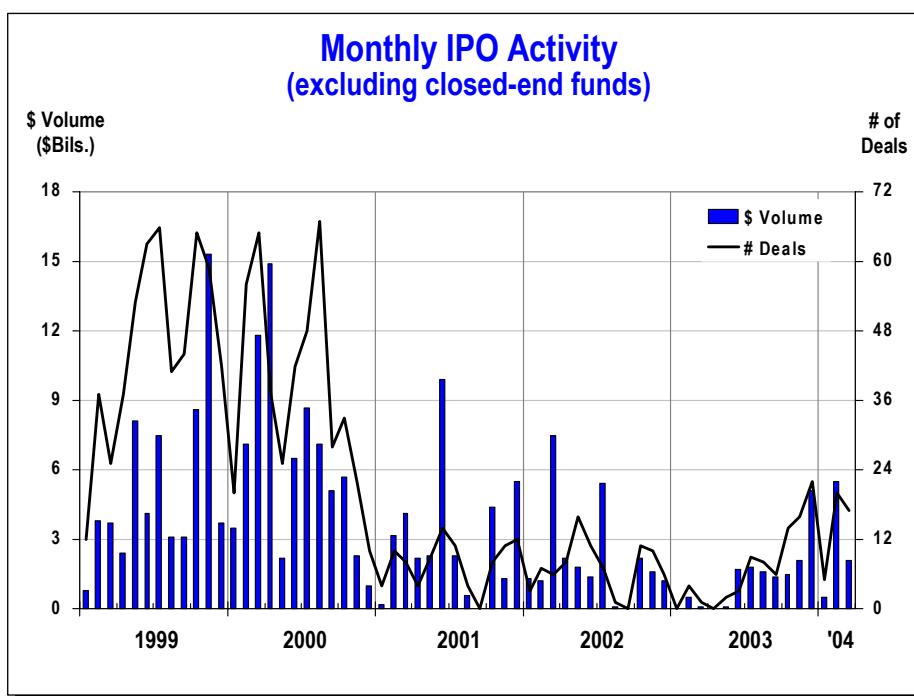
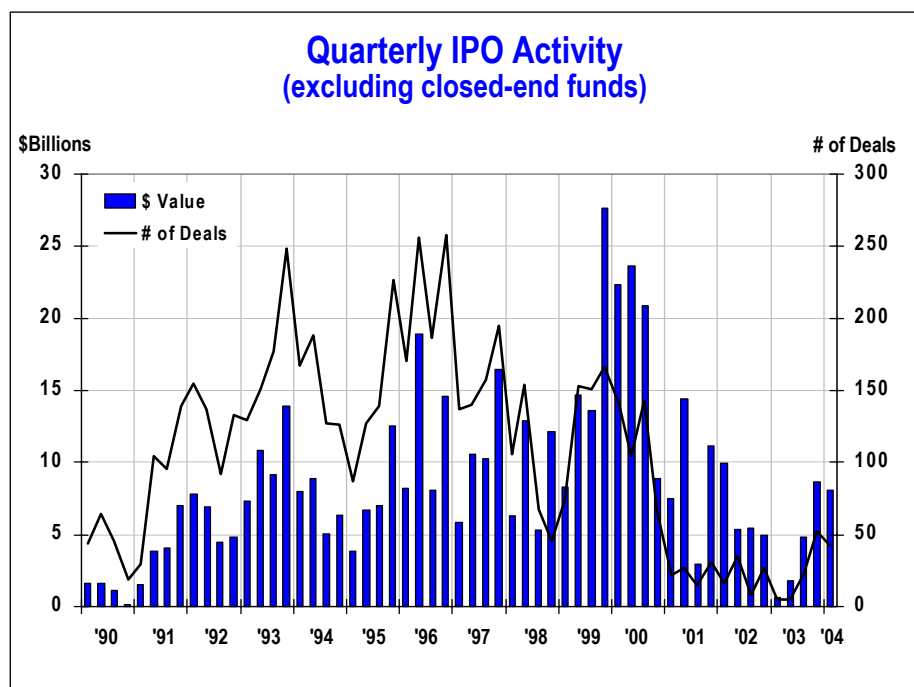
New issue activity in the U.S. market strengthened in the first quarter of 2004 as the year-long stock market recovery and continued low interest rates attracted both issuers and investors alike. Total underwriting activity surged 27.7% in 1Q'04 to \$784.3 billion from \$614.2 billion in 4Q'03. Although 1Q'04 volume fell 6.3% short of the record \$837.4 billion posted in the first quarter of last year, it was the second highest quarterly total recorded.



