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THIS well-known work gives an intimate and interesting record of the story and working of the Stock Exchange generally. In the present edition it has been revised and brought up to date in accordance with the numerous changes that have taken place in Stock Exchange life and practice in recent years. The book is written primarily for students preparing for the various professional examinations, Stock Exchange clerks, and those who are considering adopting the profession as a career. It also forms an exhaustive reference work and guide for Stock Exchange Members, Bankers, and Investors.

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THE BOOK OF THE STOCK EXCHANGE

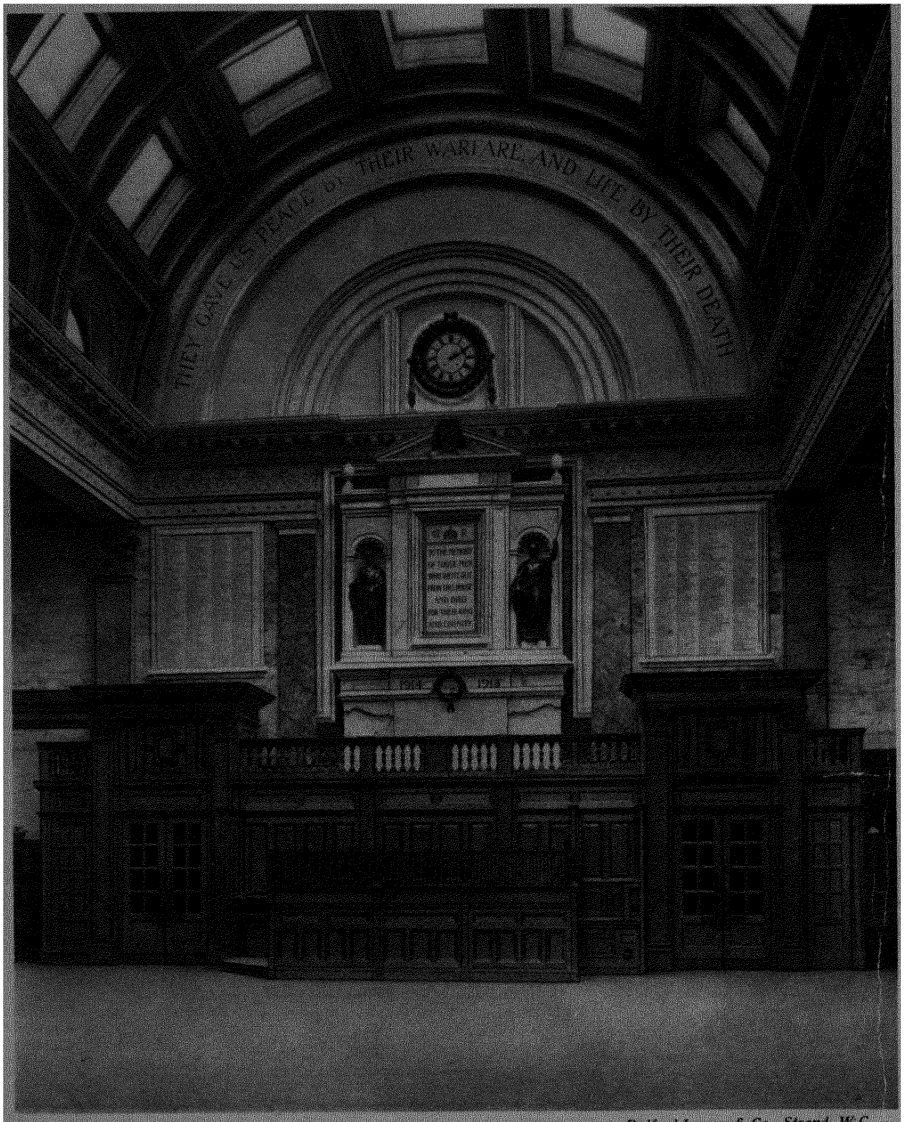


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THE STOCK EXCHANGE WAR MEMORIAL

THE BOOK OF THE STOCK EXCHANGE

A COMPREHENSIVE GUIDE TO THE THEORY AND PRACTICE OF STOCK AND SHARE TRANSACTIONS AND TO THE BUSINESS OF MEMBERS OF THE LONDON AND PROVINCIAL STOCK EXCHANGES

BY

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OF THE STOCK EXCHANGE, LONDON
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FOURTH EDITION

LONDON
SIR ISAAC PITMAN & SONS, LTD.

First Edition 1934
Second Edition 1934
Third Edition 1939
Fourth Edition 1949

SIR ISAAC PITMAN & SONS, LTD.
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2
THE PITMAN PRESS, BATH
PITMAN HOUSE, LITTLE COLLINS STREET, MELBOURNE
27 BECKETTS BUILDINGS, PRESIDENT STREET, JOHANNESBURG

ASSOCIATED COMPANIES
PITMAN PUBLISHING CORPORATION
2 WEST 45TH STREET, NEW YORK
205 WEST MONROE STREET, CHICAGO
SIR ISAAC PITMAN & SONS (CANADA), LTD.
(INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)
PITMAN HOUSE, 381–383 CHURCH STREET, TORONTO

MADE IN GREAT BRITAIN AT THE PITMAN PRESS, BATH
D9—(B.2216)

PREFACE

TO THE FOURTH EDITION

THE story of the Stock Exchange is at once interesting and provocative. The life of this institution, like that of the nation, is progressive, and the full story can never be told unless a day dawns when Stock Exchange activities are no longer required, and its constitution is dissolved. That day is not yet, and the passing years but emphasise the importance of the Stock Exchange, and the part it plays in the progress of mankind.

These were the opening words of the Preface to the First Edition, and never were words more true or fitting than they are to-day. So great have been the changes that have taken place in Stock Exchange life and practice in recent years that many parts of this Fourth Edition have had to be re-written. Temporary Regulations made necessary by the War, the revision of the Constitution and the consequent incorporation of new Rules, the Laws of Agency and Commission sharing, Appendix 34, the Prevention of Fraud (Investments), 1939, and Exchange Control, 1947, Acts, and the drawing more closely together of the Provincial Exchanges to London, are just a few of the developments it is necessary to record to bring the full story as nearly as possible up to date. Outstanding, however, are the facts that more than ever has the Stock Exchange endeavoured to adapt itself to the changing needs of the financial and business community, and at no time has the Institution, with its splendid motto *Dictum Meum Pactum*—"My Word My Bond"—stood higher in the public's respect and trust.

Many books have been written on the subject of the Stock Exchange. In some the historic side has been prominent, in others the legal side has been uppermost. For these reasons students may find such works too advanced. The examination papers of the Universities, the Royal Society of Arts, the London Chamber of Commerce, the Institute of Bankers, and the Chartered and Incorporated Accountants on Stock Exchange subjects reveal the need for information written from the

standpoint of the student; and the expressed need for such a work led to the publication of this book.

In the pages that follow the author has endeavoured to draw aside the curtain which surrounds the carrying out of Stock Exchange transactions, and enable students to master the somewhat intricate details. Effort has also been made to set out facts about the Stock Exchange in a manner that can be easily understood, and specimen forms are provided showing how transactions connected with the Stock Exchange can be recorded. For the reason that the pages are written primarily for the student, tolerance is sought from those with long years of experience behind them. Elementary matters must of necessity be dealt with, but included is all that part of Stock Exchange work with which a reasonably well-informed clerk might be expected to be familiar.

The author's anxiety has been to deal accurately and worthily with an extremely important and many-sided subject. He has been anxious also that public opinion should be enlightened regarding the lofty ideals the Stock Exchange pursues in its trading methods. In his task the author has been fortunate for the reasons that follow: the need for such a work, and a Press reception as generous as it was unanimous. *The Times* was good enough to assert on publication of the First Edition that the author's enormous task had been "carried out with a thoroughness which leaves nothing to be desired" and to sum up a lengthy review with the words "there is little doubt that Mr. Armstrong's book will become the standard work on the subject." This high opinion was endorsed by *The Economist, The Financial Times, The Stock Exchange Gazette, The Investors' Chronicle,* and daily, weekly and monthly journals representing every shade of public opinion. Their very kind comments were and are acknowledged with gratitude, as indeed are all the expressions of goodwill from Brokers, Bankers, Accountants and others in all parts of the country.

Particularly indebted is the author to Mr. H. L. Urling Clark, Chairman of the Council of the Stock Exchange, for his great interest in the preparation of this Fourth Edition; to Mr. A. L. F. Green, Secretary of the Council, for his co-operation; to Mr. Benjamin Webb, Financial Secretary to the Council, for his aid; and to Mr. A. F. B. Cooke, Secretary of

the Share and Loan Department, for his assistance. The heads of the various official Departments whose activities are dealt with have all shown great kindness, as also have the Secretaries of the various Provincial Exchanges. The author does not forget those who helped with the First Edition, amongst whom he would mention Mr. Walter Landells and Mr. J. C. Rea Price. To all of these and others, for spontaneous interest and informative counsel, the author pays a grateful tribute.

As this Fourth Edition goes to print two points may be stressed. First, that closer attention is being given by the authorities to the matter of Stock Exchange education as a means of entrance to the profession. The importance attached to informed instruction on Stock Exchange subjects can be seen from the inclusion of this work by the Institute of Bankers as a textbook for its examination for the Diploma in Executor and Trustee Work, and its adoption by the London County Council and other important educational bodies who give specialised training in Stock Exchange subjects. For this reason, and to supply all who desire information regarding the Stock Exchange, it is necessary as far as possible to bring this work up to date. Whilst, as stated, owing to new laws and changing needs, there can be no finality, the many changes during the last few years make this Fourth Edition imperative. It is launched with the author's hope that the book's helpfulness will be increased by the additions and amendments made to the Third Edition.

Secondly, and finally, the author would use the closing sentences of his Preface to the First Edition. "The making of a successful Stock Exchange Member, Banker, Accountant, Office Manager, or Clerk can never be a simple matter—but *it can be done.* A good foundation on which to build will be knowledge of the part played in the life of the community by the Stock Exchange, and an appreciation of the lofty ideals which that institution pursues in its trading methods. If the student reading these pages finds that the contents grip his imagination, and help his understanding of these subjects, the author will feel that he has gained his objective."

F. E. A.

CONTENTS

PAGE

PREFACE v

CHAPTER I

I. YOUTH LOOKS AT THE STOCK EXCHANGE . . . 1

The aftermath of war—Advantages and disadvantages of a Stock Exchange career—Costs of membership and means of entrance—What is required for success

CHAPTER II

"SUBSCRIBERS ONLY ADMITTED" 18

The Stock Exchange as an Institution—What it is, and the reason for its existence—What is Stock and what are Shares—Within the "House": Brokers and Jobbers—Various markets—Brokers' business and the Jobber's "turn"—Authorised and Unauthorised clerks—*Dictum Meum Pactum*

CHAPTER III

THE NEW CONSTITUTION 38

Deed of Settlement—The Council of the Stock Exchange—Foundation Members of the Council—Ordinary Members of the Council—Committees—The property and its capital—Reorganisation of Stock Exchange capital—Special Resolution—Passing of dual control

CHAPTER IV

THE CONSTITUTION AT WORK 50

Rules and Regulations of the Stock Exchange—Candidates for membership—Recommenders—Nominations—Membership—List of Members—The "Hammer"—The Official List—Monthly Supplement and Weekly Official Intelligence—The Marking of bargains

CHAPTER V

THE INSTITUTION AND ITS CHARGES TO THE PUBLIC . 71

Stockbrokers and their function—Clients and their contracts—Minimum scale of commissions—Country brokers—Provisions that benefit clients—Are commissions too high?—Agents and their remuneration—Clerks and remisiers—Banks and their contribution—Stamp duties and registration fees

CHAPTER VI

THE SCIENCE OF INVESTMENT 95

Foreign government stocks—Nationalism—March of science in the commercial world—Trustee Acts—The Gilt-edged market—Government loans—Bonds, Loans, and Debentures—Redemption dates, sinking-fund purchases, and drawings—Yields and redemption—Various classes of company security—Cover in relation to earnings

CHAPTER VII

PAGE

THE ATTRACTIONS OF EQUITY INVESTMENTS . . . 113

Ordinary stocks and shares—Gear ratio—No par value shares—Yields and purchase price—Dividends free of tax—Capital—Unissued capital—Uncalled capital liability—Bulls, Bears, and Stags—Continuations or contangoes—Making-up prices—How Account days are arranged—Differences—Cash transactions—Options and forward dealings—Single option—Double option

CHAPTER VIII

FACTORS AFFECTING STOCK EXCHANGE MARKETS . . 142

Psychology of price movements—Publicity and the Press—Trade—Bank rate—Dividend and other announcements—Politics—War—Other factors—Slumps and booms—Investment and speculation

CHAPTER IX

THE ARTERIES OF THE BUSINESS 156

Provincial Exchanges—The Council of Associated Stock Exchanges—Glasgow—Liverpool—Manchester—Birmingham—Dublin—Edinburgh—Belfast—Sheffield—Bristol—Leeds—Cardiff—Provincial Brokers Stock Exchange—Oldham—Mincing Lane—Prevention of Fraud (Investments) Act, 1939

CHAPTER X

THE ARTERIES OF THE BUSINESS (*continued*) . . . 185

Foreign bourses—New York—Switching—Arbitrage and arbitrageurs—Parity prices and how to calculate them—Banks and Discount houses—Insurance Companies—Investment Trust Companies—Fixed Trusts—Issuing houses—Underwriting—Public issues—The Company prospectus—Tenders—Other sources

CHAPTER XI

THE MACHINERY OF THE SETTLEMENT 213

The Account day—Centralised delivery—The Settling Room—Checking the bargains—Passing of Names or Tickets—The Trace—Splitting the Ticket—Selling-out Department—Liability times—The Settlement Department—Clearing Sheets

CHAPTER XII

HOW TITLE IS TRANSFERRED 245

Registered title—Deed of transfer—Exchange Control Act, 1947 (Transfers)—Consideration money—Nominal consideration—Certification—Preparation of transfers—Government stamp duty—Stamp requisition forms—Paying for transfers—Registration—Blank transfers

CHAPTER XIII

PAGE

HOW TITLE IS TRANSFERRED (*continued*) . . . 269

Special transfer forms—Power of attorney—Buying-in Department—Letters of indemnity—Times for delivery—Bearer bonds—Exchange Control Act, 1947 (Bearer)—Stamp duty on bearer securities—Scrip tickets—Letters of renunciation—Drawn bonds

CHAPTER XIV

HOW INSCRIBED STOCKS AND DIVIDEND TITLE ARE TRANSFERRED. 295

Inscribed stocks—Abolition of Inscription—Dividends, rights and calls—Ex dividend and ex rights—Accrued interest—Deductions and claims—Valuation of rights—Payment of calls—Bonus issues—Special application forms

CHAPTER XV

INFORMATION FOR THE SENIOR STUDENT . . . 315

The Share and Loan Department—Appendix 34—Placings—Permitted dealings—Prohibition of dealings—Appendix 35—Stock Exchange Official Year Book—The Official Assignee—Failures—Readmission of defaulters

CHAPTER XVI

AN EXAMINATION OF THE OFFICE RECORDS . . . 352

Bought Journal—Sold Journal—Checking Book—List Book—Clients' Ledger—Jobbers' Ledgers—Contango Journal—"Backwardations"—Tickets Passed Book—Tickets Received Book—"Make-ups"

CHAPTER XVII

AN EXAMINATION OF THE OFFICE RECORDS (*continued*) . 377

Cash Book—Private Ledger—Sundries Ledger—Stamp and Fee Account—Dividend Book—Splits Book—Clearing Book—Petty Cash Book—Trial Balance—Transfers Delivered and Transfers Received Books—Registration and Certificate Book—Scrip Book—Jobbers' Books

CHAPTER XVIII

PAST AND PASSING 399

Coffee houses—Old Royal Exchange—Denunciation of stockbrokers—Some strange promotions—Early price lists—Brokers' Medals—Foundation stone of the Stock Exchange—Original Deed of Settlement—First Committee—List of Trustees and Managers—List of Chairmen—The first Rules and Regulations of the Stock Exchange—Royal Commission of 1877

GLOSSARY OF STOCK EXCHANGE PHRASEOLOGY . . 419

INDEX 441

CHAPTER I

YOUTH LOOKS AT THE STOCK EXCHANGE

THE Aftermath of War—Advantages and Disadvantages of a Stock Exchange Career—Costs of Membership and Means of Entrance—What is Required for Success

THE problem of students as to what career in life to adopt has been brutally resolved for them during recent years by world developments beyond their control. War has again ravaged the globe, while its inhabitants have stood by watching civilisation on trial and human existence itself held precariously in the balance. During this time Youth, as ever, played its heroic part, abandoning self-interest and, ranging itself by the side of those older, exposed its breast to the enemy in the cause of right. Saluting those who have fallen, we turn to those who live.

Not the least serious aspect of the world conflagration has been the robbing of the youth of the nation about to embark on the voyage of life, of the power to make a considered decision regarding their future career. In the formative years of life education has been interrupted, and energies have been suddenly diverted from study to struggle and from construction to destruction. Many, thrusting plans for the future aside, went straight from school into action, to return perhaps with ideals disturbed and a mentality unsuited to resumed study by the experience of apparently wasted years. While some branches of science received stimulus by the impact of war, it is solemn to reflect on how much was lost to civilisation by war's operation; and how much mankind suffered by the diversion of research from matters touching its true welfare.

A further complication awaits in these anxious days. Impoverished by war exertions this old country once proudly able to pay its way, and finance effort in every part of the globe, now finds itself steeped in debt. To bring about a balanced economy resort has to be made to a method completely alien to our national tradition—the direction of labour—and whereas complete freedom to choose one's occupation was once the prerogative of its future citizens, the touchstone now is: Will

such occupation as students may desire to follow contribute to the winning of foreign exchange, or help to oil the wheels of industry which turn to bring about such a vital result?

To these problems has been added another, of importance to all planning or reconstructing a life's career. Is the political tendency of the age inimical to the Stock Exchange profession, or, in other words, is there a future for the Stock Exchange in a Socialistic world? We admit the presence of antagonistic prejudices towards capital and private ownership but, without entering the arena of politics, are of the opinion that for the Stock Exchange as an institution there is honourable work still to be done, and a need for men of character and ability to do it. The Stock Exchange, as we hope to show, has its place in this modern world, and the high ideals which it pursues in its trading methods, added to the unique and extremely efficient service it provides the public, is justification for its existence.

These are among the problems left by war. Those who have survived and those too young to have actively participated, see now a wounded humanity endeavouring to fit together the broken pieces of a shattered economic system. The immediate task of youth is to assist in the removal of war's legacy of hate and want, and to revive again a world trade structure which blesses those it serves and rewards those who work to "scatter plenty o'er a smiling land." When those better days return, as return we believe they will, then again will the wheels of industry revolve and students will once more have opportunity of deliberating on what they will do for a living.

To these better days we address ourselves, and as Youth looks at the Stock Exchange we, in this chapter, visualise a student who has a leaning towards a financial occupation seeking information regarding this well-known but little understood profession. What is the purpose of and what are the opportunities in this Stock Exchange profession? What are the costs of entry and what are the qualifications for membership? Does this occupation offer an outlet for my peculiar gifts? To this student we want to tender some observations, and in dealing with the subject of a Stock Exchange career we will endeavour to hold the scales of justice as evenly as possible.

In the first instance we will deal with objections that may be urged against the adoption of such a career. In the second we will refer to what is undoubtedly an important profession, the points in favour of such a career, outlining at the same time approximately what it will cost to become a member of the Stock Exchange, London.

Advantages and Disadvantages of a Stock Exchange Career

Firstly, do not make the mistake of taking up the Stock Exchange as a profession if by nature, disposition, and inclination you are totally unsuited.

Striking instances have been known to us which emphasise the importance of this advice. Have you leanings towards the land? In this present age great is the need for men and women to give brain and brawn, their energies and initiative to agriculture. Does the medical profession make the strongest appeal with its opportunity of easing the pain of suffering humanity? Does the Church make claims on your conscience? Do the sea or the services call with an irresistible voice?

What is your bent? Have you a genius for matters electrical? Does engineering fascinate you above all else? Does journalism call? These matters should be confronted honestly and systematically to prevent the adoption of a Stock Exchange career when, by every rule of the game, you are unsuitable for the business.

Secondly, we must give it as our opinion that the clerical occupation and experience of a Stock Exchange clerk are not a very good recommendation to other walks of commerce and business life. Employers, secretaries of limited companies, and directors of big institutions are said to be shy of engaging one who has served apprenticeship on the Stock Exchange. In an effort to discover the reason for this we found that the main objections were these—

(*a*) The system of book-keeping used on the Stock Exchange is a thing apart, and quite unsuitable for an ordinary commercial or professional calling.

(*b*) No qualifications are required for a Stock Exchange career. No entrance examination has to be passed, nor is any standard of efficiency set up in order to gain admission to the profession.

(*c*) The training of Stock Exchange clerks is said to be casual and lackadaisical. The numerous holidays, hours of attendance, and general conduct in Brokers' and Jobbers' offices are said to undermine discipline and make for unreliability and slackness.

(*d*) The Stock Exchange is subconsciously associated with speculative tendencies.

Now these objections are pertinent and give one food for thought. Nothing hurts so much as the truth, and if the criticisms are untrue they fall harmlessly to the ground. The misfortune is that there is something in these strictures. It is no part of our task to hold up Stock Exchange Members and their staffs to criticism, but we should not be recording the facts accurately unless reference were made to these points. Criticisms falling under (*b*) and (*c*) are by far the most important, and attention to the need for definite training with a view to efficiency is widely recognised. Organised endeavours are now being made to provide assistance for those who are studying in earnest, and the curriculum provided by L.C.C. Commercial Institutes, the Royal Society of Arts, Chambers of Commerce, Evening Continuation Schools, and Business and Accountancy Training Colleges throughout the country is evidence that corrective influences are at work. The Council of the Stock Exchange, London, is keenly interested in this matter, and prizes are offered by them to students for proficiency in Stock Exchange subjects. It would seem to be only a matter of time before entrance to clerkships and ultimately to membership will be obtainable only by passing preliminary and graded examinations such as are necessary for Chartered Accountants, the Civil Service, and the Banking, Medical, Teaching, and Legal professions.

The criticism falling under heading (*c*)—that Stock Exchange clerks are casual—is one much more difficult to deal with. There is little question that Members and clerks alike are easy-going. The discipline of the average Broker's or Jobber's office does not compare with that experienced, say, in a Bank, a Shipping or an Insurance office. Smoking is common in a Jobber's office at all hours, and it is not unusual in a Broker's office. Various duties take clerks away from their desks to other offices, and opportunities are taken advantage of, except

in the case of extremely conscientious workers, to chat about topical or personal matters. Little check is kept, and the willingness of managers to grant a request for "time off" is only evidence of the general air of casualness that pervades the average Stock Exchange office. There is, of course, another side to this question. During busy times long hours are ungrudgingly given by the clerks. At times the pressure is so great that days and nights are given to work, and a Stock Exchange clerk can reasonably claim that his life does not in fact belong to him. These times are unusual, but they do occur, and when the need is there, Stock Exchange clerks rise to the occasion.

Thirdly, the Stock Exchange as a profession is precarious to a degree. We should venture to describe it as the most artificial business in existence. What constitutes the psychology of the investing public, whereby all arrive simultaneously at the conclusion that dealings on the Stock Exchange are desirable, while at other times they appear spontaneously to determine that Stock Exchange transactions are anathema, it is not our purpose here to dissect; but the fact remains that the business is subject to periodical outbursts of activity. Days occur when it is physically impossible to handle the volume of business; on the other hand, most Members can recall days which have passed without a single order. The Stock Exchange is a profession of extremes. During one busy period we recall a firm who temporarily closed their offices to prevent the arrival of more orders, while Jobbers have been known to walk out of the "House"[1] through sheer inability to cope with an unprecedented rush of business. These times, of course, are unusual, but experience suggests that Stock Exchange Members are either too busy or too slack. The happy medium of quiet, steady business is seldom enjoyed. Months of slackness often follow boom-like conditions, and staffs installed to meet active conditions then have the misfortune to come daily to Town and find little more tangible to do when they arrive than the crossword puzzle in the daily newspaper. This slackness is through no fault of the employee, and out of fairness to his employers it must be said that many recognise this, and keep on their staffs, although, as the saying goes, they are "not paying for their lead pencils."

[1] See Glossary, page 427.

An ominous development of recent years has been the disappearance from the Stock Exchange of once active markets through Nationalisation. The merits or demerits of Nationalisation are not here discussed; what is stressed is that dozens of active securities—Debentures, Guaranteed, Preferences, Preferred, Ordinary and Deferred Ordinary Stocks and Shares—aggregating many millions Sterling, and embracing Railways, Electricity, Gas, Iron Coal and Steel, are now removed from the Official List, their place being taken by one or two Government Securities which very seldom change hands. Prior to Nationalisation, these securities formed the basis of practically all well-balanced investment portfolios and the changing of these investments brought steady business to Broker and Jobber alike. Gone now are the Home Railway and Argentine Railway markets, the Stocks of the latter being repatriated and paid for in cash. Gone, also, is Bank of England Stock, now converted to Treasury 3 per cent 1966 or after, while Industrial Insurance Companies, which for over a century have built up positions of impregnable strength, and industries such as Cement and Chemical, are menaced by the same shadow of Nationalisation. For the Stock Exchange this development is serious and, while the tendency of many old-established private companies to sell their businesses to the public (and the appearance of Prospectuses, Offers for Sale and Placings are evidence of this tendency) helps in some small measure to augment the number of securities for which a market is required, these newcomers to the Stock Exchange can never equal in importance the capital sums involved by the Nationalisation of Britain's basic industries and institutions, or compensate for the loss of business which this development has brought about.

We have said that the Stock Exchange profession is a precarious one, and, although it is unnecessary to stress the point, the risks of the business are common knowledge. The element of safety such as is found in a banking career is certainly not present here, nor till recently has any provision in the shape of a pension been possible for a Stock Exchange clerk in London. Sudden market movements often expose clients, for whom stockbrokers deal, to financial loss. A Member's inability to meet his obligations will then frequently involve quite innocent parties. Often a Member's embarrassment is through no

fault of his own, but this is a risk that has to be faced. All business, it may be urged, carries with it risk, and all professions have their own peculiar difficulties. This is acknowledged, but is no excuse for omitting in a review of the advantages and disadvantages of a Stock Exchange career an outline of those difficulties peculiar to Throgmorton Street.

Before leaving the subject of the disadvantages attached to a Stock Exchange career there are two aspects which appeal to us as worthy of consideration. These two matters do not fall quite naturally under any of the previous headings, and are objections which may apply with equal force to other similar callings. The points we raise are, firstly, the absence of any achievement of an enduring character to which a person engaged in a Stock Exchange profession can look as a result of his labours. To the clerical craftsman is denied the pleasure of standing back from his task to exclaim "That is my handiwork." We envy the natural pride, the rightful possession of, say, the architect who can look up at Bush House, Kingsway, London, or Liverpool Cathedral, and say "I built that" or "My creative ability called it into being." This may be sentiment, as all work is honourable, but however worthily our clerical student addresses himself to his task, at the end we are afraid there will be little to regard with satisfaction, except the knowledge that to his task he has given the best that was in him.

The second and concluding point is of a rather more practical nature—the unsuitability or inadaptability of the average clerk for any other form of vocational activity during a time of national crisis. The First Great War to the writer was a revelation, and the first thing that was revealed was his own limitations. As is well known, when that War broke out the "House" was closed like a factory that had no material. Hundreds were left, pencil in hand, with a growing realisation that they were of little use in a time of crisis. The man who could shoe a horse was much more valuable than the clerk; and the moral of J. M. Barrie's *Admirable Crichton* was driven home with decision. Engineers, carpenters, farriers, farmers, shipwrights, stevedores, sailors—yes; Stockbrokers—no!

To the everlasting honour of Brokers, Jobbers, and clerks throughout the length and breadth of the land it must be

recorded that both in 1914 and in 1939 they offered themselves to their country, and out of this raw material some of the finest craftsmen and warriors were rapidly forged and wrought. Intermediaries in business perhaps they could be termed; parasites they never were. But at the time the great Call came the blackcoated army was for all practical purposes unprepared.

We introduce this note to urge all students to cultivate a secondary calling on which, in time of emergency—not necessarily of war—they can fall back. The understanding of and ability to drive a car, the mastery of an instrument, musical or otherwise, the ability to speak a foreign tongue or successfully plant and raise a vegetable crop, all give an individual not only a greater pride in his citizenship, but better equip him to meet the disappointing experiences that life sometimes hands out, particularly to an unprotected profession such as that to which our attention is now directed.

Having outlined some of the disadvantages which should be considered by Youth in deciding upon the desirability or otherwise of a Stock Exchange career, let us now turn to the other side of the picture and consider the advantages.

Firstly, the Stock Exchange is a perfectly legitimate profession, and one that we hope to prove, in the following chapters, plays an extremely important part in the life and industry of the Nation. It can be urged further that to master the technique of the business calls for skill and ability of a high order. There may be within its ranks a few who are not really capable, but, taken as a body, men trained in Stock Exchange work are mentally well equipped, and comparable with, if not superior to, men in any other profession. Stock Exchange Members and clerks learn to think quickly owing to the speed at which the trading of the day is done. They learn also to act quickly, as otherwise their interests or those they safeguard might suffer. By the very nature of the profession, they learn to make decisions instead of seeking advice, the result being that in the discharge of the ordinary routine of civilian life a Stock Exchange man is found to be alert and decisive. From the junior clerk upward it can be observed how an intelligent interest is developed in all that is going on touching the destiny of his country, and through his country the

"market,"[1] and through the "market" his own office. Political developments with their reactions on prices come to be carefully watched; the process of observation resulting in the product of men who feel they are at the "hub" of things and who therefore should be well informed.

Secondly, all business is a risk, and from that angle this profession should not be excluded. It may be urged that there are degrees of risk, and that in the category a Stock Exchange calling must necessarily figure near the top. While that may be so, there are present in this business no elements of danger which cannot reasonably be faced by men of integrity, character, and sound judgment. Compared with the handful of Stock Exchange Members who have been brought down by circumstances beyond their control, those who have succeeded are vastly out of proportion. The number of clerks who have had to seek fresh openings owing to war or economic depression is not a large one compared with the number who are in safe employment. Bad times visit all trades, and recent years have witnessed "safety first" occupations, such as teaching, the Civil Service, and banking, which were considered to be beyond the reach of change, exposed to serious fluctuations.

Thirdly, in the Stock Exchange profession there are considerable prizes to be won. There are openings for men of ability. The inexorable law of the "survival of the fittest" in the matter of mental equipment operates here no more or less than in any other business, and a clerk who is capable is likely soon to attract the attention of his superiors and quickly gain promotion. In a business of this kind the personal element is of extreme importance. To a Broker, a clerk of ability and pleasing disposition is a considerable asset. He is able to interest and handle his firm's clients, to explain their difficulties, to answer their queries, and to anticipate their requirements. This can easily contribute to a firm's success. To a Jobber, personality and ability are vital. It is almost fair to say that without them the chances of success are practically non-existent. Such attributes are not so much required in his clerk, but, should he possess them, it is not long before his capacity is given rein, as it is when he is "authorised"[2] to transact business on his employer's behalf.

[1] See Glossary, page 429. [2] See Glossary, page 419.

The lower ranks of Stock Exchange clerks are not highly paid, but it is usual for bonuses to be distributed according to the degree of prosperity enjoyed by the employee's firm. A growing tendency is for firms to have a profit-sharing scheme, but, while few firms miss the opportunity to deal liberally with staffs who have loyally served them during busy times, this method of profit-sharing is not practised by all firms. The Stock Exchange, however, can proudly regard its record of generosity where the recognition of staff work is concerned. Clerks, in addition, have opportunities to augment their income by sharing in the commission or profit earned by their firm—providing they are instrumental in obtaining the business. Allowances of this kind are liberal, the usual arrangement being that $33\frac{1}{3}$ per cent of the gross profit is retained. That this division is generous will be conceded when it is remembered that out of the $66\frac{2}{3}$ per cent retained by the employer all expenses have to be met, including the clerk's salary. Obviously, a clerk enjoying the advantages of a connection who deals from time to time in Stock Exchange securities can contribute very materially to his own income and prosperity.

This gives rise to a criticism, heard from time to time, that only people of means and public school education should contemplate a career on the Stock Exchange; and perhaps at this juncture the claim should be examined. Is it correct? Undoubtedly, the possession of social status is of assistance. It makes more simple the task of obtaining introductions which lead to good business results, but this advantage exists in other walks of life. The gibe that before embarking on a Stock Exchange career a youth should exercise care in the choice of his parents should not be used without reference to the fact that hundreds of young men without the advantage of social status have entered the business, and by virtue of sterling quality have won through honourably to success. This aspect of a young man's efforts to rise to membership has been recognised by Stock Exchange authority in its provision under Rule 29 whereby clerks who have given four years' service can become candidates for admission to membership without a "Nomination."[1]

The Stock Exchange is not the close preserve of the wealthy.

[1] The right of "nomination" is explained on pages 14, 15, and 54.

Older Members may feel that of recent years the "character" of the profession has undergone a change. The top hat is no longer the passport to respectability. Starched apparel has given way to softer materials. Democratic tendencies appear to have crept in. Slowly but surely a new generation has sprung up. Whether it is superior or inferior to the decade that has passed, who can say? Sufficient to remember that despite the buffetings of time the Stock Exchanges of this country are still institutions famed throughout the world. They are still attractive to the best brains in the Kingdom, and a young man deciding to take up this calling will find himself in the company of some of the most illustrious bodies of men engaged in business.

The prowess of the Stock Exchange in the realms of sport deserves a chapter to itself. Men in almost every branch of athletics have attracted the limelight of world attention to their achievements. A few years back the Stock Exchange gave England a Cricket Captain in Mr. G. T. S. Stevens, and simultaneously a Soccer Captain in Mr. A. G. Bower. Mr. H. D. G. Leveson-Gower's name is automatically linked with the Oval and M.C.C., while farther back cricketing stars of the magnitude of A. E. Stoddart, G. MacGregor, A. P. Lucas, and R. E. Foster call for inclusion. An amateur golf champion, Mr. Robert Harris, must remember stammering a few impromptu words of thanks to a cheering "House" on his first appearance after annexing the honour. In no business circle can more interest in the Boat Race be found, and amongst other names famous in this department are those of Mr. G. D. Rowe and Mr. F. I. Pitman, Presidents of Oxford and Cambridge Boat Clubs respectively, and Sir Harcourt Gold who achieved the distinction of stroking the former University crew on no less than four occasions. Boxing enthusiasts will have heard of Mr. B. J. Angle and Mr. Eugene Corri, and the Club attached to the Stock Exchange has provided and hopes again to provide candidates for the A.B.A. Championships held each year.

The Stock Exchange Rifle Club can point to several unique achievements, one of the Club's members, Captain R. F. Davies, achieving the honour of winning the King's Gold Medal and Badge at Bisley. It was at the Bisley meeting also that the Club Team established a record which will probably not be broken, that of winning the Astor Cup for three years in

succession. Point-to-point meetings are arranged, while football and billiards championships are organised in connection with the "House," and swimming, cycling, and other athletic activities are encouraged.

The May Day walk to Brighton[1] has established itself as almost a national athletic fixture since its introduction in 1903. This walking event was not long in being before the sporting world was shaken by a record put up by Mr. T. E. Hammond, who, reaching his objective, Brighton, well within his capacity, turned round and walked back! The time for this performance —over approximately 104 miles—was 18 hours 13 minutes 37 seconds. Not contented with this effort, Mr. Hammond proceeded on the 11th and 12th September, 1908, to walk around Shepherd's Bush Stadium for 24 hours, putting up an achievement of 131 miles 580 yards, which stands to this day as a world's walking record.

Students with artistic tendencies will find organisations for their encouragement and display. Good instrumentalists can join the Stock Exchange Orchestral Society, founded in 1885, while good singers can assist the Stock Exchange Male Voice Choir, once incorporated in the Orchestral Society, but now a separate organisation. The Stock Exchange Dramatic and Operatic Society presents each year several plays in a West End theatre, and the performances are up to West End standards. This Society, familiarly known as SEDOS, has a remarkable record. Founded in 1905, it has produced to date 89 plays and has been responsible for raising nearly £650,000 for Charity. The Stock Exchange Art Society have an annual Exhibition, while a Cadet Corps encourages discipline and comradeship amongst the junior clerks. The Stock Exchange Christian Association, founded in 1875, holds regular meetings. A Benevolent Fund for Members of the Stock Exchange has existed for nearly 150 years, having been formed for "the purpose of affording relief to distressed Members and families, provided they have conducted themselves in an upright and honest manner." A Pension Scheme as well as a Provident Fund exists for clerks. This latter organisation deserves particular mention. Generous benefits are afforded for a nominal

[1] The May Day holiday having now been dropped, this fixture is usually held on the Saturday nearest 1st May.

contribution, and any young man taking up a Stock Exchange career should join this Fund.

A valuable service has also been rendered to Members and their staffs by the establishment of a Reference Library at 26 Austin Friars. The object is to provide an adequate service of current statistics; and a splendid basis of standard works on financial and economic subjects is the result. The pride of the library staff is probably their Joint Stock Company Registers covering no fewer than 451,000 companies and dating back to 1856. The prize for antiquity goes to the Price lists, which are preserved from 1697 to date.

Having set out for the guidance of students certain factors operating for and against a Stock Exchange career, a decision must now be taken. Life is made up of decisions, some of them right, many of them wrong. The youth who figures at the head of this chapter has arrived at his decision. The Stock Exchange is the sphere of activity which calls, and to it he is going to offer his endeavour. How, then, is entrance to be obtained, and what are the costs which must be faced if the Stock Exchange is to become a life's work?

The best advice that can be offered to one aspiring to a Stock Exchange career is to begin at the bottom and work upwards. If a youth is made of the right material, this will cause no heartburning. That Scotsman of brains, Andrew Carnegie, who amassed a fortune out of the steel industry in America, gave it out that he would have no man on the Boards of his Companies who would not, if necessary, "take a broom and sweep out the office."

If the privilege of commencing at the bottom is denied our student, it means that, when he does obtain entrance to an office, a two-fold task awaits him—the mastery of the work of the man below him, in addition to that of the one above! The junior's work in a Stock Exchange office is highly important, and provides unusual opportunities to study and observe what it all means, and how it all fits in. It is more easy to obtain entrance to an office as a junior, and the practice of promotion is usually followed by Members when opportunity offers. The advertisement columns of the financial and other papers can be watched for openings which occur from time to time in Stock Exchange offices. Advantage can be taken of

introduction to firms with a view to filling a vacancy. The practice of paying a premium to enter an office and learn the business is not now in vogue. It is not unusual, however, for young men who desire to enter the "House" to pay their own fees, or for people with connections which ensure a remuneration through the business they introduce, to be attached to a Broker's staff as "Attachés or Clerks."[1]

Costs of Membership and Means of Entrance

What, then, are the fees to be paid by a young man who contemplates membership of the Stock Exchange, London? Two courses are open.[2] Either membership must be purchased outright, which is the more expensive course, or qualification must be established by service. Candidates for admission without service now pay an entrance fee of 1,000 guineas. They must also find three sureties of £500 each. These sureties must be Members of the Stock Exchange, and the period of their liability is four years. A Nomination must also be purchased from a Member who is retiring. This Nomination is an extremely difficult quantity to value. Between 1928 and 1949 the price of Nominations has moved from a high level of £2,000 to a low level of £40. If the candidate with the qualifications outlined can then satisfy the Council that he is in every respect suitable for admission, all that remains is a subscription of 100 guineas a year.

The clerk with four years' service in the Stock Exchange or the Settling Room is in a different category. Without forfeiting the right of purchasing a Nomination and thus qualifying for membership, he may elect to enter his name upon what is known as the "Waiting List, Section B." On this "Waiting List" the names of clerks are entered in the strict order of their application. Each year the Council at a meeting in December decide the number to be admitted to membership from this list. Admission thus obtained carries the following valuable provisions: No Nomination is required, while two sureties only of £300 each are necessary, their liability extending as before for four years. For clerks who thus gain admission the entrance fee is 500 guineas and the annual subscription 50 guineas. Membership obtained in this manner is identical with that secured

[1] See Glossary, page 419. [2] See also Chapter IV, pages 52–8.

by the purchase of a Nomination, with the exception that, no Nomination having been acquired, the "Waiting List" candidate has not one for disposal on retiring or relinquishing his membership. Otherwise the privileges of membership are the same.

The "Waiting List, Section B," is a long one, the last to appear bearing the names of some 140 clerks. The number fixed by the Council for admission each year is small. In recent years the number has ranged from five to twenty. It is wise, therefore, for any clerk who contemplates admission in this way to enter his name on the "Waiting List" as early as possible. The fear of the clerk who sees his name at the end of a list of several hundred others that he is committed to an interminable wait, is offset by the hope, justified by experience, that many names drop out in course of time. No liability is incurred by the waiting clerk, who may watch his name rising in the List, and who may himself at any time decide to purchase a Nomination, when he in turn makes way for others beneath. Many clerks have had the experience of progressing through the "Waiting List" so rapidly that, when within the number fixed by the Council for election in this manner, they have decided to retire to the bottom of the List again, it being inconvenient for them to exercise their privilege. This is permitted by the Rules, but is only once allowed.