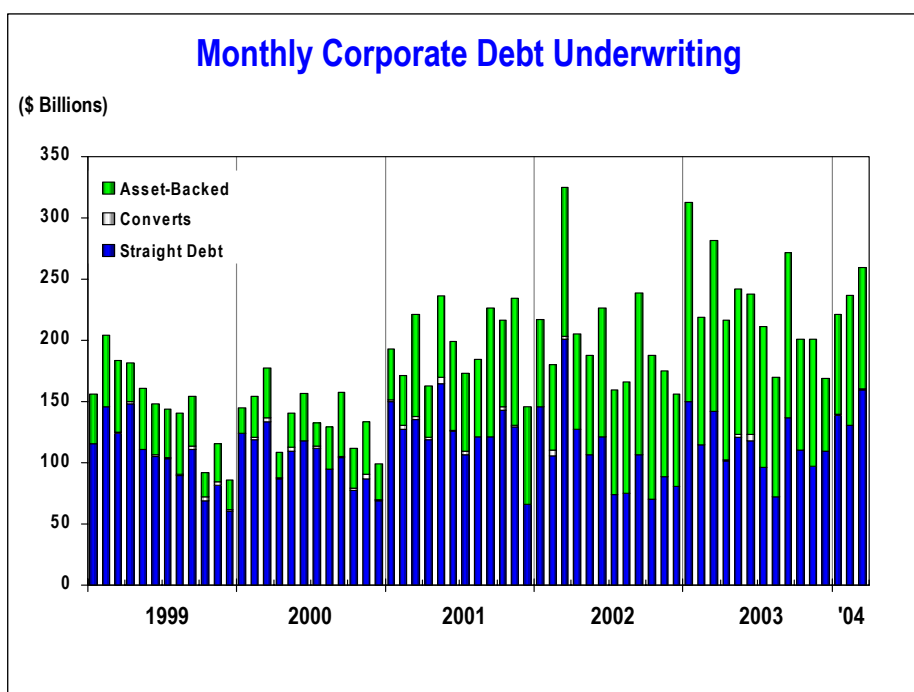
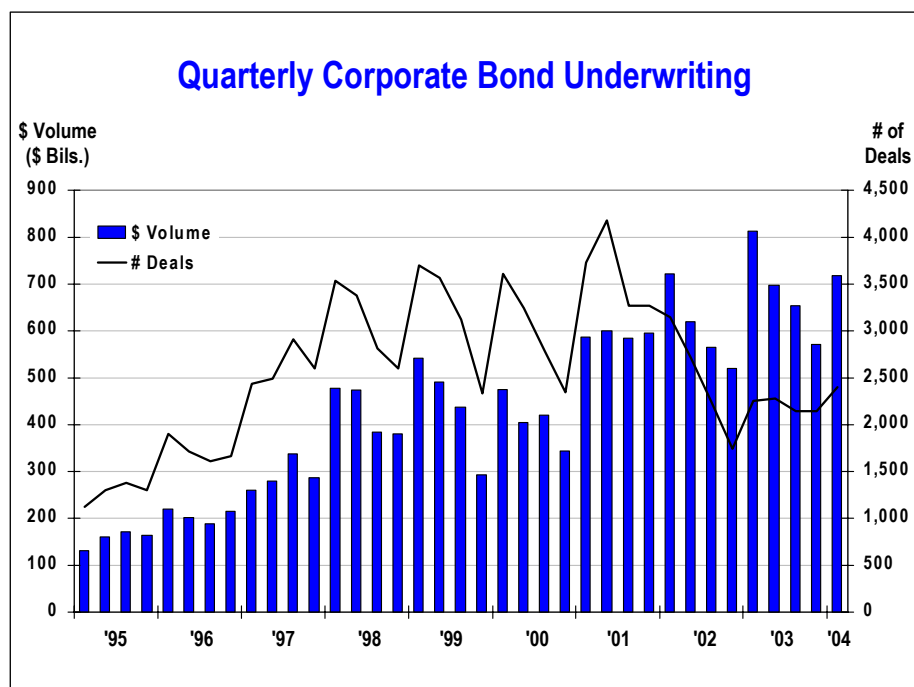
Equity Underwriting – Dollar proceeds from common and preferred stock offerings totaled \$66.3 billion in the first quarter, a 52.4% increase over 4Q'03 results and nearly triple the anemic level of \$23.6 billion in the first quarter of 2003. Equity issuance during 1Q'04 was the strongest since 1Q'00, when a record \$75.4 billion was issued, and ranks as the second best quarter recorded.