The Waiting List is divided into two sections, "A" and "B." Section "A" refers only to applicants whose names were already entered on the List before the rules relating to admission in this way were altered on the 22nd December, 1930. Those fortunate enough in previous years to obtain membership in this way acquired a Nomination after the liability of their sureties had expired by effluxion of time. The reason for the alteration was the recognition by Members that by a continuation of the old arrangement, an unlimited number of Nominations would in time be brought into existence to the detriment of the value of all Nominations. Section "A" is a diminishing quantity, but it still exists, and the latest list contains the names of 19 applicants. When the number to be admitted without a Nomination is fixed by the Council, of that number not more than 20 per cent may be taken from

Section "A" in any one year. Section "A" applicants admitted without a Nomination, however, in due course acquire one.

On the next page is a simple table laying out the present cost to applicants for admission to membership of the Stock Exchange, London. The two classes are (1) clerks accepted without a Nomination, and (2) "three-deckers"[1] or applicants who have served no apprenticeship.

In this table definite figures are given. It must be clearly understood that the value of a Nomination is a fluctuating quantity, and that under the sweeping reforms dealt with in Chapter III, Stock Exchange Shares are replaced by £4 Cumulative Redeemable Annuities, which Annuities it is not necessary for an applicant to hold as a qualification for membership. The price of Nominations has been depressed of recent years by the accumulation in the number available for sale. This accumulation was brought about by the suspension under Rule 20 during the War period of the necessity to dispose of Nominations within twelve months of the death or resignation of a Member as provided by Rule 27. Designed to prevent hardship as little demand existed for Nominations during the War, this extension has now been determined; and the date fixed for the validity of all unexercised Nominations which would normally have expired on any date subsequent to the outbreak of War was 25th April, 1948.

	(1) Clerks	(2) Three-deckers
Sureties	Two of £300 each for 4 years	Three of £500 each for 4 years
Entrance fee . . .	£525	£1,050
Nomination . . .	—	60
Annual Subscription . .	52 10s	105
Total . .	£577 10s.	£1,215

Similar, but not identical, arrangements are made for the benefit of clerks in the large Provincial Exchanges.

This book would not be complete if it laid down only the conditions applying to the Stock Exchange, London. In

[1] "Three-deckers" is the name given to applicants requiring three recommenders.

order, therefore, that it may be of use to students, an effort has been made to give particulars of the conditions and costs which obtain in other centres. Much that is interesting is disclosed by looking closely at the procedure of the Provincial Exchanges, but, as at this juncture the "flow" of our story might be interfered with by a prolonged glance at them, a special chapter is given later to a survey of Provincial activities.

What is Required for Success

The foregoing are the conditions under which students can make themselves Members of the Stock Exchange, London, and the further information regarding Membership given in Chapter IV should be studied. Membership should be the goal of every student's ambition. On this objective all his endeavours should be concentrated. The early days will not be easy, but they will be worth while. If a student is in earnest he will succeed. Difficulties are made to be overcome, and hills that cannot be climbed can be either tunnelled through or circumvented. Students who see themselves at the top will subordinate all else to this ideal. It will assist them in their climb if they put aside all extravagance. Save every shilling you can. Know the value of money, as a right appreciation of its value makes for a careful custodian and adviser. Be ambitious and shun gambling. The business of the Stock Exchange presents too many opportunities for speculation for there to be two opinions on this subject. Gamblers sometimes are successful, but seldom in the end succeed. They usually succumb. In this profession, as in other worthy ones, there is no substitute for hard work. It goes without saying that flawless honesty and integrity of character are absolute necessities for success. There is no room for a single deviation. Mistakes may be made in the course of one's training, but those mistakes must not be matters of honesty or principle. Here the rules are rigid and unbreakable. A little farther on will be found information regarding the remarkable code of honour which is the mainstay of the whole Stock Exchange profession, and maintenance of this high code is absolutely indispensable.

With these observations we will proceed, and in the following chapter draw aside the veil in order to get an idea of Stock Exchange business in full swing on an average day.

CHAPTER II

"SUBSCRIBERS ONLY ADMITTED"

THE Stock Exchange as an Institution—What it is, and the Reason for its Existence—What is Stock and what are Shares—Within the "House": Brokers and Jobbers—Various Markets—Brokers' Business and the Jobber's "Turn"—Authorised and Unauthorised Clerks—*Dictum Meum Pactum.*

HUMAN instinct urges traders in the same commodity to get together. The principle has been in existence since trading began. It still exists. In London the professions closely follow this urge, and on examination we find doctors in Harley Street, lawyers in Lincoln's Inn, diamond dealers in Hatton Garden, sugar and tea dealers in Mincing Lane, shipping merchants in Leadenhall Street, and newspaper offices in Fleet Street. Government offices are located around Whitehall, while head offices of the largest banking institutions are found within easy reach of Lombard Street. So in line comes another set of traders—Stockbrokers—whose business is carried on in and around an address known all over the world—Throgmorton Street.

Bounded on the East by Old Broad Street, on the South by Threadneedle Street, on the West by Bartholomew Lane, and on the North by Throgmorton Street, all E.C.2, so well hidden that only the initiated can find it, is a building which plays an extremely important part in our national affairs—the Stock Exchange, London. Clustered all around within easy reach are offices occupied by Members and their clerks, whose citadel this is.

The Stock Exchange is an institution with a history. Its privileges are closely guarded. Into other institutions with even more ancient history, the Houses of Parliament or the Law Courts for instance, the public may go. There one may discover for oneself exactly what goes on. When one turns to the Stock Exchange, this privilege is withheld. Over each of the entrances are inscribed in bold type the words at the head of this chapter:

"SUBSCRIBERS ONLY ADMITTED"

and this rule is, in the ordinary course, rigidly enforced. Occasionally, the regulation is relaxed to allow members of the

Council personally to conduct distinguished visitors across the floor of the "House," and of recent years the public have been allowed on several occasions to visit the War Memorial on a Saturday morning, when business is not in progress. These exceptions, however, are rare. At each of the seven entrances to the "House" gold-braided "waiters"[1] are posted, and it is their duty to prevent any person not entitled to admission from entering. Occasionally, a stranger innocently makes the mistake of penetrating the outer defences. Astonishment at finding himself in such extraordinary company induces a paralysing self-consciousness that immediately stamps the intruder as a stranger. Then his presence is discovered, and the reception given him is so cordial that for weeks he prefers not to discuss his experience.

The Stock Exchange as an Institution

The curtain of mystery which surrounds the Stock Exchange as an Institution only intensifies the desire of the public to know what goes on within its walls. We will, therefore, in this chapter, try to draw aside the veil, and convey to the reader the sight he would look down upon were he gazing from an imaginary public gallery. A vast hall, irregular in shape, is beneath, with huge pillars supporting the roof. A dome at one end rises to 100 feet. No suspicion of the yawning spaciousness is conveyed by the exterior, which is largely made up of Insurance, Cable Company, and other offices. It is a melancholy admission to make, but it is unfortunately true, that the Stock Exchange, London, the hub of the financial activities of the world, is housed in a building which is difficult for strangers to find. The actual structure, hard by the Bank of England, is well hidden, in common with the tiny street, as diminutive as it is famous—Throgmorton Street. Some day a building may arise more worthy of London's great position. At present there is not even a waiting room into which to invite a client. At any one of the entrances a Member may be called, but so cramped is the space available here that, if more than a handful of people foregather at one time, comfort is compromised. The popular impression of most strangers to London, that a more noble structure—the

[1] See Glossary, page 438.

Royal Exchange—is the Stock Exchange, can therefore be left undisturbed.

The reader, whom we will accompany, is now, on a normal trading day, gazing down upon a strange and fascinating sight. A teeming mass of masculinity, for none but men are yet admitted, is moving hither and thither, resembling an ant-hill into which a stick has been thrust. Animation is everywhere. In numbers the picture presented is like the masses to be seen in Whitehall on Armistice Day. Most of them, however, are moving in kaleidoscopic fashion in all directions. If the business of the day is brisk, the din of bidding and offering can be heard. It increases at times in intensity and spreads like a contagion from market to market. There is always movement, however, and, although we do not understand, as we look down, how it all fits in or works out, this we will make it our business later to try and unravel.

We will now take our eyes from the moving mass of humans to take in details of our surroundings. This is what we observe. Stationed at strategic points are waiters' stands fourteen in number. On these raised rostrums are uniformed waiters with qualifications which include alertness and, most important, stentorian voices. These waiters are extremely busy men. At one side of their rostrum is a switchboard connecting with electric signs raised high above the market. These signboards can be seen from all parts of the "House." Stock Exchange firms are given a stand and also a number. On receipt of a message of any kind the waiter's duty is to call the individual or firm wanted and immediately put up their light, removing it the moment the summons receives attention. On the other side of each waiter are numbers of speaking-tubes connecting with key positions, such as entrances and telephone rooms. Automatic tubes, linked up to the local postal telegraph office, are situated near by, and telegrams, sorted by officials, are dispatched direct to the various stands. Periods sometimes occur when a waiter can quietly observe what is going on around, but it is no unusual sight to see him with a bundle of telegrams in one hand, an ear to a speaking-tube, and his disengaged arm manipulating the switchboard. Meanwhile, he endeavours to attend to Members' demands, and undertake the safe adoption of numerous slips of paper containing matters brief and to

the point. These slips are of vital importance to writer and recipient in the course of the day's business. The twinkling electric signboards are also very important, and new clerks are warned to keep their eyes "glued" to these signals. Trunk telephone calls are expensive, foreign calls more so, and the very matter which is under discussion when a light goes up may be either countermanded or amended by the call which awaits. Indicators abound, among the largest being those that flash out dividend and other announcements. (See page 416.) Busiest of all are the Members' indicators worked by the waiters, and the operators of the Exchange Telegraph, which latter organisation provides a private telephone system running direct from the floor of the "market" to the offices of subscribing Members.

With one quiet exception, the whole of the interior of the Stock Exchange seems designed to annihilate time and facilitate dispatch. Looking down from the part of the building which was first acquired in 1801, above the original entrance in Capel Court, is the War Memorial. The cathedral-like beauty of this Memorial[1] appears almost to frown on the seething maelstrom of humanity below. A smaller work of bronze and marble, erected to those who fell in the Boer War, is seen on an adjoining wall. Beneath, on all sides are notice boards displaying announcements from companies regarding traffics, dividends, and other matters of interest. Announcements from the Council affecting domestic matters are prominently displayed, while current news of the world, disgorged from tape machines, is pinned up in prominent places. Large, white boards stare at the "House" from various walls, and these

[1] More than passing reference is due to the rare beauty of this Memorial. The bronze statues of St. Michael and St. George, the patron saints of Christian chivalry, were virtually the final work of the late Sir Thomas Brock, and may well rank as a worthy climax to the great Academician's achievements and career. These heroic figures stand in niches sculptured from marble, and this white background lends admirable effect to their rich hue of bronze. The centre portion of the composition consists of great tablets of white marble on which are inscribed the names of the Fallen. It seems impossible to conceive the central space of the Memorial being utilised to better advantage, or its main burden being set forth with a truer dignity.

The whole architectural conception, including the handsome lobby of finest British oak, with dimensions of forty feet in breadth and fifty feet in height, which forms its background, was designed and executed by Sir Aston Webb and Son, in conjunction with Mr. Langton Cole, the Stock Exchange architect, and embodies to perfection the spirit of undying remembrance.

The Memorial was unveiled by the late Earl of Balfour, K.G., O.M., on the 27th October, 1922. (See Frontispiece.)

appear to be a centre of interest. Behind them sit, with their backs to the walls, the clerks of the "House." Their duty is to mark on the boards against each Stock or Share the price at which it has changed hands, the information coming into their possession through slips which are dropped in boxes by those who deal. These slips are collected, and the information extracted from them is printed each day, the particulars constituting what is known as *The Stock Exchange Daily Official List.* A few seats are scattered here and there. Writing desks are on the surrounding walls, beneath which are numbered drawers for the use of Members. Telephone rooms and entrances make up the surround. The rest is space, and in the space restlessness!

The Stock Exchange, it is fair to say, is one of the most widely-known institutions in the world. Discussions regarding whether Brokers should advertise seem beside the point when it is remembered that no other business enjoys such publicity. An idea of its importance in the nation's life is shown by the prominence given to its activities in the daily Press. Pages of publicity beyond the power of purchase figure in the daily papers, and every edition draws attention to some item of interest or change of price. Weekly and monthly publications, edited by the most capable and penetrating writers in financial journalism, make regular appearances. Books and articles flow freely from thinkers, statisticians, and economists, all drawing attention in the direction of this extraordinary and fascinating business of the Stock Exchange. What other industry or profession enjoys such advertisement? This thought is present as we gaze on the crowded floor: "So this is the Stock Exchange." Now what does it stand for, and what is the reason for its existence?

What is the Stock Exchange For?

The simple answer to this quite legitimate question is that the name "Stock Exchange" explains itself. Here, before our eyes, Stocks are exchanged! Exchanged for what? Exchanged for cash or exchanged for other Stocks. How the basis of value is arrived at we will inquire later, but all day long, week in and week out, Stocks and Shares are being "exchanged" according to the desire of those who want to buy, and the

wish or demand of those who want to sell. Before we go farther, may we draw attention to an extraordinary democratic principle which is opened up when we come to consider: WHAT IS STOCK AND WHAT ARE SHARES?

In simple terms, these two words mean "a division of, or an interest in, a loan or undertaking launched for an object, or to bring in a profit." Since organised society began, enterprise has required the aid of money, and initiative has leaned heavily upon the arm of finance. Exploration spells expense, and organised research of almost every kind has cried aloud for cash. Brilliant ideas have needed banks or bullion to back them up, and inventions required the help of capital to prove their worth.

So it comes about that men, owning projects with prospects crying aloud for recognition, form themselves into companies and sell off, to those who possess the cash, participations in their enterprise. By this means, men, unable themselves to invent, unable themselves to travel and explore, are able, by the consent and invitation of those who are in a position to invent or travel, to become part proprietors in one another's activities. Both parties make their contribution: the man with brains, lacking money or needing more, and the man with money, and often brains as well, desirous of co-operating. The combination of these two, multiplied many times, is a rough, working first principle on which companies are constructed.

Some companies when they are formed call the participations "Shares," while with others they are described as "Stock." In either case a holder is a part proprietor, and has a division, small or large, in the undertaking. The size of the Stock- or Share-holding usually indicates the proportion of risk accepted, or the opportunity for profit enjoyed. If I acquire a share in a company formed to prospect for gold, in effect I stake out a claim in the destiny of that company, in precisely the same way as the engineers stake out a claim on the property. If it is successful, I share in its success—if it fails, I suffer by its failure. The extent of my success or failure is determined by my Share-holding. If I am impressed by the company's prospects I may decide to acquire a thousand shares. My stake in the company then is ten times that of a fellow Shareholder who, not so much impressed, takes only a hundred shares.

If the company is successful, my dividend is ten times as large as that of my fellow Shareholder. If the company prospects for gold in vain, then my loss is ten times that incurred by my fellow Shareholder.

Actually there is little difference between Shares and Stock. Both signify a division of the company's capital. It was the practice of Railway Companies for instance, when they were formed, to issue Stock, in which form the public were able to acquire an interest. People living when the railway system was born eagerly co-operated with the geniuses whose brains evolved the steam engine. They tendered their cash and watched the tracks feel their way across the land. The participation they took was in the form of Stock, divisions of £100 in the company's future. There was no reason why the capital should not have been in Share units of £1 each, as in the case of the gold-mining company just quoted. In process of time dividends were paid on Railway Stocks, but the dividends could just as easily have been distributed to those who subscribed their money if the division of the interest in the company was in the shape of Shares, instead of in the form of Stock.

Granted the existence of a Stock Exchange, this principle of being able to interest oneself in all forms of human endeavour and activity opens up tremendously interesting fields. By this system opportunity is offered to people in all walks of life to become partners or part proprietors in businesses, projects, and adventures in any part of the world. They can come to a decision at any time convenient to themselves. They can commit themselves to any amount. No limit appears to this system with its fantastic possibilities. International barriers also are broken down. I can obey the impulse I have never been able to shake off since reading *The Fur Traders* at school, and become one myself by a Share-holding in Hudson's Bay Company (the oldest known company whose Share dealings have been recorded). I can descend the ruby mines of Burma, or participate in frozen whaling expeditions around the coasts of Greenland. Stifling flights of romantic imagination and descending to practical levels, I can take an interest in that outfitters I passed this morning on my way to town. Here the "lay-out" of goods for sale was just my idea of what a smart

shop window should be, and, in addition to getting the article I require, I should like to receive its Balance Sheet. I want also an interest in that local restaurant. My bill was paid with pleasure and satisfaction. I may reason that a well-organised catering business must be a safe form of investment, and, as its securities are "quoted,"[1] I should like to take an interest in its destinies. Inhabitants of the British Isles can become interested in American ventures or Australian undertakings, or any other form of national or individual efforts from China to Peru. The great national loans of this country provide opportunities for the investment of savings, and an examination of the Stock registers, if that were possible, would show at once how people from countries far away had taken advantage of this principle. These great loans are simply an elaboration of the company system.

But we hear the student say, "In the first instance money represented by Stocks or Shares was subscribed direct to the undertaking and not to the Stock Exchange. Why then the need for a Stock Exchange?" This is a legitimate question and while the first part of it is probably true, as appeals for capital are often made direct to the public, the second gives opportunity to present a very pertinent truth, which is that few people would subscribe their hard-earned capital to an enterprise where no facility existed for repayment if required. This point is well brought out by Mr. Collin Brooks in his *Profits from Short-term Investments*. In it he writes—

"When Jones grows tired of holding his shares and sells them to Smith the company is unaffected. Similarly when Tompkins having lent his money to the State wishes to release it and sells his War Loan to Jones the State is not affected. The enterprise or the State has had the original money . . . and will some day perhaps repay the money borrowed to an equivalent holder. In the meantime it will pay dividend or interest to anyone who has a title to the payment. . . . The point is that few people are ready to tie up their surplus wealth indefinitely. Jones may be willing to subscribe a hundred pounds of capital in 1936 . . . but in 1937 or 1947 he may desperately need the use of that money. No company could flourish which guaranteed to pay off its capital subscriber's money on demand. . . . When therefore an invitation is made to the public to subscribe money the position arises that the acceptors of that invitation must be assured that they can recover their money when they need it, but the borrower cannot guarantee any such immediate

[1] Included in the List of Officially Quoted Securities.

recovery. The Stock Exchange supplies the need. It says in effect . . . here you will find a mart wherein somebody will restore your money, or some part of it, or even more than you have provided, and the amount restored shall be fixed by the value placed in open market upon your share in the business or your share in the loan."

Here, now, we are face to face with the question which troubled us when looking down from our imaginary gallery. "What does the Stock Exchange stand for, and what is the reason for its existence?" The answer is here. The Stock Exchange as an institution has been evolved by time and perfected by experience. It exists for the purpose of providing a market wherein to buy and sell the world's capitalised values. Here, interests, small or large, in the whole of man's activities can be exchanged. It is the Citadel of Capital, the Temple of Values. It is the axle on which the whole financial structure of the Capitalistic System turns. It is the Bazaar of human effort and endeavour, the Mart where man's courage, ingenuity, and labour are marketed. In an Eastern bazaar, gaily-coloured shawls are thrown down higgledy-piggledy by the side of native hand-wrought brass or leathern ware. In a city store, articles of clothing and utensils for daily use are displayed on adjoining counters. Stocks and Shares are just articles, and on the floor of the Stock Exchange they are set out for sale. What we are looking at is the Head Depot of the World's Capitalistic Store, and before our eyes, in the exchanging of the small or large interests of man's activities, price movements are born.

The student, gazing from the imaginary gallery, has followed the explanations thus far. He understands the meaning of Stocks and Shares. He can see the reason for the existence of the Stock Exchange, but at this juncture he is puzzled by several things—

1. He can see nothing on the floor of the "House," nor does any article of value appear to change hands.

2. How comes it about that it is possible both to buy and to sell?

3. Why are some men stationary, while others are moving from place to place?

4. The clause above: "Before our eyes.....price movements are born." How does this happen?

In order better to explain these matters, it is necessary to understand the composition of the Stock Exchange, and the

men whose movements we have been watching with such interest.

The Stock Exchange, London, is composed of roughly four thousand Members. Each year, no matter how long a Member has been associated with the profession, he must make fresh application for membership. At the time of his application it is necessary to state whether he proposes to act as a

Broker or Jobber

The application having been sent in, no alteration in his status can be made without notice. A Member cannot be both.

The difference between a Broker and a Jobber is that a Broker is allowed to deal with the public, while the Jobber is not. The Jobber, however, can "make a price" in any Stock or Share he chooses. This making of a price (in reality two prices, one, the lower, at which he will buy and the other, the higher, at which he will sell) provides him a margin. This margin is his profit, and by it he lives. This margin, difference, or profit in the price is called the Jobber's "turn."[1] A Jobber is not compelled to "make a price." He may bid for Stocks or Shares, or he may offer them. The "making of a price" is his privilege which, when exercised, carries with it the obligation to deal in certain amounts if required. Brokers may bid or they may offer, but they are not allowed to "make prices." The Broker charges his client commission on the business he transacts—that is how he lives. The "making of prices" by the Jobber, however, is what assists the Broker in the transaction of his client's business. It is by the Jobber's co-operation that the Broker is assured of a free market, in which at any time he may either buy or sell. How this system works out in practice is this—and following the explanation several of the difficulties just enumerated will disappear.

Brokers and Jobbers, roughly speaking, are equally divided. Actually there are more Brokers than Jobbers. The floor of the Stock Exchange is divided into—

Various Markets

Of these, the Gilt-edged or Consol market, the American market, the Foreign market, the Oil market, the Industrial market, Rubber market, South African Mining market,

[1] See Glossary, page 438.

Rhodesian, West African, Deep and Westralian markets, Shipping, Insurance, Banking, Newspaper, Nitrate, Tea, Brewery, and Trust Company markets, form the most important. No line of demarcation is laid down for any of these markets, but with remote exceptions they never alter. Geographically uncharted, they are definitely known and recognised. In these markets stand the Jobbers who deal in and with Stocks and Shares peculiar to such markets.

Strange though it seems, an unwritten law assigns a square foot or more of floor space to a particular Jobber or firm of Jobbers, and in that spot the Jobber can always be found. No one would think of dispossessing a Jobber who has established a claim to a particular spot. Occasionally, to meet the exigencies of changing customs, an alteration of "pitch"[1] may occur, but the new location soon passes into general acceptance. Jobbers are not forbidden to move about and deal in other markets. It is fair, however, to say that it is not a general custom. Part of the goodwill of a Jobber's business is the knowledge and certainty that when he is wanted by the Broker or a fellow-Jobber for the transaction of business there on his pitch he is always to be found. The majority of markets have remained unchanged for a great number of years. The oldest, the Consol market, has remained since the building was opened over 140 years ago. Obviously, Shares or Stock of industries that are born in process of time, such as Motor, Aviation, Greyhound or Plastic issues, must acquire for themselves a pitch. This process takes place unostentatiously, the usual course being for an established Jobber in an industry akin to the newcomer to take it under his wing.

Our difficulties now begin to disappear. We can see, for example, why some men below are stationary, while others move from place to place. Those who stand more or less in one place are Jobbers making prices in their various Stock commodities. Those that consult or question them are Brokers anxious either to deal or to learn if any price movement has occurred. The Broker's want supplied, he moves on, either into another market or to a telephone box. Possibly he goes to dispatch a telegram advising business he has transacted, or to ask for fresh instructions.

[1] See Glossary, page 432.

We can see also how it comes about that it is possible either to buy or to sell. This is a new principle introduced into common trading life. It is unusual, and it is unique. In an ordinary market, for example Smithfield or Billingsgate, meat or fish lies around in profusion. It is there to be sold. In the Eastern bazaar we have mentioned, shawls, brass, and leathern ware are displayed for sale. Stores throughout the country stock their windows and deck their counters. Why? To attract buyers. It is an unknown principle in any of these cases for the dealers to "make a price" in the articles in which they deal, giving the onlooker the opportunity either to buy or to sell.

We can also see now why no display of commodities is laid out for inspection. The inquiring Broker seeks out the Jobber who deals in a particular Stock or Share. In the case of a Broker with an order, say, in £1,000 3½ per cent War Loan, he approaches a Jobber in the Gilt-edged market with the inquiry, "What is the price of War 3½ per cent?" Without knowledge of what the Broker wants to do, the reply comes "102 7/16 to 102 9/16," that is £102 8s. 9d. to £102 11s. 3d. for every £100 Stock. If one of these prices suits the Broker he either sells his £1,000 worth of Stock at 102 7/16, or buys the £1,000 Stock at 102 9/16. The deal is then entered in a Jobbing Book. Possibly the Broker wishes to deal at 102½. In this case it is usual either to pass on to another Jobber in the hope that the price "made" will suit, or to ask if the Jobber is able to deal at 102½.[1] On the reply depends whether the deal is concluded or whether the Broker must pass on. The alternative is to wait until a price movement makes the execution of the client's order practicable. It will be seen that several Jobbers may deal in one security, but instances occur where one only may deal in an unusual Stock, in which case he enjoys a monopoly.

Here comes into view the explanation of our biggest difficulty, namely, how are price movements born?

Brokers' Business and the Jobber's "Turn"

For the purpose of illustration, let us take a popular share counter—Courtaulds. The Broker we see wending his way across the market has got an order in 500 Shares. Seeking out

[1] This is known as "challenging at the middle."

his Jobber, the Broker asks the price. The vital point is that the Jobber in "making a price" is without knowledge of what the Broker wishes to do. Cutting short the banter with which expert dealers open and close their negotiations (the first price "made" is not necessarily the one at which the deal is concluded), the price is quoted, say, 55/- to 55/6. This price is per share. At the first price the Broker sells. His anxiety, as far as the actual trading transaction is concerned, is at an end. He has sold 500 Courtaulds at 55/- which the Jobber has bought from him at that price. The Broker's business is reported to his client, who, we will hope, is satisfied. Actually, the client should be, as the Broker had just previously heard Courtaulds quoted 1/64[1] either side of $2\frac{3}{4}$, or $54/8\frac{1}{4}$ to $55/3\frac{3}{4}$. The Jobber on his part is now the possessor of 500 Courtauld Shares which naturally he may wish to close—that is, sell again. The ideal of the Jobber is always to keep level. His task is now to find somebody who will relieve him of his new-found responsibility. We will assume for simplicity's sake that Broker No. 2 comes along. He, too, wants to deal in Courtaulds: this time 400 Shares. The natural course for the Jobber to take in "making a price" to the second Broker is to lower his quotation. The reason is this. By quoting 54/9–55/3 the Jobber is more likely to attract a buyer who at 55/3 will relieve him of the Shares he has purchased at 55/–. The lowering of the price in this instance is also a protection. Should the second Broker be a seller, and insist on dealing, the Jobber takes the Shares at the lower price, namely, 54/9. The whole principle is reversed if Broker No. 1 is a buyer. The Shares are then taken from the Jobber by the Broker at 55/6 and have to be replaced. What more natural or expedient than that the following quotation of the Jobber should be 55/3–55/9 in order to attract a seller of Shares, and thus replace at 55/3 those that have been bought from him. Here in the carrying out of this principle in Stock and Share dealings price movements are born.

Out of fairness to the Jobber, it must be pointed out that the making of a price does not always result in a profit. What may easily happen, what frequently does happen, is that the Jobber is called upon to shoulder a loss. Take the simple case

[1] See Glossary under *Fractions*, page 425.

quoted. Our Broker No. 1 has sold his Jobber friend 500 Courtaulds at 55/–. Not wishing to remain a "bull"[1]—for that is the term employed in this case—the Jobber turns to a fellow-Jobber, No. 2, and says, "Courtaulds." "Yes, 54/9–55/3," replies Jobber No. 2. "Sell at 55/–." This unsuccessful conference having broken up, Jobber No. 2 lifts up his voice in the market to announce to one and all: "At 55/– sell Courtaulds! At 54/10½ sell Courtaulds! At 54/9 sell a thousand Courtaulds!" What has caused weakness in these particular Shares one has not had time to discover—perhaps just a few sellers appearing simultaneously. Maybe a large order has reached the market—some suggestion perhaps regarding the dividend—perhaps Dunlops are "flat"[1]—any one of a score of reasons, each of them in itself sufficient to affect the delicate mechanism of what is termed "market feeling," or a combination of them more than sufficient to depress the price appreciably. What the reason for the fall is we are not concerned with; what it is desired to show is that by no form of reasoning in this case could Jobber No. 1 have known that Jobber No. 2 was a seller—neither had previously opened his mouth—or that while the conversation was in progress, Brokers from several directions were on their way with selling orders in Courtaulds at the best possible prices. In this case our Jobber No. 1 friend, believing in the Shares he has been "landed with,"[1] will probably decide to "nurse"[1] them. He, however, continues to "make prices," having adjusted his quotation to the new level, and often having the mortification of seeing the Shares he has just purchased taken from him at a much lower level.

Similarly, but in an inverse ratio, is the case of a Broker who buys Shares or Stocks from a Jobber. Selling maybe what he does not possess, the Jobber finds the rest of the market "short"[1] of this particular line. Nothing is so disturbing to a Jobber's mental outlook as a feeling that he is "caught short." The results may be serious. History has some peculiar instances to quote of the price that has had to be paid for the privilege of getting "even."[1] In a case such as Courtaulds, the fear is practically non-existent, the 24 million Ordinary Shares in existence ensuring a free market almost at all times.

[1] See Glossary for explanation of these terms.

But the fact remains that while as a "bull" one's loss is limited —one can but lose the whole value of the Shares—as a "bear"[1] or a "short" one's loss can be unlimited.

This knowledge of the possibility of unlimited loss may make its contribution to the Jobber's feeling of anxiety to get back his Shares or Stock. It is aggravated by the fact that Stock Exchange machinery exists for compelling a Jobber to obtain delivery.[2] These factors, apart from the natural wish to remain more or less even, are what lead frequently to noisy exhibitions of bidding or offering, which appear to be almost without restraint. What an uninformed onlooker must think of one of these demonstrations in full rehearsal can be left to one's imagination. At times it is unbridled Bedlam. But there is no need for alarm. The sudden yell that rends the air, and sends zealous clerks flying in all directions, is not necessarily the cry of men in physical pain. It is probably due to quite a normal impulse in Jobbers—the desire to get even. Given time, the spasm will pass, and they will soon once again become their normal, unruffled selves.

No, the simple "making of a price" does not of necessity ensure a profit. It is designed to do so, but it is not as easy as it looks. Whichever way a Broker deals, the Jobber must in consequence be frequently uneven. It is the adjustment of his uneven position and the similar adjustments of the uneven positions of other Jobbers, added to the constantly changing requirements of very exacting Brokers on behalf of equally exacting clients, that are reflected in market movements.

Sometimes troublesome complications arise for Jobbers which call for the exercise of patience and resourcefulness. It is no small wonder, for instance, that following a scurry around in many different directions in an endeavour to collect Shares in short supply, having scratched ¾d. a Share here, and "cut a loss"[3] of 2¼d. a Share there on a "broken amount,"[3] a Jobber's outlook on life is disturbed when a Broker quietly informs him that his order was in Courtauld Preference and not in Courtauld Ordinary Shares. "Carelessness," you say, "for which the Broker should pay." Possibly, but what appears

[1] See Glossary for explanation of this term.
[2] The process of Buying-in. See page 274.
[3] See Glossary, pages 423 and 421.

carelessness may be the fault of the postal authorities, a telephone clerk, or even the client himself. What we are concerned with is the Jobber. His desire is to please his Broker, as often the placing of his Broker under an obligation ensures continuity of trading relationship. In other words, the goodwill of a Broker's future business is worth more than the inconvenience and financial loss involved. What has to be done possibly in this case is that 500 Courtaulds sold by the Jobber to the Broker have to be repurchased from him and replaced by 500 Courtauld Preference Shares which the Jobber must now make it his business to obtain. A common form of adjustment in mistakes of a genuine kind is that Broker and Jobber agree to share the losses involved.

What we want to show is that the Jobber's system makes a definite contribution to the ease with which it is possible to carry out the orders of the public. The Jobber's "turn" does not exist for the benefit of Jobbers only. Value is received by the public for the price paid, and that value is in the "freedom of markets" which otherwise would not be enjoyed.

A feature of the Jobber's activities in recent years has been the collating, printing, and distribution of particulars relating to the securities in which he deals. By this means Brokers and clients are able to ascertain at what prices Stock or Shares are offering, and what yield is shown at given prices. They are also able to obtain valuable particulars relating to dividends, cover,[1] and other matters. In addition, the history and particulars of individual undertakings in which a particular Jobber may deal are printed in full, thus providing easy reference to every detail. Some prominent Stock Exchange firms, both Brokers and Jobbers, go farther and publish valuable books of reference, such as manuals on banking, electrical undertakings, investment trusts, tea companies, and gold-mining companies. Opening and closing price lists also contribute to the dispatch with which the public's requirements can be dealt with.

The making of a successful Jobber calls for ability, resourcefulness, dexterity, and calm judgment in addition to considerable cash resources. To their strange craft we will leave them for the moment, remembering that many of them, despite the pit-

[1] See Glossary, page 423, and pages 110–112.

falls we have outlined, have been able by the exercise of the qualities mentioned to build up large and influential businesses.

Now in a flash can be seen the reason for all the movements which take place and which are reported in the daily Press. The two quotations given in the City columns are now understandable, the movements up or down become intelligible. This business of price making and dealing goes on steadily all through the day, the prices moving up according to demand, moving downwards according to the pressure to sell.

Other factors, however, are at work to which we can only briefly refer, e.g. the intervention of news affecting the destinies of Share counters or Stock. A further instance will suffice. War breaks out between two countries. Is it small wonder the prices of securities belonging to the affected countries should drop in price? Jobbers who may be holding Stocks awaiting a purchaser want to dispose of their holdings. Stock holders desire to sell. It is clearly seen that the tendency of prices can only be in one direction, and price movements here are often out of all proportion to the amount of Stock which changes hands.

Before we go farther we hear the student say, "May I ask one question? Why are Jobbers necessary? Cannot the business of buying and selling be carried out as between Brokers only, thus saving the Jobber's turn?"

This is an interesting point and one which we must examine. London is practically the only market that enjoys this system of Jobbers. It seems to us that the answer is that the London Stock Exchange is the freest market in the world, and that the system of Jobbers has materially assisted in making it so. It has enabled London to win and maintain its pre-eminent position as an international financial centre. The system of Jobbers often provides a barrier against violent price fluctuations. It enables sellers and buyers to carry through their transactions without undue delay. The results appear to justify the arrangement of Jobbers as well as Brokers.

There is no regulation forbidding Brokers to deal with one another. Neither does any reason exist why they should not, providing they can meet, and also agree upon a figure just and equitable to both buyer and seller. In practice, however, it is an extraordinarily difficult task. Let us see how it will work

without the presence of the Jobber. What a Broker would have to do in effect is this. Out of the multitude of traders, he would have to find another Broker who, simultaneously with himself, has an order the reverse way, in exactly the same Stock, in exactly the same amount, and at the same price. Imagine, if you can, the coming and going of Brokers in an endeavour to complete an order under such conditions. Brokers rarely find Brokers who supply one another's needs, and the utility of the Jobbers' system leaves one wondering how other financial centres manage without it. The Provincial Exchanges meet the difficulty by a system of "calling over" the most popular of their market counters. It is fair to say that even then most of the security quotations are based on prices supplied by London, exceptions, of course, being those that might be termed local. The answer, then, to our query is that so long as London enjoys such eminence among the world's Stock Exchanges her system of Jobbers would appear to be amply justified. It may be remarked in passing that there is some precedent for the principle of jobbing or the system of price making, as practised and honoured by our banking institutions. They take money from depositors at an agreed rate of interest and lend to other customers who wish to borrow at rates which are higher. In the money markets of the world therefore our banks are well-established Jobbers.

Authorised and Unauthorised Clerks

Before we leave our imaginary gallery in the Stock Exchange we must point out one other matter relating to the men on the floor below. Not all of the busy throng are Members. Included amongst those that enjoy the privilege of entering the "House" are "authorised"[1] and "unauthorised"[1] clerks. The presence of these clerks helps materially to swell the crowd. Each Member is permitted by Stock Exchange Rules to introduce three clerks to the "House," one of whom may be authorised, also two Settling-room clerks.[2] Firms are allowed five, two of whom may be authorised, and are also allowed six Settling-room clerks. Promotion from clerkship in an office to the "House" is keenly prized, and usually proceeds thus: Settling-room clerk, unauthorised clerk, authorised clerk. A Settling-room clerk is

[1] See Glossary.
[2] See Glossary under *Red Button*.

distinguished by a red badge worn in the lapel of the coat. This is his passport to the Settling Room[1] which runs beneath the Stock Exchange where his duties are discharged. Unauthorised clerks are distinguished by a blue badge worn also in the lapel of the coat. This badge, which must always be worn when entering the "House," admits to both the Settling Room and the floor of the Stock Exchange. The unauthorised clerk is not allowed to deal. His duties consist in giving support to his superiors, collecting or distributing price quotations. Authorised clerks are allowed to deal for their employers, but must not enter into any commitments on their own account.

The fees payable in respect of existing clerks vary according to the date of admission. The fees for newcomers are—

	Entrance Fee	Annual Subscription
Checking clerks . . .	5s.	—
Settling-room clerks . .	—	£10 10s.
Unauthorised clerks . .	£15 15s.	£31 10s.
Authorised clerks . .	£52 10s.	£105

Unauthorised and Settling-room clerks must not be less than 17 years of age, while no clerk may be authorised until he is 21. Members are held strictly responsible for the conduct of their clerks. Members may act in any of the above categories, and in such cases application has to be made by the Members' employers for their admission.

"Dictum Meum Pactum"

This, then, is the Stock Exchange, the nerve centre of the financial world of to-day. Perhaps the most remarkable aspect of its activities is that the whole fabric of Stock Exchange business is built up upon the sacredness of the spoken word! We know that the saying "An Englishman's word is his bond" has passed into world acceptance. Here in the heart of the City the axiom receives again its confirmation. Honour, trust, and uprightness are the hall-marks stamped on its every bargain. These have won for the Stock Exchange its unassailable position. Its motto sets forth the inviolability of the spoken word.

[1] See page 219.

Its code of honour is emblazoned beneath its Coat of Arms, reproduced on the Title Page.

Dictum Meum Pactum

My word—my bond! The spirit of this motto follows every transaction great or small. The acceptance of this principle in all Stock Exchange dealings is sacred. It is a remarkable fact that in the course of an ordinary day's trading thousands, often millions, of pounds of title changes hands. No contract is entered into other than the contract of the spoken word. No witness is asked to lend his presence to a transaction. Bargains are always met regardless of the course of the market. Mistakes seldom arise. The larger the transaction, the more the need for silence, almost secrecy. The transaction arranged, the point never arises, the market having moved adversely or favourably, that this particular bargain will not be honoured. On this sacred rule all transactions are carried through. On no other principle or basis could such a business be conducted. It is, however, a proud fact, particularly when it is remembered that thousands of bargains are carried out daily at rapidly changing prices, with nothing more substantial than a nod or a wave of the hand: that quotations are often shouted across the floor of the "House," and are accepted or rejected, and that huge transactions are whispered amid the excitement of fluctuating markets.

With these facts present in our minds we descend from our imaginary gallery, marvelling at the intricate and fascinating mechanism we have had before us, and particularly at the code of honour enjoyed and practised under the proudly borne banner—

Dictum Meum Pactum

CHAPTER III

THE NEW CONSTITUTION

DEED of Settlement—The Council of the Stock Exchange—Foundation Members of the Council—Ordinary Members of the Council—Committees—The Property and its Capital—Reorganisation of Stock Exchange Capital—Special Resolution—Passing of Dual Control

STOCK Exchange history was made during the last War when a fundamental change took place in the management of the Undertaking. Whereas hitherto the undertaking had been governed and controlled by two bodies, the Trustees and Managers, representing the Proprietors of the Stock Exchange, and the Committee for General Purposes, representing the Members of the Stock Exchange, as a result of a fusion in June, 1945, the two became one to be known henceforth as the Council of the Stock Exchange.

Deed of Settlement

The authority bestowing powers in the matter of Stock Exchange government is defined in the Deed of Settlement of 27th March, 1802, drawn up when the present Stock Exchange was founded. This ancient Deed of Settlement, re-drafted on the 31st December, 1875, has been altered from time to time by Special Resolutions, and new Clauses have been substituted to take the place of old Clauses. It was necessary therefore that powers be sought from Proprietors and Members, and a Special Resolution—the result of two years' labour by a Consultative Committee drawn from both bodies, the Trustees and Managers and the Committee for General Purposes—was proposed in September, 1944, to amend the Deed of Settlement, and bring about the establishment of

The Council of the Stock Exchange

The historic constitutional changes contained in the Special Resolution referred to were later passed, and early on in the Rules and Regulations of the Stock Exchange will be found an Over-riding Rule which was the prelude to far-reaching reforms which followed the passing of this Special Resolution.