In the IPO market, volume slowed somewhat from 4Q'03 levels, but remained well above results for the same period in 2003. Over \$8.0 billion was raised via 42 deals in 1Q'04 compared to \$8.6 billion from 52 deals in 4Q'03. In last year's first quarter, only five IPO deals were completed, raising a mere \$644.0 million. In fact, the amount raised in the first three months of 2004 is already half the \$15.9 billion raised in all of 2003. Activity in this market should increase further, as the IPO backlog had reached \$18.8 billion in early April compared to \$4.5 billion a year ago.



Corporate Bond Underwriting – New issuance of corporate bonds totaled \$718.0 billion in 1Q'04, which was 25.8% above the \$570.8 billion issued in 4Q'03, but 11.8% below the record level of \$813.8 billion reached in the first quarter of 2003. The decline from year-ago levels was due to a cutback in asset-backed bond issuance. At \$286.8 billion in 1Q'04, asset-backed offerings were up 13.3% from 4Q'03 levels, but down 29.5% from the record \$406.8 billion in the same period a year ago.



Grace Toto
Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In \$ Billions)

	Straight Corporate Debt	Con- vertible Debt	Asset- Backed Debt	TOTAL DEBT	Common Stock	Preferred Stock	TOTAL EQUITY	All IPOs	"True" IPOs	Secondaries	TOTAL UNDER- WRITINGS
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
2003	1,370.7	10.6	1,352.3	2,733.6	118.5	37.8	156.3	43.7	15.9	74.8	2,889.9
<u>2003</u>											
Jan	150.3	0.0	162.5	312.7	6.8	1.9	8.8	1.0	0.0	5.8	321.5
Feb	114.7	0.0	104.1	218.8	4.7	3.6	8.3	1.9	0.5	2.8	227.1
Mar	141.9	0.1	140.2	282.3	4.8	1.8	6.5	3.3	0.1	1.5	288.8
Apr	101.5	1.3	113.6	216.5	6.4	3.6	10.0	2.5	0.0	3.9	226.5
May	120.7	3.0	118.7	242.4	10.9	4.1	15.0	3.4	0.1	7.5	257.4
June	118.0	5.1	114.7	237.9	13.1	6.8	19.9	7.0	1.7	6.1	257.8
July	96.4	0.4	114.0	210.8	12.9	2.4	15.3	5.2	1.8	7.7	226.1
Aug	72.7	0.0	97.5	170.3	8.4	2.7	11.1	3.0	1.6	5.5	181.4
Sept	137.4	0.0	133.9	271.3	14.9	3.0	17.9	3.5	1.4	11.4	289.2
Oct	110.5	0.1	90.6	201.2	10.2	2.3	12.4	2.3	1.5	7.8	213.6
Nov	97.4	0.0	103.1	200.6	14.0	2.5	16.6	4.8	2.1	9.3	217.1
Dec	109.1	0.6	59.3	169.0	11.3	3.2	14.5	5.9	6.7	5.5	183.5
<u>2004</u>											
Jan	138.5	1.4	81.3	221.2	15.6	2.5	18.1	4.4	0.5	11.2	239.3
Feb	130.8	0.3	106.3	237.4	20.3	6.4	26.7	9.7	5.5	10.6	264.1
Mar	159.5	0.6	99.3	259.4	19.2	2.4	21.6	6.3	2.1	12.9	280.9
Apr											
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '03	406.9	0.1	406.8	813.8	16.3	7.4	23.6	6.2	0.6	10.1	837.4
YTD '04	428.9	2.3	286.8	718.0	55.1	11.2	66.3	20.4	8.0	34.7	784.3
% Change	5.4%	1737.8%	-29.5%	-11.8%	238.3%	52.9%	180.6%	230.2%	1147.9%	243.2%	-6.3%

Note: IPOs and secondaries are subsets of common stock. "True" IPOs exclude closed-end funds.