Here are the opening clauses of a Third Schedule, the provisions of which were later incorporated in the Deed of Settlement:

1. As on and from the 25th March, 1945, there shall be constituted a new joint governing body of the Undertaking to be called the Council of the Stock Exchange (hereinafter referred to as the "Council") and the Committee for General Purposes of the Stock Exchange provided for in these presents shall cease to exist.

2. (*a*) The Council shall consist of—

(i) "Foundation Members" who shall be the persons who are the Trustees and Managers for the time being, each of whom shall *ex officio* be a Foundation Member, and

(ii) "Ordinary Members" who shall be natural persons being Members of the Stock Exchange appointed by ballot of Members of the Stock Exchange in manner hereafter provided." . . .

(*b*) The maximum number of Foundation Members shall be nine.

(*c*) The number of Ordinary Members shall in the first instance be 30 but occasional vacancies shall not be filled until after the number of Ordinary Members shall have been reduced to 27 and thereafter the maximum number of Ordinary members shall be 27.

Thus came into being one supreme legislative body—the Council—whose Chairman could act and speak with authority on behalf of the Stock Exchange as an institution. Thus was drafted, to use the words of the Consultative Committee's recommendation to the Proprietors, "a scheme to strengthen the government of the Stock Exchange the more effectively to cope with the many problems which will arise after the War." These words were written in 1945. Following the necessary alterations to the Rules to give effect to the amendments to the Deed of Settlement the reforms were finally passed and incorporated on 1st March, 1948.

The honour of being the first Chairman of the Council of the Stock Exchange fell to Sir Robert Barclay Pearson, who had been Chairman of the Committee for General Purposes since 1936. The two Deputy Chairmen appointed were Mr. Robert Pelham Wilkinson, now Sir Robert Wilkinson, and Mr. Henry Laurence Urling Clark. On the resignation of Sir Robert Pearson, the Chairman, and Sir Robert Wilkinson, the choice of successor to the Chair fell in 1947 upon Mr. Henry Laurence Urling Clark, for many years a Trustee and Manager. Mr. Urling Clark thus perpetuates a Stock Exchange family tradition as his father, Mr. Edward Clark, was a Trustee and Manager from 1887 to 1915. The two members elected as

Deputy Chairmen were Mr. John Bevan Braithwaite and Mr. Frank Herbert Doran. The distinction of being the first Secretary to the Council goes to Mr. A. L. F. Green who, from 1929 onwards, had been Secretary to the Committee for General Purposes. Mr. Benjamin Webb, Secretary to the Trustees and Managers, was appointed as the first Financial Secretary to the Council.

Foundation Members of the Council

The Over-riding Rule referred to marks the date of the passing into Stock Exchange law of the New Constitution "as from the 1st March, 1948". . . . . Following are extracts from the Deed of Settlement Clauses 19 and 20, which are contained in Rule 1 under the heading

COUNCIL

1. The number of Members of the Council (exclusive of the Government Broker who shall *ex officio* be a Member of the Council) shall be not less than thirty nor more than thirty-six. (Deed of Settlement, Clause 19.)

The Council shall consist of—

(*a*) The persons who on the 29th day of February, 1948, were the Trustees and Managers of the Stock Exchange (hereinafter called "Foundation Members") each of whom shall continue in office as a Member of the Council (unless he either dies or resigns office as such or ceases for any reason to be a Member of the Stock Exchange) until he becomes due to retire as hereinafter provided. Of the Foundation Members in office on the 24th day of June, 1952, one-third or the nearest number to one-third shall retire on that date and one-third or the nearest number to one-third shall retire on the 24th day of June, 1953, and the remainder shall retire on the 24th day of June, 1954. Those to retire shall be the persons who had been longest in office as Trustees and Managers but as between persons who became Trustees and Managers on the same day those to retire shall unless they otherwise agree among themselves be determined by lot. A retiring Foundation Member shall be eligible for election as a Member of the Council.

(*b*) Members of the Stock Exchange being natural persons appointed by ballot of Members of the Stock Exchange in manner hereinafter provided. No person shall be so appointed a Member of the Council who shall not for the space of five years immediately preceding the date of his appointment have been a Member of the Stock Exchange and every Member of the Council ceasing to be a Member of the Stock Exchange shall *ipso facto* vacate office as a Member of the Council. (Deed of Settlement, Clause 20.)

It will be seen that a degree of permanence attaches to the old Trustees and Managers who, as provided above, now

become Foundation Members and retain their office until the years 1952 to 1954. After the 24th June, 1954, there will no longer be Foundation Members, and while Foundation Members will be eligible for election as Members of the Council the whole of that body will be subject to election by the Members in accordance with Clause 22 of the new Deed of Settlement.

Rule 7 dealing with the Council's power to appoint Committees gives an extract from the Deed of Settlement which appoints the Foundation Members to an important Committee. Clause 27 of the Deed of Settlement states—

> The Council shall appoint a Property and Finance Committee and may at any time appoint other Committees with power to appoint Sub-Committees consisting of such Members or Member of their body as they think fit and may delegate to any Committee so appointed any duties and powers of the Council. The Property and Finance Committee shall consist of the Foundation Members of the Council (so long as there are any such Members) all of whom shall *ex officio* be members of the Property and Finance Committee and of such other members of the Council as the Council shall appoint but so that the aggregate number of members of the Property and Finance Committee shall never be less than nine nor exceed twelve. (Deed of Settlement, Clause 27.)

Thus for a time the old Trustees, who for many years had managed the finances of the Stock Exchange, retain their responsibilities and place their valuable experience at the disposal of the Council and the Members.

It should be mentioned that with the adoption of the revised Constitution and the abolition of dual control, the Stock Exchange will cease to distribute profits to Proprietors. Foundation Members of the Council—now Members of the Property and Finance Committee—will no longer have to provide for dividends, for in future although the equity of the Undertaking will be preserved to Members of the Stock Exchange by the writing down of the £36 Paid Shares to 1s., on these 1s. Shares no dividend will be paid. Interest will have to be provided for the £4 Redeemable Annuities, two of which as shown later replace each Stock Exchange Share; but in process of time—not less than ten years—these £4 Annuities will all be extinguished.

Ordinary Members of the Council

Rule 2 contains extracts from the Deed of Settlement,

Clause 22, relating to the election of the Council. Here are the opening words—

The Members of the Council (other than Foundation Members) shall be appointed and hold office as follows—

(*a*) On the 21st day of June, 1948, and on the 20th day of June in every subsequent year, or if that date be a Saturday, Sunday or Bank Holiday, then on the next following business day, a ballot by the Members of the Stock Exchange shall be held to appoint Members (being natural persons) to be Members of the Council to fill the places of the Members of the Council who retire by rotation on the next following 24th day of June and also to fill any occasional vacancies in the office of Members of the Council. . . .

The manner of election is laid down in the following Clause:

(*b*) On the 24th day of June in the year 1948 and in every subsequent year one-third or the number nearest one-third (but not less than nine) of the Members of the Council (other than any Foundation Members) shall retire from office as such. The Members of the Council to retire in every year shall be those who have been longest in office since their last election or appointment, but as between persons who became or were last elected Members of the Council on the same day those to retire shall unless they otherwise agree among themselves be determined by lot. A retiring Member of the Council shall be eligible for re-election.

Clauses (*c*), (*d*), (*e*), (*f*), (*g*), and (*h*) of this Rule relate largely to the rules which govern the ballot, while clause (*i*) gives power to fill occasional vacancies, setting out however that "A Member of the Council so appointed shall hold office and be subject to retirement as if he had been elected at the last preceding annual ballot."

Qualification for admission to the Council is that candidates as shown must have been Members of the Stock Exchange for five years previously. They must be proposed and seconded and elected by the vote of their fellow Members.

The Council therefore as constituted above as from 1st March, 1948, take over supreme control and direction of the Stock Exchange as an Undertaking. Their concern, as we have stated, is not the distribution of dividends to Stock Exchange Proprietors, but the provision of an up-to-date, safe, and efficient market-place wherein the public may have their Stock and Share exchanges transacted for them. The Council decide who shall be Members of the Stock Exchange and what such Members shall pay for the privilege of membership. They are responsible for the maintenance of discipline and ordered

conduct of such Members. There is no phase of the numerous activities of the House that does not come under their control, and the multitudinous details connected with this great institution, built up during one-and-a-half centuries, are a first demand on their activity. They sit practically in constant session and rule with an authority which is unchallengeable. It should be mentioned that despite the very great inroads on their time, and the arduous nature and responsibility of the tasks involved, not one of the Members of the Council receives payment for his services.

Committees

To assist the Council in the administration of the Undertaking and its many activities, Committees are appointed from Members—Foundation and Ordinary—comprising the Council. The best known of these Committees dealing with the phases of Stock Exchange routine shown by their titles are—

1. Property and Finance Committee.
2. Admission of Members and Clerks—Re-admission of Defaulters—Notices Committee.
3. Rules and Disputes Committee.
4. Quotations Committee.
5. Commissions Committee.
6. Official Lists and Publications Committee.
7. Settlement Department: Buying-In and Selling-Out Department Committee.
8. Country Exchanges and Registration of Agents Committee.

The number of Members comprising each Committee varies, as many as eighteen being seen in the case of the Quotations Committee, fourteen being engaged on the Rules and Disputes Committee, and thirteen serving on the Committee responsible for Official Lists and Publications. Each Committee elect their Chairman and Vice-Chairman and where not directed by the Council agree upon a number who are to be present to constitute a quorum. While the Quotations Committee have special powers it is usual for each of the Committees' recommendations to be submitted to the Council for approval. If they approve the Council pass amendments to old laws or propose new laws which may be subsequently passed subject to confirmation at

a later date, after which they take their place in the Rules and Regulations of the Stock Exchange.

It is significant that the Chairman of the Property and Finance Committee is at present the Chairman of the Stock Exchange Council, suggesting that not only is this Committee first in order of presentation but first in order of importance. As we have pointed out, this Committee at present comprises the whole of the old Trustees and Managers, now Foundation Members of the Council, and their presence in the above list of Committees demonstrates the new unity brought about by the Special Resolution and the Rules referred to. A feature of the revised governing body was the spontaneous unity shown by both Trustees and Managers and the Committee for General Purposes; and that this unity was necessary will be conceded when the nature of the problems the Council set out to solve are surveyed. It will assist our appreciation of the subject if we glance first at

The Property and its Capital

The first stone of the present Stock Exchange building was laid in 1801 near the Capel Court entrance facing the Bank of England. The purpose of the Undertaking was to provide a fit and proper place in which to deal in Stocks and Shares, and money for this purpose was subscribed in the ordinary way. Originally the sum of £20,000 was raised and with this amount a building on the present site was erected. Improvements, extensions and alterations have been going on steadily and now the home of the business about which we are learning occupies about one acre and takes in a very large portion of the island site with the boundaries previously mentioned—Throgmorton Street, Old Broad Street, Threadneedle Street and Bartholomew Lane. The acquisitions and rebuilding required from time to time have been costly and have necessitated the raising of fresh money. Up till 1948 Stock Exchange capital stood at £720,000, represented by 20,000 Shares on which £36 on each share was paid up. There are also £250,000 3½ per cent Debentures 1953/63, and recently, to finance the acquisition of valuable freehold premises in Throgmorton Street, £250,000 3 per cent Debenture Stock, 1953/1982 has been issued. Dividends at varying rates have been distributed on Stock Exchange

Shares in past years, and although as much as £15 per Share was paid in one year, during the anxious years of war distributions were discontinued. The reason no dividends were then forthcoming was that concessions were made in respect of subscriptions to Members and serving clerks, which amounted in the years 1941–1947 to no less than £761,545.

Prior to 1948 one of the conditions of membership of the Stock Exchange was that one or more Shares of the Stock Exchange must be acquired. It followed, therefore, that every new Member of the House must be a Proprietor. One of the reforms ushered in by the passing of the Special Resolution brings about the abolition of this need to purchase a Qualification Stock Exchange Share as a condition of membership. The means employed by the Council for the writing down of the 20,000 existing Stock Exchange Shares and the substitution of 40,000 £4 Annuities can best be studied from the proposals placed in 1947 before Proprietors and Members in the shape of a comprehensive scheme for the

Reorganisation of Stock Exchange Capital

The following scheme was submitted to Proprietors and Members of the Stock Exchange for reorganisation and consequential alterations to the Deed of Settlement.

CAPITAL

The existing 20,000 Shares, on which the sum of £36 is credited as paid up on each Share, shall be converted into 40,000 £4 Cumulative Redeemable Annuities.

On the conversion of Shares into Annuities all liability for uncalled capital will cease to exist.

The Annuities will be payable by the Council out of the Revenue and Income of the Undertaking after payment of and provision for all expenses and charges for carrying on and maintaining the Stock Exchange and the interest on the . . . Debentures now outstanding, and subject to the right of the Council to raise further funds for the acquisition of new properties or the rebuilding of the present premises.

On notice at any time on and after ten years from the date of issue the Council may redeem the Annuities in whole (or in part by drawings) on payment to the holder of £100 for each Annuity. The Council may buy the Annuities at any time and at any price and may issue further Annuities to the amount drawn or purchased.

In the event of a state of National emergency arising the Council may postpone payment of the Annuities, in whole or in part, during

the period of such emergency and such further period, not exceeding two years, as the Council may determine but the Annuities shall be cumulative.

The Annuities may be held by any person whether a Member of the Stock Exchange or not and without limitation of holdings.

The Rule that a Member must purchase a qualification holding shall be abolished.

The scheme as originally framed provided for the cancellation of Stock Exchange shares, but Counsel instructed to draw up the necessary documents advised that the maintenance of share capital was essential to keep the constitution within the Deed of Settlement and amendments to the scheme were drafted for that purpose. The conditions under which shares shall be retained are as follows—

(1) Writing down the paid-up capital value of each Share from £36 to nominal value of 1s.

(2) That no dividends shall be paid on the Shares.

(3) That no liability for calls shall attach to the holders of the Shares.

(4) That the holding of shares shall be restricted to Members, except that Shares may be held by the Council or by trustees nominated by the Council.

(5) That each Member shall hold at least one Share.

(6) That no Member shall have more than one vote, irrespective of the number of Shares held by him.

(7) That no consideration shall be paid on the transfer of a Share.

(8) That Shares, when held by the Council or by Trustees nominated by the Council, shall have no voting rights.

In compensation for the reduction of capital and the surrender of rights to the payment of dividends, all Proprietors will receive two £4 Cumulative Redeemable Annuities for each Share and Non-Member Proprietors, on the issue to them of the Annuities, will be required to transfer to the Council the Shares of the nominal value of 1s. held by them. Any Member not holding a Share of the nominal value of 1s. may apply to the Council to have one Share transferred to him.

The effect of this modification to the scheme is that Members of the Stock Exchange will retain interest in the equity of the assets of the Undertaking and that no voting rights will rest outside membership of the Stock Exchange.

There were further provisions in the scheme from which, because of their importance, we give the following—

The objects of the Undertaking will be enlarged and in particular will extend to any Scheme or project for the benefit or in the interest of the Members.

It will be expressly provided that the Council shall so fix the fees and subscriptions and administer the income and revenue of the Undertaking as to provide an annual sum adequate to carry on and maintain the Stock Exchange and to pay the interest on Debentures and the Annuities.

Important points which emerge from these proposals are that

(*a*) The purchase of a share qualification for membership is abolished.

(*b*) Annuity holdings are not restricted to members.

(*c*) Annuities are to be repaid.

Brief reference to these points may be helpful.

(*a*) As the proposals have now been passed by Proprietors and Members, entrance to Stock Exchange membership will henceforth be by purchase of a Nomination (unless a Clerk seeking admission under Waiting List "A" or "B", Rule 28), the payment of an entrance fee, and the annual subscription. There follows of course the necessity to satisfy the Council that the applicant is in every respect a fit and proper person to become a Member and sureties as required by the Rules must be provided. On application to the Council the 1s. Share will be given to new Members.

(*b*) The availability of Stock Exchange Annuities to other than Members means that interests outside the Undertaking may hold them as an investment. While this is an unusual feature of the financial scheme it must be remembered that over a period the Annuities are likely to be redeemed. As Annuity holders possess no voting rights over Stock Exchange affairs, control of the Undertaking is preserved and rests in the hands of the Council.

(*c*) It seems clear that the aim of the Council through this capital reorganisation scheme is to "buy out" Stock Exchange Proprietors at a fair price.

Pending their redemption, Members of the Stock Exchange will be able to buy Stock Exchange £4 Annuities. They will also be at liberty to sell them. No forfeiture of membership and its privileges will follow such sale, as was the case with

Stock Exchange Qualification shares. Certain voting rights are preserved through the medium of the 1s. Shares held by each Member. The sum required to pay the Annuities, £160,000 yearly, is equivalent to a distribution of £8 per Share on the 20,000 Stock Exchange shares; and while £8 is lower than the average annual distribution received between the two Wars on Stock Exchange shares, additional revenue made by the Undertaking in future will be used to further the interests of the Stock Exchange and its Members, and provide the funds for the ultimate acquisition of the Annuities.

Special Resolution

The Consultative Committee's recommendations to Proprietors and Members, which accompanied the Special Resolution, were notable not only for the proposals put forward but for developments in Stock Exchange history which they foreshadowed. "Post-War conditions," the Committee stated, "may call for a form of Constitution. . . . other than that existing under the present Deed of Settlement and careful consideration has been given to the question of the best form of incorporation to be adopted. Incorporation by Special Act of Parliament, or under the Companies Act, or by Royal Charter has been examined as an alternative to the present Deed of Settlement. Incorporation by Royal Charter appears to have a number of advantages. No new Charters, however, are being granted during the continuation of the War, and it is felt that this important question should in any case receive further consideration by the new Council."

These words envisage the possibility of even greater changes in the future as the question of a Royal Charter or other form of Special Incorporation has yet to be resolved. Meanwhile, the alterations to the Deed of Settlement brought about in consequence of the Special Resolution have received the assent of the Proprietors of the Stock Exchange, and from the 1st March, 1948, are incorporated into its Rules and life. The smoothness with which these important alterations have been effected, the efficiency of the new Council, and the harmony with which its Members have worked since the changes were brought about, are a tribute to the wisdom and courage of those who inaugurated such notable reforms.

Passing of Dual Control

Before we pass on to survey the work of the New Constitution a backward glance may be permitted at the Old Constitution. The adoption of the Special Resolution and the creation of a Stock Exchange Council tolled the knell of the passing of that peculiar system known as "Dual Control." "Dual Control" was noteworthy in Stock Exchange history in that it functioned for over a century, and a tribute is due to the many able men who served the Stock Exchange so well and for so long under this somewhat cumbersome dual system. With the passing of the years such an ancient system of Government by two bodies proved unsuitable to modern requirements. The Stock Exchange Council constituted to replace this system stand now as one body to meet the post-war world and its problems. Possessing no Charter but the need for its existence, and the confidence of the public in the high ideals which actuate its Members and administrators, the Stock Exchange has established itself as an integral part of the nation's life. Its Council bear a heavy responsibility, but the eminent men who accept these responsibilities feel they will the more efficiently be able to discharge their obligations to Members and public alike by the powers bestowed upon them through the provisions set out and the unity brought about by the terms of the Special Resolution now incorporated in the Deed of Settlement.

CHAPTER IV

THE CONSTITUTION AT WORK

RULES and Regulations of the Stock Exchange—Candidates for Membership—Recommenders—Nominations—Membership—List of Members—The "Hammer"—The Official List—Monthly Supplement and Weekly Official Intelligence—Marking of Bargains

THE laws laid down by the Stock Exchange and administered by the Council are set out in a volume known as the

Rules and Regulations of the Stock Exchange

These Rules and Regulations are published under authority by the General Secretary to the Council and are issued to all Firms and Members of the Stock Exchange. They comprise at present over 200 rules, some brief, and others divided into many clauses; a number of Temporary Regulations made necessary by the war; an Over-riding Rule referred to; and over 50 Appendices relating to various phases of Stock Exchange routine. There is no matter touching the business of Stock Exchange life and practice that is not dealt with under these Rules and the volume is exhaustively indexed. For very many years these Rules and Regulations were in bound volume form, but of recent years owing to alterations and additions succeeding each other so rapidly it was found more convenient to produce them in loose-leaf form, allowing the insertion of new directions as and when they are issued.

The first rules to appear, 20 in number, deal exclusively with the Governing body, now the Council—their election, qualifications, procedure and powers. The disciplinary nature of their powers will be seen from extracts from the Deed of Settlement, of which the following is an example—

The Council shall . . . regulate the transaction of business on the Stock Exchange and may make rules and regulations . . . respecting the admission, expulsion or suspension of Members and their clerks, and the mode and conditions in and subject to which the business on the Stock Exchange shall be transacted, and the conduct of the persons transacting the same, and generally for the good order and government of the Members of the Stock Exchange, and may from time to time amend, alter or repeal such rules and regulations, or any of them, and may make any new, amended, or

additional rules and regulations for the purposes aforesaid. (Deed of Settlement, Clause 31 (*a*).)

These powers are soon supplemented by the following, brief in their wording, but no less direct—

The Council may censure, suspend, or expel any Member who may violate any of the rules or regulations. (Rule 16 (1).)

The Council may censure, suspend, or expel any Member who may fail to comply with any of the Council's decisions. (Rule 16 (2).)

The Council may censure, suspend, or expel any Member who may be guilty of dishonourable or disgraceful conduct. (Rule 16 (3).)

The Council may censure or suspend any Member who in his conduct or business may act in a manner detrimental to the interests of the Stock Exchange or unbecoming the character of a Member.

The Council may censure or suspend any Member who may conduct himself in an improper or disorderly manner, or wilfully obstruct the business of the House. (Rule 17 (1) and (2).)

These extracts are sufficient to show that very strict rules exist for the high standard of conduct which is required of Members. It should be added that these rules are never harshly administered, but are in existence to be implemented if the need should arise.

The next set of rules to appear, 33 in number, relates to Re-elections, Admissions, and Re-admissions, and we quote from the opening rule in order that an idea may be gleaned of the absolute powers of the Council in the matter of the admission of members—

The Council shall on and after the first Monday in March in every year proceed to re-elect such Members and admit such Candidates as they shall think proper as Members of the Stock Exchange . . . Such power of re-electing Members and admitting candidates is hereby declared to be a purely discretionary power, exercisable (and it shall be exercised) by the Council in a perfectly uncontrollable manner for the benefit of the Stock Exchange as a body (including both Proprietors and Members), and the decision of the Council in any case or number of cases shall not be liable to be disputed or challenged by any individual affected thereby. The Council shall be under no obligation to give to any applicant for re-election or admission any notice of the grounds or reasons upon or for which the Council are proposing to act in his case, and the Council shall not disclose or state to any person whose application they have rejected or to any Court or Tribunal the grounds or reasons of or for such rejection. The decision of the Council upon any application for re-election or admission shall not be liable to be brought into question before or controlled by and shall not be controlled by any Court or Tribunal. (Rule 21 (1) and (2).)

These words are not ambiguous and show the Council's authority over Members to be supreme. This particular rule has been thought arbitrary, and cases have been fought in the Courts to test its legality. Its authority and application, however, have never been undermined or shaken.

These then are the Council's powers, and it may be thought that in their scope they are wide and sweeping. The clerk or new Member appearing before the Sub-Committee for the first time—and all candidates who enter the Stock Exchange are personally brought before them—will probably always remember this experience. Announced by the Committee waiter, the candidate makes his way into the spacious Committee Room. In a semi-circle, resembling remotely the Council of the Spanish Inquisition, sit the Sub-Committee in solemn conclave. The interrogation that follows from the Chairman is courteous always, but icily correct; a model of the wise use and conservation of words. Facts only are dealt with, and one leaves the Committee Room feeling that one has been face to face with constituted authority. This first impression long remains.

We shall have occasion to refer to many of the rules and regulations in the chapters that follow, but at this juncture we should like to give some additional information to that set out in the opening chapter regarding the qualifications for Stock Exchange membership, mentioning also some of the responsibilities of becoming a Member.

Candidates for Membership

All candidates for admission must be not less than 21 years of age. (See Rule 33 (1).)

A person who is not a natural-born British subject shall not be eligible as a candidate for admission unless specifically permitted by the Council on the grounds that foreign nationality has been altogether abandoned, that residence has been established in the British Dominions for ten years, and that previous to application for membership he has been naturalised for five years or more. (See Rule 21 (3).)

A Member re-elected or admitted becomes liable for the amount of subscription and fees fixed by the Council. (See Rule 21 (4).)

A candidate for membership is ineligible if he be engaged as

principal or employee in any business other than that of the Stock Exchange, or if his wife be engaged in business, or if he be a member of, or subscriber to or be interested in, any other institution used for the transacting of buying and selling Stocks and Shares. (See Rule 30.)

A candidate is ineligible who has been a bankrupt or against whom a Receiving Order in Bankruptcy has been made, or who has been proved to be insolvent, or who has compounded with his creditors, unless he shall have paid 20s. in the £ and obtained a full discharge. A candidate is ineligible who has more than once been a bankrupt or insolvent, or compounded with his creditors. (Rules 31 and 32.)

A candidate for membership shall be required to state in writing—

(i) Whether any, and if so, what question arises in regard to his candidature under Rules 31 or 32.

(ii) His personal history and occupation or employment since he came of age.

(iii) Whether, if elected, he proposes to act as a Broker or Jobber, on his own account or in partnership.

(iv) That in the event of his not going into business on his own account, no arrangement or understanding exists or will be entered into directly or indirectly between him and his recommenders that he will not do so or that he shall act only as a clerk, during the period of their liability. (Rule 38.)

Moreover, the Chairman shall require every candidate to acknowledge his signature to the form of application and shall put to the candidate and his recommenders such further questions as may be deemed necessary. (Rule 39.)

Recommenders

Candidates for membership are required to provide three recommenders or, as they are called, sureties. These recommenders must themselves be Members of not less than four years' standing, must have fulfilled all their engagements, and each must state in writing that he is not or will not be indemnified. They are required to have such personal knowledge of the candidate, of his past and present circumstances, as shall satisfy the Council as to his eligibility. Each must engage to pay £500 to the creditors of the candidate in case the latter

shall be declared a defaulter within four years from the date of admission. If the candidate has served as a clerk in the House or the Settling Room for four years with a minimum service in the House of three years, two recommenders only are required, who must each enter into an engagement as before mentioned, but for £300. Recommenders must state how long they have known the candidate, and that from their personal knowledge they are satisfied as to the candidate's fitness, financially and in all other respects, to become a Member of the Stock Exchange. (See Rules 33, 34 and 35.)

Important concessions are made under Rule 33 to those whose House service has been or will be compromised by National Service. Clause 2 states: "Until 25th April, 1949, 2 years only, with a minimum service in the House of 1 year, will be required in the case of a clerk who can satisfy the Council that he could have completed the requisite service had it not been for service in His Majesty's Forces or other National Service prior to demobilisation," while Clause 3 of the same Rule proceeds: "In the case of an admitted clerk called up for service in His Majesty's Forces or other National Services after 1945, whose continuity as an admitted clerk is preserved during his period of service by annual re-election, only 1 year of such service may be counted as part of the 3 years in the House required under Clause (2) of this Rule."

Nominations

The rule that no one could be elected a Member without holding the Nomination of a deceased or retired Member was introduced in 1904. Special provision, however, was made as previously mentioned for dealing with the applications of clerks, in order to prevent hardship. Share qualification, dependent upon conditions governing entrance to membership, was also introduced at this time.

Candidates for membership, except candidates under Rule 29 (the rule admitting clerks on the waiting list), shall be required to obtain a Nomination before applying for admission. This Nomination, which can be on any one of six different forms, is in effect the retirement of an existing Member in favour of the newcomer. It is obtainable only from Members or their legal successors, and its value is determined by the demand for Nominations, and the number available.

As previously mentioned, the value of Nominations has fluctuated in a short period between £40 and £2,000. The Council have the right to create Special Rights of Nomination if it is deemed necessary. A Nomination by other than existing Members must be executed and lodged with the Secretary within twelve months of death or resignation of the Member, or, in the event of his discontinuing his subscription, within the current Stock Exchange year. If not so executed and lodged, the right of Nomination shall pass to the Council who may sell such right to any Member either immediately or at any future time as they may deem fit, and the proceeds received as consideration therefor shall be paid to the Council. The right of Nomination shall not be exercised by a person who is expelled, or who has applied for re-election and been rejected, or who ceases to be a Member under the rules relating to insolvency and other infringements of the Council's regulations. The right of Nomination is personal and non-transferable. (See Rules 27 and 28.)

Membership

The Stock Exchange Constitution and its rules and regulations exist for the management of its own Members. Members are only admitted following a signed statement that they have read the rules and regulations. Each year, on re-election, a fresh signed contract is entered into that the Member applies for admission "upon the terms of, and under, and subject in all respects to the rules and regulations of the Stock Exchange, which now are, or hereafter may be for the time being, in force." All the laws, however strict, are therefore binding on each Member. Every bargain, it is laid down, whether for the account of the Member effecting it, or for the account of a principal, must be fulfilled, according to the Rules, Regulations, and usages of the Stock Exchange.[1] The high reputation that has been built up with the public over a large number of years, however, is based on the knowledge that the Stock Exchange rules are framed for the public's protection. These rules permit of no departure from the highest standards of business honesty, and any question touching a Stock Exchange Member's reputation would be at once investigated

[1] See Rule 73, page 56.

by the Council. The prestige thus gained has been consolidated from year to year, and at the present time members of the public repose complete faith in the integrity of Stock Exchange Members.

It follows that the Council have no jurisdiction over the public, but their powers in a protective sense are at the public's disposal. It is this which has established so firmly the security the public feel in all dealings with Members.

In this matter the three following Rules, which open the Section headed General Rules, are of extreme importance. They lay down the position of the Stock Exchange to the public, state clearly the duty of all Members who, when dealing, act for the public, and set out the remarkable emphasis attached to the inviolability of all bargains entered into.

Rule 73. The Stock Exchange does not recognise in its dealings any other parties than its own Members: every bargain therefore, whether for account of the Member effecting it, or for account of a Principal, must be fulfilled according to the Rules, Regulations and usages of the Stock Exchange.

Rule 73*a*. A Member or Authorised Clerk may not accept instructions or adopt any procedure which would in any way or for any purpose override his duty to execute each transaction to the best advantage according to his judgment at the time of dealing.

Rule 74. An application to annul a bargain in the Stock Exchange shall not be entertained by the Council except upon a specific allegation of fraud or wilful misrepresentation or upon prima facie evidence of such material mistake in the bargain as in their judgment renders the case one which is fitting for their adjudication.

Disciplinary rules have been given. Some additional regulations may be mentioned binding on those who assume the obligations of membership.

A Member of the Stock Exchange shall not enter into partnership with any person who is not a Member, and the decision of the Council as to what constitutes partnership within the meaning and intention of the rules shall be final. Partnerships between Brokers and Jobbers are prohibited. (See Rules 56 (1), (3) and 57a.)

A Member shall not, without the consent of the Council, attempt to enforce by law any claim arising out of a dispute with a fellow-Member. (See Rule 75 (3).)

All disputes between Members not affecting the general interests of the Stock Exchange which arise out of Stock Exchange transactions . . . shall be referred to the arbitration of a Member or

Members of the Stock Exchange, and the Council will not take into consideration such disputes unless arbitrators cannot be found or are unable to come to a decision. The decision of the Council shall be final as to whether a dispute affects the general interests of the Stock Exchange and how it shall be dealt with. (Rule 75 (1) and (2).)

A Member of the Stock Exchange is not allowed to advertise for business purposes or to issue circulars or business communications to persons other than his own principals. (See Rule 78.)

A certain sum is spent yearly by the Stock Exchange in advertising that its Members are not allowed to advertise. Many Members are of opinion that the sum should be much larger. Others are in favour of the abolition of the rule, with freedom allowed to advertise if Members desire. The general opinion is that it were better the present rule remained, despite the difficulty sometimes experienced by members of the public in getting into touch with a Member of the Stock Exchange.

The student will see from the foregoing that very strict rules exist which govern entry into the Stock Exchange and also for the discharge of its business. There are many rules to which it will hardly be necessary to refer at this point. Those given serve to illustrate the standard of character and conduct required of its Members.

The membership of the Stock Exchange, as mentioned in Chapter I, is roughly 4,000. In the year 1878 Members numbered about 2,000, and this figure rose to no less than 5,482 in 1904. Numerically, this appears to be the peak, as the numbers dropped in 1914 to 4,855, and to nearly 4,000 in 1920. In 1930 membership numbered 3,939; in 1931, 3,932; in 1932, 3,911; in 1933, 3,941; in 1936, 4,052; in 1937, 4,086; in 1938, 4,123; and in 1939, 4,083. Membership in November, 1947, was 3,950.

Membership of the Stock Exchange in November, 1945, was 3,633. This figure would have been lower but many continued to be Members while serving their country elsewhere. Appreciation of the part played by the Stock Exchange, London, during the War will be felt when the following figures are given of Members and clerks serving in His Majesty's Forces as at 25th March, 1945.

Members	1,250
Non-Member Clerks Authorised	279
Unauthorised Clerks	608
Settling Room Clerks	256
Total	2,393

These figures take no account of the very large number of clerks who served, but who had not access to the Stock Exchange.

Members pay subscriptions at varying rates. According to the date at which admission was granted, subscriptions are payable annually at the following rates—

For members with three sureties after 24th March, 1876, and before 25th March, 1879, and for all members admitted after 24th March, 1879, and before 25th March, 1899 .	£31 10s.
For members admitted after 24th March, 1899, and before 25th March, 1917	£42
For all members admitted with two sureties after 24th March, 1917, and for all members admitted with three sureties after 24th March, 1917, and before 25th March, 1919	£52 10s.
For all members admitted with three sureties after 24th March, 1919, and before 25th March, 1920 . . .	£78 15s.
For all members admitted with three sureties after 24th March, 1920	£105

List of Members

A copy of this list, published annually in book form, is available to all Member Firms of the Stock Exchange and to as many individual Members as paper supplies will allow. All details contained in the list are official. In addition to particulars of every firm, name, individual partners, business address, telephone numbers and telegraphic address, particulars are provided of the private address of each individual Member. The Stand number in the Stock Exchange at which Members can be called is also given, and the letters "B," "J," "AB" or "AJ" indicate whether a Member is a Broker or Jobber, or "associated" with either of these categories. Particulars are given regarding the Council and Stock Exchange officials; the Benevolent Fund and its Committee Officials; a list of those who fall out through death or resignation during the previous year; and a Chart showing the Fathers of the House—those with the longest record of Stock Exchange membership.

The "Hammer"

The rules relating to financial probity and solvency are naturally inflexible. The process of "hammering" automatically follows the inability of a Member or his firm to meet his or their obligations. The word "hammer" does not actually appear in the Rules and Regulations regarding default, although it is several times mentioned in Appendix 36. Nevertheless, lurid stories have gathered about its use. Occasions of this kind, which happily are rare, are always accompanied by

a sense of the dramatic. The reason is partly the surprise which the dreaded sound of the "hammer" produces, except to those who know of its imminence, and partly the feeling of uncertainty as to where liability may fall, and to what extent. Failures are sometimes of a serious character and sometimes comparatively unimportant, but always they are regarded with concern. What actually transpires is that a Member, either through misfortune or indiscretion, finds himself unable to meet his liabilities. This brings him automatically under Rule 171 (1), which reads—

A Member unable to fulfil his engagements shall be publicly declared a defaulter by direction of the Chairman, Deputy-Chairman, or any two Members of the Council, and thereby ceases to be a Member.

The actual declaration is made by two waiters, one at each end of the "House," who, following one another, strike three heavy blows with a mallet or hammer on their rostrums and announce to the hushed audience in tones that can be heard by all—

"Gentlemen, So and So," and here follow the full names of one and all the partners in the case of a firm, "trading as ——— and Company, beg to inform the 'House' they cannot comply with their Bargains."

This is the penalty for insolvency. The "declaring" of a defaulter is not in the first instance public, but a notification is always communicated to the Press.

The rules contain many special provisions for dealing with cases of this kind.[1] As far as the Stock Exchange is concerned, it is the equivalent of bankruptcy. As in the cases of bankrupts in ordinary business, a discharge can be obtained.

The outbreak of hostilities in 1939 naturally led to financial apprehension, and to meet the risk of panic selling the Stock Exchange fixed minimum prices below which all transactions were forbidden. With the return of confidence these minimum prices were subsequently left behind, but the decision to fix them was wise and undoubtedly saved the "House" the dread sound of the "Hammer" during those critical days.

The Stock Exchange Daily Official List

The public are able to follow the course of Stock Exchange prices, and see the record of their own transactions, through

[1] See page 338.

the medium of this *Official List.* It is a very remarkable production, the more so following the absorption in April, 1947, of what was known as the *Unofficial* or *Supplementary List.* The *Official List* is published by and under the authority of the Council of the Stock Exchange and under the superintendance of the Secretary of the Share and Loan Department. It can be clearly seen therefore that the whole weight of the official organisation of the Stock Exchange is behind the production of the *Official List.*

A Rule on the subject, No. 159 (1), reads as follows—

> A List of Securities (hereinafter referred to as "the Official List") shall be published under the authority of the Council in which shall be quoted such securities as the Council shall from time to time order.

while Clause 6 of this Rule lays down—

> No list or record of dealings shall be published or sold by a Member without the sanction of the Council.

The *Official List* is produced daily. It is beautifully printed and the quotations of the many securities given, together with the marks of business actually transacted, provide the basis for practically the whole of the transactions carried out on the Stock Exchange. Some idea of the importance of the *Official List* can be gained from the knowledge that on its first page the aggregate nominal value of the first section relating to British Funds amounted on 8th April, 1947, to £13,130,059,428. At this date its 20 packed pages gave particulars of 5,184 securities representing £22,065,564,060 in capital.[1] Since the merging of the *Supplementary List* the number of securities dealt with by the *Official List* is now 9,821. Its pages have swollen to 28 with a market valuation of £26,572,911,310.

It is of interest to record that throughout the War dealings in securities were maintained in the Stock Exchange, and London justified its claim to being the freest Bourse in the world. Despite falling bombs and the wail of sirens, Members attended the City each day, and with the exception of one week—when the leaden roof of the old Dutch Church in Austin Friars was blown by enemy bombs on to the floor of the House—Members had access to the Stock Exchange. During the whole of the

[1] The quoted Securities include also 60,779,399 Shares of No Par Value, the market valuation of the two combined amounting to over £25,000,000,000.

critical war period the *Stock Exchange List of Officially Quoted Securities*, together with the *Supplementary List*, appeared with unfailing regularity.

The various securities in the *Official List* can be found under the following headings—

Banks and Discount Companies.
Breweries and Distilleries.
British Funds, etc.
Canals and Docks.
Commercial, Industrial, etc.
Corporation and County Stocks—Great Britain and Northern Ireland.
Corporation Stocks—Dominion and Colonial.
Do. do. Foreign.
Dominion, Provincial, and Colonial Government Securities.
Electric Lighting and Power.
Financial Trusts, Land and Property.
Foreign Stocks, Bonds, etc.
Gas.
Insurance.
Investment Trusts.
Iron, Coal, and Steel.
Mines.
Nitrate.
Oil.
Public Boards, etc.—Great Britain and Northern Ireland.
Railways, Great Britain and Northern Ireland—
Do. Indian.
Do. Dominion and Colonial.
Do. American
Do. Foreign.
Rubber.
Shipping.
Tea and Coffee.
Telegraphs and Telephones.
Trade Facilities and other Acts Securities.
Tramways and Omnibus.
Waterworks.

Against each individual Government Security space is provided for the following particulars—

Amount, amount quoted, interest due, when last ex-dividend, per cent, name, redemption date, quotation, and business done in the form shown in the illustration on page 63 of representative Stocks.

In the case of securities other than Government, Corporation, Foreign and Colonial Stocks, that is to say, Railways, Banks, Breweries, Commercial and Industrial, to the last section dealing with Waterworks the particulars given in the first columns of the *Official List* are altered to be of greater value for reference purposes. In place of Authorised Capital, etc., the following information is provided. "When last XD," 'Rate % actual," "Corresponding Rate %," "Total for year

%;" and "Total for previous year %." A column giving the denomination or Unit of Stock is of value, and a series of numbers and strange signs, which intrigue because of their quaint variety, draw attention to unusual features such as a dividend paid "Income tax free up to 6s. in the £." This particular contingency is indicated by a small ace of spades. The ace of hearts indicates "the quotation is per cent," the ace of diamonds that "the quotation is per 100 Canadian or American dollars," while the ace of clubs provides evidence of "a small amount at current price seller paying stamp and fee." In the industrial section of the *List* will be found an abnormal number of large black dots drawing attention to the practice of many companies who pay one dividend for the year. So noticeable are these large black spots as to provoke a wish that either a more attractive hieroglyphic could be employed to draw attention to this fact or that companies would endeavour to distribute their dividends half yearly. We feel sure that small investors would look with favour on the adoption of the latter course.