Source: Thomson Financial

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
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
2003	21.1	215.8	236.9	54.7	87.7	142.4	379.3	1.01	4.02	3.00
<u>2003</u>										
Jan	1.4	16.8	18.2	4.4	4.3	8.8	27.0	1.17	4.05	2.88
Feb	1.8	15.6	17.4	5.1	7.6	12.8	30.2	1.17	3.90	2.73
Mar	2.0	16.4	18.4	4.2	5.5	9.7	28.1	1.13	3.81	2.68
Apr	1.6	18.4	20.1	4.6	10.2	14.8	34.9	1.13	3.96	2.83
May	3.0	20.3	23.3	5.5	7.1	12.6	35.8	1.07	3.57	2.50
June	2.1	22.6	24.7	6.6	17.1	23.7	48.4	0.92	3.33	2.41
July	2.2	18.5	20.6	6.5	6.1	12.6	33.3	0.90	3.98	3.08
Aug	1.1	17.6	18.7	3.9	3.4	7.2	25.9	0.95	4.45	3.50
Sept	1.4	17.6	18.9	3.6	3.2	6.8	25.7	0.94	4.27	3.33
Oct	1.6	16.7	18.4	3.8	12.2	16.0	34.3	0.92	4.29	3.37
Nov	1.3	16.2	17.5	4.1	4.2	8.3	25.8	0.93	4.30	3.37
Dec	1.7	19.1	20.7	2.3	6.8	9.1	29.8	0.90	4.27	3.37
<u>2004</u>										
Jan	0.7	10.9	11.6	3.6	5.5	9.1	20.8	0.88	4.15	3.27
Feb	1.0	11.1	12.2	5.6	8.4	14.0	26.2	0.93	4.08	3.15
Mar	2.6	18.9	21.5	4.9	10.4	15.3	36.8	0.94	3.83	2.89
Apr										
May										
June										
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '03	5.2	48.8	54.0	13.8	17.5	31.3	85.3	1.16	3.92	2.76
YTD '04	4.3	41.0	45.3	14.1	24.3	38.4	83.7	0.92	4.02	3.10
% Change	-17.2%	-16.1%	-16.2%	2.5%	39.0%	22.9%	-1.9%	-20.7%	2.6%	12.3%

Sources: Thomson Financial; 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	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
2003	10,453.92	1,111.92	6,440.30	2,003.37	1,398.4	67.1	1,685.5	38.5	28.0
<u>2003</u>									
Jan	8,053.81	855.70	4,868.68	1,320.91	1,474.7	62.9	1,547.6	37.5	24.7
Feb	7,891.08	841.15	4,716.07	1,337.52	1,336.4	53.6	1,311.4	32.8	20.4
Mar	7,992.13	848.18	4,730.21	1,341.17	1,439.3	64.7	1,499.9	36.3	23.0
Apr	8,480.09	916.92	5,131.56	1,464.31	1,422.7	54.7	1,478.2	37.1	23.5
May	8,850.26	963.59	5,435.37	1,595.91	1,488.6	69.6	1,847.9	39.2	27.4
June	8,985.44	974.50	5,505.17	1,622.80	1,516.3	79.5	2,032.2	42.7	32.0
July	9,233.80	990.31	5,558.99	1,735.02	1,451.1	67.4	1,771.7	40.7	30.5
Aug	9,415.82	1,008.01	5,660.16	1,810.45	1,200.3	57.7	1,470.8	34.1	25.3
Sept	9,275.06	995.97	5,644.03	1,786.94	1,436.7	83.9	1,943.2	41.1	33.0
Oct	9,801.12	1,050.71	5,959.01	1,932.21	1,430.0	68.6	1,827.1	41.7	33.1
Nov	9,782.46	1,058.20	6,073.02	1,960.26	1,293.3	71.7	1,821.0	38.5	32.4
Dec	10,453.92	1,111.92	6,440.30	2,003.37	1,275.7	70.4	1,637.0	38.9	29.7
<u>2004</u>									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	79.8	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.5	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	76.7	1,880.6	47.1	34.9
Apr									
May									
June									
July									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '03	7,992.13	848.18	4,730.21	1,341.17	1,419.4	60.6	1,457.6	35.6	22.8
YTD '04	10,357.70	1,126.21	6,599.06	1,994.22	1,538.5	77.3	2,037.3	47.9	37.3
% Change	29.6%	32.8%	39.5%	48.7%	8.4%	27.6%	39.8%	34.5%	63.6%



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