The various contingencies that arise with the thousands of securities dealt with are legion; but all the signs we have briefly referred to are explained by reference to the footnotes at the base of page 1 or to the voluminous explanatory notes on the final page of the *Official List* under the heading of General Notes.

The value of the *Official List* can be appreciated when it is remembered that any alteration, such as the paying off of any loan, or arrears on any Preference Share, would be immediately reflected here. As the majority of transactions are recorded, the *List* constitutes a complete record of price movements from day to day, and no stockbroking firm, banking institution, or financial house would be complete without its regular copy. The quotations of the *List* are the accepted basis for estate duty and probate valuations. Balance Sheet values, where these consist of investment holdings, are calculated by the prices ruling; and banks and discount houses accept the levels provided as a basis for the adjustment of loans. Being the officially accepted barometrical record of price movements the *Lists* are preserved for all time.

The price of a single copy of the *Official List* is 2s. 6d., by post 2s. 9d., and a quarterly subscription costs £7 10s.

Amount	Amount Quoted	Interest Due	When Last xd	Per Ct.	Name	Quotations May 6	Business Done
—	21,115,786*l.*	5 Jan., Apr., July, Oct.	1 Mar.	2½	Annuities (1a)	74½–76½	75
—	2,396,805*l.*	5 Jan., Apr., July, Oct.	1 Mar.	2¾	Annuities (1a)	84–86	84⅞ (26/4/48)
—	275,962,850*l.*	5 Jan., Apr., July, Oct.	1 Mar.	2½	Consolidated Stock (1a)	76–78	76 13/16 11/16 7/8 7/8 7/8 15/16 7
—	399,324,422*l.*	1 Feb. 1 Aug.	29 Dec.	4	Consolidated Loan (1a) on or after 1st Feb., 1957	109–111	109 1/16 7/8 7/8 7/8 10 9 11/16 15/16 21/32 21/32
—	739,259,775*l.*	1 April 1 Oct.	24 Feb.	3½	Conversion Loan (1a) on or after 1st April, 1961	103½–105½	104 7/16 7/8 4 1/4 1/4 3/8 5/16
—	786,627,015*l.*	15 Feb. 15 Aug.	9 Jan.	1¾	Exchequer Bonds, 1950 (Reg.) (1k)	100½–101½	100 31/32 31/32 1/32
—	200,210,354*l.*	15 April 15 Oct.	9 Mar.	2½	Funding Loan, 1956–61	98–100	99 1/16 9 8/8 9/8
—	100,559,534*l.*	15 June 15 Dec.	10 Nov.	2¾	,, ,, 1952–57	102–104	102 1/16 3
—	351,326,344*l.*	15 April 15 Oct.	9 Mar.	3	,, ,, 1959–69	100–102	101 1/32 φ 3/8 107 7/8 1 100 15/16
—	306,810,189*l.*	1 May 1 Nov.	25 Mar.	4	,, ,, 1960–90	111½–113½	112 7/32 ‡φ 11 5/16 1/16 12 1/16 12 5/16 1/4 1/8
—	320,820,107*l.*	15 Jan. 15 July	9 Dec.	3	National Defence Loan, 1954–58	104–106	104 5/8 5 4 1/16
—	714,180,058*l.*	1 Feb. 1 Aug.	29 Dec.	2½	National War Bonds, 1949–51 (Reg.) (1k)	101–102	101 23/32 φ 1/32 3/8 1/16 1/16
—	522,301,700*l.*	1 Mar. 1 Sep.	26 Jan.	2½	,, ,, 1951–53 (Reg.) (1k)	101½–102½	101 1/32 19/32 1/32
—	809,686,450*l.*	1 Mar. 1 Sep.	26 Jan.	2½	,, ,, 1952–54 (Reg.)	101½–102¾	102 3/32 1/16 3/32 1 1/16
—	426,107,044*l.*	15 Feb. 15 Aug.	9 Jan.	2½	,, ,, 1954–56 (Reg.)	101½–102½	102△ 1 1/8 2
—	752,551,283*l.*	1 May 1 Nov.	25 Mar.	2½	Savings Bonds, 1964–67 (Reg.)	93⅛–95⅛	94 1/16 φ 31/32 2φ 1/16 5/8 1/8 1/16 3/8
—	712,694,583*l.*	15 Feb. 15 Aug.	9 Jan.	3	,, 1955–65 (Reg.)	101–103	101 3/8 1/8 5/8 1/16 1/16
—	1,009,030,722*l.*	1 Mar. 1 Sep.	26 Jan.	3	,, 1960–70 (Reg.)	99⅛–101⅛	100 3/8 1/8 1/16 1/16 3/8 1/8 1/8
—	1,057,390,883*l.*	15 Feb. 15 Aug.	9 Jan.	3	,, 1965–75 (Reg.)	98⅛–100⅛	99 3/8 1/16 1/8 1/8 7/8 1/8 1/16 1/16
—	482,104,779*l.*	1 April 1 Oct.	24 Feb.	2½	Treasury Stock (Reg.) (1a) on or after 1st April, 1975	76–78	76 1/2 1/16 3/8 1/8 1/4 1/16
58,212,000*l.*	58,212,000*l.*	5 April 5 Oct.	1 Mar.	3	,, ,, (1a) on or after 5th April, 1966	92¼–94¼	93 1/4 1/8 1/16 3/8
—	269,710,145*l.*	1 Mar. 1 Sep.	26 Jan.	4	Victory Bonds (1c)	113–115	113 1/8 1/16 1/8
—	302,518,917*l.*	15 April 15 Oct.	9 Mar.	3	War Loan, 1955–59	103–105	103 1/8 1/16 4 1/16 4 3 1/16 4 1/32 1/8
—	1,910,906,157*l.*	1 June 1 Dec.	26 April	3½	,, (1a) on or after 1st Dec., 1952	102–103	102 3/16 1/8 1/16 1/8 1/16 1/16 1/8

In connection with the *Official List* and produced under the same official authority is the

Monthly Supplement of Quoted Securities Temporarily Removed from the Stock Exchange Daily Official List

This publication came into being early in the War when, to save paper, the quotations of many securities in which there was little public interest were dropped from the *Official List.* Pursuant to an official announcement, in order to preserve records and regulate dealings in "removed" securities, this *Monthly Supplement* is still published and should be consulted if a security dealt in cannot be found in the *Official List.* The price of this *Monthly Supplement* is 1s.

Published also by and under the authority of the Council is the

Stock Exchange Weekly Official Intelligence

This is an invaluable record relating to the official notifications of the Council giving, amongst other information, the dates on which all securities are quoted Ex Dividend, Ex Rights or Ex Share Bonus. In connection with the involved matter of dividends, the important details are provided alphabetically of the actual dates on which Company books are closed for the purpose of dividend distribution, Rate % per annum or half year, amount per share or unit, Income tax rate, and the actual date of payment. The Bank of England's weekly return will here be found, together with a monthly Statement of the Balances of the London Clearing Banks. Weekly traffic receipts of Foreign Railways, Gold production from the Transvaal and Indian Gold Mine Returns, together with Drawings and Bond Purchases, Company meetings and announcements are also given. As we mention later, it is a matter of necessity for a dividend clerk to have this publication as a constant companion. The price of a single copy is 2s.

The Marking of Bargains

The marking of bargains in the *Official* and *Monthly Supplementary Lists* it should be emphasised is thus a record of business actually transacted, and provides an index to an established price level. Although the number of bargains recorded is noted by the Stock Exchange each day, no approximation of the volume of Stock or the number of Shares which

change hands can be deduced. These often vital particulars are not disclosed, and an innocent mark of 104 in Conversion $3\frac{1}{2}$ per cent Loan can conceal the identity of a humble investment or realisation of a widow's savings, or that of a million pounds sterling transaction on behalf of a bank or other large institution. Similarly with Shares. The marks are no criterion either of magnitude or modesty. In practice, a low mark, possibly below the quotation, may be explained by the fact that a wide quotation was made by the Jobber as the number of Shares was large, or it may be because, being a small and broken amount, it was not possible for the Jobber to give the ordinary price without involving himself in loss. The number of marked bargains recorded each day is also a little misleading, as the clerks of the "House" do not mark the same price in one security more than once, no matter how often it has changed hands at that price.

The theory which is constantly at work in connection with the *Official* and *Monthly Supplementary Lists* is that dealings should be possible within the limits of the various quotations. A Broker unable to buy Stock at or between the existing quotation of 99–101 can insist on the *List* price being "put up."[1] The quotation would probably next appear as 100–102. If the Broker has an order to sell at best and is able to get, in this instance, no better price than $98\frac{7}{8}$, then he may ask for the *List* price to be lowered, and accordingly the price quotation will probably next appear as 98–100. Marks of business frequently appear in the *Lists* quite outside the existing quotations. The explanation usually falls under one of the following headings. Either no request has been made by a Broker for the *List* price to be altered, or it may be that the last recorded mark is not that of a recent transaction, and that subsequent efforts have been unsuccessfully made to bring about a transaction on the old basis. It may be that since the last recorded transaction the Stock or Share has been quoted "ex-dividend."[2]

The actual marking of bargains is carried out in a manner described in Chapter II. On a slip provided, the simple particulars regarding the Stock or Share, and the price at which it changed hands, are entered and dropped into a box. On this

[1] See Glossary, pages 433, 431, and 419.
[2] See page 299.

MARKING SLIP

ONLY ONE SECURITY TO BE ENTERED ON EACH SLIP

DATE / / 1947

NAME OF STOCK OR SHARE	Bargains at Current Price	‡ Bargains at Special Prices	ϕ Bargains done on the previous day either after official hours or inadvertently omitted	✝ Small amounts at current market price, seller paying stamp and fee	§ Bargains executed with Country Brokers
BULK ORDERS NO. OF CLIENTS' BARGAINS.					

Signature . . . . . .

Members are requested to mark Bargains without delay and in the column on the Marking Slip appropriate to each Bargain.

Bargains done during official hours on the previous day but inadvertently omitted and Bargains done after official hours may only be marked before 11 a.m. on the next business day.

Prices which include brokers' commission may not be marked.

Members will be held responsible for the accuracy of the Marking Slips handed in by their Clerks.

All Bargains executed with a Member of an Associated Stock Exchange or of the Provincial Broker's Stock Exchange or of the Oldham Stock Exchange must be marked on this form in the right-hand column.

All Bargains done with or between Non-Members, other than Members of an Associated Stock Exchange or of the Provincial Brokers' Stock Exchange or of the Oldham Stock Exchange, must be marked on the special Form provided for the purpose.

A Broker shall not execute an order with a Non-Member unless thereby he can deal for his Principal to greater advantage than with a Member, except as authorised by Rule 88b.

Where a Broker has received orders from several Clients in respect of the same security and has "bulked" them together so as to deal with one jobber, he should insert in the space provided on the Marking Slip the number of Clients' bargains his bulk order represents.

slip no amount of Stock is entered, but provision is made for prices relating to various contingencies which are made clear by reference to the illustration of a marking slip given above. The slips have to be signed by the firm or Member who marks the transaction, but the name of the Jobber or fellow-Member with whom the deal has been done does not appear. These slips are collected and the prices in due course appear on the marking boards, and are printed that evening in either the *Official* or later in the *Monthly Supplementary List.*

It is strange that, although the process of maintaining a complete record of all price changes in the two *Lists* is desired, and a strong recommendation regarding the matter was made by the Royal Commission in 1878 (see page 415), the marking of bargains is not compulsory. The Rules dealing with the matter run—

> Bargains may be marked between Half-past Ten and a Quarter-past Two o'clock and should be marked in the order in which they are made. (Rule 160 (4).)

There are certain conditions, however, where the marking of bargains is compulsory. These conditions are brought out in the first of the following clauses of Rule 160, which deals exclusively with the Marking and Recording of Bargains:

> (1) Bargains executed with Non-Members . . . or with Country Brokers . . . or put through the Market . . . must be marked.
>
> (2) Bargains at a price including Broker's Commission or done with the Buying-In and Selling-Out Department may not be marked.
>
> (3) The marking of all other bargains is optional.

It can be briefly stated that the object of Clause (1) is to protect the public and regulate prices either paid or received on their behalf outside the Stock Exchange, London. The "put through" referred to in this Clause is dealt with in the following chapter, but all such transactions must be marked in order to ensure a fair price to both buyer and seller.

In practice, most bargains are marked. The Broker is aware that his client will study the day's price movements, and the mark is the Broker s protection. If he has been able to improve on prices already marked, either as buyer or seller, the Broker is pleased to record his success; if unable to improve, then he is anxious to establish a mark of the price at which he dealt. What is difficult very often to explain to a client is that, because a Share or Stock marks low, the client's purchasing order at the low level was not executed, or contrariwise, when high marks appear, that it has not been possible to obtain that price for the Stock that he, the client, had for sale. A knowledge of the system of price making to which we gave consideration in Chapter II would prevent much misgiving on this point.

The marking slip shown is used by both Broker and Jobber. The first of the five columns is the one most commonly used, and the distinguishing signs at the heads of the other four

columns explain their use. The first-mentioned sign ‡ usually appears against a transaction because of its size. A very small sold bargain at the ordinary market price might involve the buyer in a loss because of extra stamps and fee. If such sale were arranged at a special price to recompense a Jobber for this loss, such a bargain would be marked at a special price. In the case of a large transaction the Jobber, in making his price, might require the extra protection afforded by making a wider price. If on such a basis a transaction was effected, this would be justification for marking such bargain as at a special price. Thus ‡ against a bargain may mean that it was either a large or a small transaction. The next column is often used, as many bargains are transacted between 2.15 p.m., the latest time for marking bargains as shown on page 67, and 3 o'clock, at which hour the official rattles again sound. (Following this 3 o'clock rattle, no Member, clerk, or message is allowed to enter the building, and the "House" then begins to empty rapidly.) This column can also be used for transactions done after hours in the "Street."[1]

It should be noticed that the heading of the final column on the Marking Slip reads "Bargains executed *with* Country Brokers." This provides for the contingency brought out in Clause (1) of Rule 160 where marking is compulsory. There is a distinction between bargains executed "*with*" Country Brokers and bargains executed "*for*" Country Brokers. The latter of course would be orders received from the Country, and should be marked in the ordinary way at the option of the Broker at the gross price—not the net—in the first column of the Marking Slip headed "Bargains at Current Price."

A final glance at the Marking Slip reproduction shows a space in the bottom left-hand corner for Bulk orders. Often one transaction may cover the requirements of several clients and this information is important in the compilation of the number of bargains daily.

Special marking slips are provided for recording transactions with Non-Members. A glance at the wording on the marking slip which follows will bring out the information that such transactions must be marked, and the name of the Jobbers to whom the business has first been offered must be given. On

[1] See Glossary, page 436.

this matter the regulations are strict, as will be seen from Rule 88. Except as authorised by Rules 88b and 88c—

a Broker shall not execute an order with a Non-Member unless thereby he can deal to greater advantage than with a Member.

While to emphasise the care to be exercised, Rule 88a (1) continues—

In the event of a Broker executing an order . . . with a Non-Member . . . he must in all cases be prepared to justify the transaction to the Council if called upon to do so.

An illustration of these special marking slips follows.

BARGAINS EXECUTED WITH NON-MEMBERS

Other than Members of an Associated Stock Exchange or of the Provincial Brokers' Stock Exchange or of the Oldham Stock Exchange, or executed in Overseas Markets (see Rule 88c).

(Rules 88 and 88a.)

ONLY ONE SECURITY TO BE ENTERED ON EACH SLIP.

DATE / 194

NAME OF STOCK OR SHARE	Δ Price	Δ‡ Price if other than London Terms
NAME OF JOBBER OR JOBBERS TO WHOM BUSINESS WAS OFFERED BEFORE DEALING OUTSIDE		

Signature . . . .

NOTICE

A Broker shall not execute an order in listed Securities or those dealt in under Appendix 34c with a Non-Member, unless thereby he can deal to greater advantage than with a Member.

All bargains done with or between Non-Members, other than Members of an Associated Stock Exchange or of the Provincial Brokers' Stock Exchange or of the Oldham Stock Exchange or done in Overseas Markets must be marked without delay on this slip. Bargains in Securities dealt in under Appendix 34e will be recorded on special boards provided for the purpose.

The name of the Jobber or Jobbers to whom the business was offered before dealing outside must also be stated.

Members will be held responsible for the accuracy of the Marking Slips handed in by their Clerks.

Dealings with Non-Members form a very small part of the business transacted on the floor of the House, but for the reason that such transactions are not so closely under the supervision of the Stock Exchange, strict rules have been framed for observance. Rule 88a down to 88d deals with the subject and should be studied for further guidance.

Before we leave the subject it should be mentioned that great importance is properly placed by the Council on the scrupulous use of the marking system and any mistake or misuse is likely at once to be challenged. Rule 162 (1) provides—

Complaints as to marks may be lodged with the Clerks of the House at any time.

and this right is extended to include Quotations as will be seen from Clause (2)—

Objection to nominal quotations in the Lists must be lodged with the Clerks of the House not later than 15 minutes before the time fixed for the closing of the House.

while Clauses (3) and (4) set out the procedure in such cases—

(3) Complaints and objections will in the first instance be considered by the Chairman, a Deputy Chairman, or two Members of the Objections to Marks Committee, who will if the matter is not settled, refer it to that Committee for further investigation and adjudication.

(4) A mark shall not be expunged from the Official List without the authority of the Chairman, a Deputy Chairman, or two Members of the Objections to Marks Committee.

We thus have looked at the Constitution and observed its Government, Rules and Regulations. We have seen how transactions entered into for the public are placed on record and explained how the system of marking works. We will proceed in the following chapter to examine the activities of the Stockbroker who carries out the transactions on behalf of the public, and ascertain what he charges for his services, and the additional Government duties which the Stockbroker has to bring to account.

CHAPTER V

THE INSTITUTION AND ITS CHARGES TO THE PUBLIC

STOCKBROKERS and their Function—Clients and their Contracts—Minimum Scale of Commissions—Country Brokers—Provisions that Benefit Clients—Are Commissions too High?—Agents and their Remuneration—Clerks and Remisiers—Banks and their Contribution—Stamp Duties and Registration Fees.

THE Broker comes directly into touch with the public. To him is given the responsibility of wisely guiding investors or assisting speculators in the matter of their Stock and Share dealings. To him also is given the opportunity of shouldering the opprobrium which naturally follows in the wake of an unsuccessful venture. Brokers have been accused of "knowing the price of everything and the value of nothing." But a Broker whose only claim to fame was his ability to repeat a price which he had collected, would stand little chance of surviving in these intensely competitive days. Research and careful study, added to an experience of market developments, are, however, required. The public expect from the Broker not only knowledge, but foreknowledge as well. Because developments in the fortune of any company's security are so quickly reflected in the market price, Brokers are credited with a personal knowledge of what is the direct cause. The deep-rooted opinion that Stock Exchange Brokers are "behind the scenes" is very difficult to disturb, but a moment's careful thought would help towards a more reasonable attitude. Take an illustration easy to follow. The man in the street finds it extremely difficult to pick out a winning horse from half a dozen starters in a race, despite the fact that he is a careful student of "form." What occult powers, then, must a Broker possess, who—out of the 10,000 securities that are quoted in the *Official List*—is asked to pick one that will go up in price! How often does the telephone ring with the inquiry, "What do you think of 'Precious Enterprises Deferred' or some other concern?" The inquirer seems quite oblivious to the fact that the company is operating in the neighbourhood of China, and

that a body of men, known as a Board of Directors, devote the major part of their time and ability to studying every phase of the company's activities. Moreover, if they are discreet the directors discuss those developments only in camera. Stockbrokers are presumed to have, and wish they did possess, the inner knowledge with which they are so often credited. Then indeed for them would the Millennium have arrived, and short would be their sojourn in the neighbourhood of Throgmorton Street!

So pronounced have appeared the shortcomings of Stockbrokers during the financial debacle of recent years that we cannot resist quoting a letter which appeared in the columns of *The Investors' Chronicle* of 2nd April, 1932. The letter refers to a competition organised by a well-known daily paper for the laudable purpose of assisting investors in the matter of the wise employment of the sum of £1,000. For this result a substantial money prize was awarded.

Here is the letter—

Dear Sir—I enclose a cutting from the *Daily Mail* of 1928, giving the result of a competition for the best answers to the question—

"How would you invest £1,000?"

The selections of the successful competitor, as adjudged, after "very careful examination by financial experts, with the co-operation of Sir D. Drummond Fraser, the banker," were as follows—

Courtaulds then quoted 4⅛.
Kreuger & Toll then quoted 47⅞.
General Motors then quoted $200.
Woolworths then quoted $191.

General Motors are now $17, Woolworths $40½.

Yours faithfully,
W. WILLIAMS.

Ealing, 28th March.

Referring to the two Shares which are unmentioned, we find Courtaulds now priced around 43s. while Kreuger & Toll, owing to fraud and misrepresentation, have no value at all!

This example illustrates the frailty of human judgment in the light of unexpected world developments, and the difficulty of forecasting accurately what the future holds in store.

Bargains transacted by the Broker for his clients constitute the major part of Stock Exchange business. Brokers and Jobbers are allowed to do business on their personal account, but

the percentage of the whole carried out for their own account can be regarded as small. It is the public's requirements that keep the Stock Exchange employed. Jobbers are not allowed to deal with the public, but, as explained, by their co-operation in "making prices" the business of the public is more expeditiously carried out. Just what brings a bargain into existence would be interesting to trace. It may be the chance remark of a friend in the train, or a letter received from a relative. It may be a recommendation in the Press, or the result of a consultation with a Broker. It may be an inheritance, or it may be a taxation demand—who can say? What we do know is that whether for the purpose of raising money to meet an emergency, or finding a medium for the investment of money, the Stock Exchange exists for that purpose. The Broker on his part is the agent through whom the public can transact their business.

Brokers always endeavour to give disinterested advice in the matter of Stock and Share purchases. They themselves have no axe to grind or Shares to sell. Similarly with Share holdings and their value. A Broker's complete neutrality enables an impartial view to be expressed based upon information regarding such matters as yield, prospects, market trend, and the price level established on the Stock Exchange as a result of free transactions in an open market. Brokers, however, are not infallible, neither are they astrologers. They are agents in the matter of bargains undertaken for the public. Bargains that are made for clients are actual transactions executed on the Stock Exchange in accordance with that institution's Rules and Regulations.

Clients and Their Contracts

Transactions for clients, whether purchases or sales, are entered by the Broker at the prices dealt at with the Jobber. An exception to this rule is the case of transactions for country Brokers to whom net contracts are sent. A contract note has to be rendered to the client for all bargains, and the price entered in the contract is the price at which the Broker deals with the Jobber. This rendering of a contract is obligatory. The Rule dealing with the subject lays down the instructions thus—

A Broker shall render to a Non-Member a contract note in respect of every bargain done for such Non-Member's account, stating the price at which the bargain has been done. Subject to the provisions of Rules 88 and 89, such contract note shall contain a charge for Commission at a rate not less than the Scale as laid down in Appendix 39, or as modified by the provisions of Rules 192, 196 (1), 197, 197*a*, 197*b*, or 203. (Rule 193 (1).)

The contract is a legal instrument and is the basis of the Broker's transactions on his client's behalf. It has to be signed by the firm executing the business, and is stamped with a Government contract stamp. The contract gives the name of the firm, the names of the partners, and printed words to the effect that all are Members of the Stock Exchange. Full particulars are given on the contract relating to the deal. In the case of a purchase, commission and charges in respect of transfer stamps and fees are added.[1] These, together with the charge for the contract stamp, are brought out in a total which shows just what the client has to pay. In the case of a sale, commission and the contract stamp are together deducted from the proceeds, to show what the client has to receive. As transfer stamps and fees are paid by buyers, these do not appear on sale or sold contracts. The date for which a deal has been done completes the contract note.

For each transaction, bought or sold, a contract is prepared and forwarded to the client. On pages 75 and 76 are specimens of both bought and sold contract notes. The continuation of Stock or Shares known as a "contango" is also confirmed to the client in the form of a contract. We examine contangoes in Chapter VII, but give on pages 77 and 78 specimen contracts which differ somewhat from those already referred to.

Acceptance of any contract by the client assumes liability for the undertaking entered into on his behalf by the Broker. If the Broker has exceeded or misunderstood his instructions the client must immediately inform his Broker, as the retention of a contract over which any query should arise might absolve the Broker from responsibility. The contract note is evidence of what bargain the Broker has entered into on his client's behalf.

[1] With Government Stocks and Bearer Securities no transfer or registration is chargeable.

EXCHEQUER & CO.,
Stock & Share Brokers.

JOHN CHANCELLOR.
JAMES CHANCELLOR.
JOHN SURPLUS.
N. O. SURPLUS.
(*Members of the Stock Exchange*)

Telegrams
"Payment Stock, London"

Telephone
Cent 0000 (6 lines)

100 THROGMORTON STREET,
And THE STOCK EXCHANGE,
LONDON, E.C.2....*2nd January*,....194

BOUGHT for.....*John Student, Esq*.....

(Subject to the Rules, Regulations, and Customs of the Stock Exchange, London.)

		£	s.	d.
500 Courtauld and Co., Ltd., Ordinary Shares @ *43/-*		*1075*	–	–
Commission £ *12 : 10 :* Stamps & Fee £ *22 : 8 : 6*		*34*	*18*	*6*
£1,000 Canadian Pacific Railway 4% Preference Stock @ *80*		*800*	–	–
Commission £ *4 : – : –* Stamps & Fee £ *16 : 6 : 6*		*20*	*6*	*6*
@				
Commission £ : : Stamps & Fee £ : :				
	£	*1,930*	*5*	*0*

For Settlement.....*10th January, 194*.....

MEMBERS OF THE STOCK EXCHANGE, LONDON.

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100 THROGMORTON STREET,
And THE STOCK EXCHANGE,
LONDON, E.C.2.....*2nd January*,....194

SOLD for.....*A. Sleeper, Esq*.....

(Subject to the Rules, Regulations, and Customs of the Stock Exchange, London.)

	£	s.	d.	£	s.	d.
£1,000 Leopoldina Railway 4% Debenture Stock @ *80*	*800*	–	–			
Commission £ *4* : – : – Contract Stamp *4s.*	*4*	*4*	–	*795*	*16*	–
Commission £ : : Contract Stamp @						
Commission £ : : Contract Stamp @						
				£795	*16*	*0*

For Settlement.....*10th January, 194*.....

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Telegrams
"Payment Stock, London"

Telephone
Cent oooo (six lines)

100 THROGMORTON STREET,
And THE STOCK EXCHANGE,
LONDON, E.C.2....*24th March*,.....194

CONTINUED for..... *C. Jones, Esq.*.....

(Subject to the Rules, Regulations, and Customs of the Stock Exchange, London.)

SOLD *for Account*.....*27th March, 194*.....BOUGHT *for Account*.....*10th April, 194*.....

	MAKING-UP PRICE	NET RATE OF CONTANGO	COMMISSION
500 Shell Transport Trading Co., Ltd., Shares	*4*	*5%*	
1000 United Dairies Co., Ltd., Shares	*75s.*	*5½%*	

Contract Stamps £1

MEMBERS OF THE STOCK EXCHANGE, LONDON

Where no commission is charged the remuneration is included in the rate.

EXCHEQUER & CO.,
Stock & Share Brokers.

JOHN CHANCELLOR.
JAMES CHANCELLOR.
JOHN SURPLUS.
N. O. SURPLUS.
(Members of the Stock Exchange)

Telegrams
"Payment Stock, London."

Telephone
Cent 0000 (SIX lines)

100 THROGMORTON STREET,
And THE STOCK EXCHANGE.
LONDON, E.C.2.....*24th March*, 194....

CONTINUED for..... ..... *A. Sleeper, Esq.*.....

(Subject to the Rules, Regulations, and Customs of the Stock Exchange, London.)

BOUGHT *for Account*.....*27th March 194*..... SOLD *for Account*.....*10th April, 194*.....

	MAKING-UP PRICE.	NET RATE OF CONTANGO.	COMMISSION
£1,000 Leopoldina Railway 4% Debenture Stock	*79*	*2½%*	

Contract Stamps 4/–

MEMBERS OF THE STOCK EXCHANGE, LONDON.

Where no commission is charged the remuneration is included in the rate.

Contracts for country Brokers are similar to clients' contracts, except that no provision is made for commissions or stamps and fees, and that each is stamped with the words "Agent's Contract." Commission laid down in a special scale for Country Brokers is added to or deducted from the price dealt at in London, the net price being then reported to the country Broker. Owing to its importance, a copy or duplicate of each contract is always kept. While the form of contract issued by individual firms differs somewhat in appearance, the substance is the same. The practice of extending contracts from the counterfoil on which particulars are entered is sometimes varied by the more reliable method of a duplicated carbon copy or a pressed copy obtained in the usual way. Being a legal document and record, the copy should bear direct resemblance to the original.

Commission charged on the contract note is the payment the Broker is entitled to receive for services to his client. The amounts charged vary according to the class of Stock or Share dealt in, the price of the security and the volume of the transaction. These charges are fixed by Rules and are known as the—

Minimum Scale of Commissions

As this scale is practically uniform all over the country, we reproduce it at this juncture. No charge must be made below this official scale unless specifically provided for by other rules. A higher rate can be charged, but in practice this is not usually done. The scale does not apply to continuations, on which it is usual for a Broker to remunerate himself through the medium of the rate, nor to underwriting, nor to the placing of new issues.

APPENDIX 39

MINIMUM SCALE OF COMMISSIONS

(*A*)	2½% Consols, 2¾% and 2½% Annuities .	$\frac{3}{16}$ per cent on Stock
	Other British Government Securities . .	
	British Electricity 3% Guaranteed Stock, 1948/53 (Subject to Stamp Duty) . .	
	British Electricity 5% Guaranteed Stock, 1957 (Subject to Stamp Duty) . .	¼ ,, ,, ,, Stock
	British Electricity 3% Guaranteed Stock, 1968/73	
	British Electricity 3% Guaranteed Stock, 1974/77	
	British Gas 3% Guaranteed Stock 1990/95.	

British Transport 3% Guaranteed Stock, 1967/72 (Subject to Stamp Duty)	¼ per cent. on Stock
British Transport 3% Guaranteed Stock, 1968/73	
British Transport 3% Guaranteed Stock, 1978/88	
Indian Government Stocks	
Metropolitan Consolidated Stocks	
London County Consolidated Stocks	
Dominion and Colonial Government Securities	
County, Corporation and Provincial Securities (British, Dominion, or Colonial)	
County, Corporation and Provincial Securities (British, Dominion, or Colonial)	¼ per cent on Money
Annuities (dealt in per Unit of Annuity)	
Public Boards (Great Britain and Northern Ireland)—	
Inscribed Stocks free of Stamp Duty	¼ per cent on Stock
Inscribed Stocks subject to Stamp Duty	as on Registered Stocks (Section C)
Registered Stocks whether free of or subject to Stamp Duty*	
Bank of Ireland Stock	¼ per cent on Money

(*B*)	Bonds to Bearer other than those included in Section A. Price 1 or under	At discretion
	Bonds to Bearer other than those included in Section A. Price 5 or under	$\frac{1}{32}$ per cent on Stock
	Bonds to Bearer other than those included in Section A. Price 10 or under	$\frac{1}{16}$,, ,, ,, Stock
	Bonds to Bearer other than those included in Section A. Price 20 or under	⅛ ,, ,, ,, Stock
	Bonds to Bearer other than those included in Section A. Price over 20	¼ ,, ,, ,, Stock

(*C*) Registered Stocks (quoted per cent.), Registered Debentures and Bonds—

Price 5 or under	$\frac{1}{32}$ per cent on Stock
,, 10 ,,	$\frac{1}{16}$,, ,,
,, 25 ,,	⅛ ,, ,,
,, over 25	½ ,, ,, Money

* *Note.* Metropolitan Water Board "B" Stock: As on Inscribed Stocks free of Stamp Duty.

(*D*) Shares or Units of Stock, Registered or Bearer (other than Shares included in Section E).

Price 0 1 0 or under . . . At discretion.

										s.	d.	
Over	0	1	0	to	0	2	0	.	.	0	0½	per share or Unit
,,	0	2	0	to	0	3	6	.	.	0	0¾	,, ,,
,,	0	3	6	to	0	5	0	.	.	0	1	,, ,,
,,	0	5	0	to	0	15	0	.	.	0	1½	,, ,,
,,	0	15	0	to	£1	10	0	.	.	0	3	,, ,,
,,	£1	10	0	to	£2	0	0	.	.	0	4½	,, ,,
,,	£2	0	0	to	£3	0	0	.	.	0	6	,, ,,
,,	£3	0	0	to	£4	0	0	.	.	0	7½	,, ,,
,,	£4	0	0	to	£5	0	0	.	.	0	9	,, ,,
,,	£5	0	0	to	£7	10	0	.	.	1	0	,, ,,
,,	£7	10	0	to	£10	0	0	.	.	1	3	,, ,,
,,	£10	0	0	to	£15	0	0	.	.	1	6	,, ,,
,,	£15	0	0	to	£20	0	0	.	.	2	0	,, ,,
,,	£20	0	0	to	£25	0	0	.	.	2	6	,, ,,
,,	£25	0	0	.	.	.	.	.	.	½ per cent on Money		

(*E*) Shares of Companies incorporated in the United States of America or Canada (whether dealt in in London on a Dollar or Sterling basis), with the exception of Shares which are transferable by Deed of Transfer.

						s.	d.	
Price 25 cents (1/) or under						At discretion		
Over 25 cents (1/)	to	50 cents	(2/)			0	0½	per Share
„ 50 cents (2/)	to	87½ cents	(3/6)			0	0¾	„
„ 87½ cents (3/6)	to	$1¼	(5/)			0	1	„
„ $1¼	(5/)	to	$3¾	(15/)		0	1½	„
„ $3¾	(15/)	to	$7½	(30/)		0	3	„
„ $7½	(30/)	to	$10	(£2)		0	4½	„
„ $10	(£2)	to	$15	(£3)		0	6	„
„ $15	(£3)	to	$25	(£5)		0	7½	„
„ $25	(£5)	to	$50	(£10)		0	9	„
„ $50	(£10)	to	$100	(£20)		1	0	„
„ $100	(£20)	to	$150	(£30)		1	6	„
„ $150	(£30)	to	$200	(£40)		2	0	„

With 6d. rise for every $50, or portion thereof, in price.

(*F*) INDIAN RAILWAY ANNUITIES . . . ½ per cent on Money

OPTIONS FOR MORE THAN ONE ACCOUNT . As on bargains

OPTIONS FOR ONE ACCOUNT OR LESS . }
BARGAINS IN PARTLY-PAID STOCK OF NEW ISSUES OR PARTLY-PAID SHARES OF NEW ISSUES . . . . . }
BARGAINS IN RIGHTS FOR CASH. . . }
POWERS OF ATTORNEY FOR INSCRIBED STOCK } At discretion
PROBATE AND OTHER VALUATIONS . . }
SECURITIES MADE-UP OR MADE-DOWN . }
SHORT-DATED SECURITIES (HAVING FIVE YEARS OR LESS TO RUN)*. . . . . }
TRANSFERS OF STOCKS AND SHARES . . }

SMALL BARGAINS . No lower Commission than £1 to be charged except in the case of—

(*a*) Transactions amounting to less than £100 in value on which a Commission of not less than 10s. must be charged, or

(*b*) Transactions amounting to less than £20 in value on which a Commission of not less than 5s. must be charged.

These minimum Commissions on Small Bargains are optional in the case of transactions in British Government Securities for Brokers as defined in Clause (1) of Rule 203.

* Note: Not applicable in the case of securities in default.

Country Brokers

The above scale does not apply to business transacted with country Brokers. In view of their importance we extract from the rules laid down dealing with the subject—

RULE 203

TRANSACTIONS FOR COUNTRY BROKERS

(1) A broker may at his discretion charge Commission at a rate not less than the scale laid down in Clause (4) of this Rule on any transaction for a Member of any Associated Stock Exchange in Great Britain and Northern Ireland and the Irish Free State, or a Member of the Provincial Brokers Stock Exchange or of the Oldham Stock Exchange.

(2) The Commission laid down by this Rule shall be the minimum Commission to be charged on all business coming to The Stock

Exchange from a Member of any Associated Stock Exchange or of the Provincial Brokers' Stock Exchange, or of the Oldham Stock Exchange, except that a Broker may apply to such business the provisions of Rules 197 and 197*b*

(3) EVASIONS. A Broker shall not act as a Principal or send an order to a Member of an Associated Stock Exchange or Country Broker for the purpose of evading the minimum Commission on such business, nor shall he adopt any other procedure for a like purpose. Any evasion will be treated as a breach not only of this Rule but also of Rule 87.

(4) SCALE. On transactions for Brokers as defined in Clause (1) of this Rule a Broker may at his discretion charge a reduced Commission at the rate of not less than one-half of the rates laid down in Appendix 39, or in Rule 197*b* (2), and further he may charge the following exceptional reduced rates, *viz*—

Registered Stocks (quoted per cent.)—

Price £ 25 or under	$\frac{1}{32}$%	on Stock
Over £ 25 to £ 50	$\frac{1}{16}$%	,,
,, £ 50 to £100	$\frac{1}{8}$%	,,
,, £100 to £150	$\frac{3}{16}$%	,,
,, £150 to £200	$\frac{1}{4}$%	,,

With $\frac{1}{16}$ rise for every £50 in price.

The provision of Rule 196 (1) and 197 may not be applied when the exceptional reduced rates allowed by this Rule are charged.

Transactions carried out for country Brokers are, as stated, usually reported net. That is, commission in accordance with the reduced scale allowed is added to the price in the case of a purchase and deducted in the case of a sale. The contract is then rendered at the net price to the country Broker. On this net price the country Broker issues a contract to his client, charging a commission in accordance with the scale laid down by his local rules. Net contracts are provided for in Stock Exchange Rules, which enjoin that, where such net prices are used, the contract note shall state that the commission is allowed for in the price. The bargain price before commission has been allowed for is known as the "gross" price.

Provisions that Benefit Clients

Provisions are made in the Commission Rules which in practice are of advantage to the public. Among the most important are that—

A Broker may at his discretion charge only one commission for buying and selling the same security for the same principal for the same Account, or for cash during the same Account. In the case of securities governed by Rule 97, a Broker may at his discretion charge only one commission for buying and selling the same security

for the same principal during a maximum period of twenty-eight days from the day on which the bargain was executed. (Rule 195 (1).)

Transactions dealt with under this heading are known to the Stock Exchange as "Closing Transactions" but under Clause (2) of this Rule "neither the reduced Commission allowed by Rule 197 nor the concession allowed by Rule 196 may be applied to bargains done under this Rule."

The Section of Rule 195 (1) relating to Gilt-edged securities (Rule 97) (which are for settlement on the business day following the day of the bargain) thus enables a Broker at his discretion to charge only one commission for buying and selling in what is the equivalent of two normal Accounts—namely twenty-eight days. This advantage is already enjoyed under Rule 197*a*, when transactions in Gilt-edged Stocks of not less than £50,000 are involved, but is now extended to include amounts in this Market where the transactions are less than £50,000.

Another Rule allows that—

On a change of investments for the same Principal during the same Account or the Account immediately following, a Broker may at his discretion, if the Securities have not been continued, charge Commission at a reduced rate as hereinafter provided.

In applying this rule, only the side having the smaller total consideration and such a proportion of the side having the larger consideration as may be equal thereto, shall be deemed to constitute the re-investment operation.

Commission at a rate not less than one-half of the scale laid down in Appendix 39 may be charged on whichever of the equal sides would normally produce the lower total commission and full commission must be charged on the remainder of the transactions. (Rule 196 (1).)

In effect this means that a client selling securities and reinvesting the proceeds, or purchasing securities and realising the money to pay for them, may carry the two transactions through at a reduced rate within a specified period, provided they have not been contangoed.

Transactions arranged under this Rule are known as "Change of Investments," but the concession allowed in the following Rule may not be applied to bargains done under Rule 196 (1).

The Rule in question, 197 (1), is known as the £2,500 Rule—

On any transaction in which the consideration money is £2,500 or under, the full Commission laid down under Appendix 39 must be charged. In the case of a transaction in which the consideration

money exceeds £2,500 full Commission must be charged up to that amount, but a Broker may at his discretion (when in his opinion the volume of his Principal's business justifies it) charge a reduced Commission on the balance of the transaction except as provided in Rule 203 that in no case shall such reduced Commission be less than one-half of the Minimum Scale laid down in Appendix 39.

The effect of this concession is that in large transactions, say in £25,000 Canadian Pacific Railway 4 per cent Debenture Stock or 5,000 Courtauld Ordinary Shares, full commission may be charged on the first £2,500 of the consideration or market value and half commission on the balance. As mentioned, when advantage is taken of this Rule, the concession regarding "Change of Investments" may not be applied.

These reduced Commissions "shall not be shared with anyone except a Remisier or an Attaché or a Clerk in the Broker's own exclusive employment," and this applies also to a further concession which provides that—

On Stocks included in Sect. (*A*) of Appendix 39 in amounts of not less than £50,000 Stock, a Broker may at his discretion charge only one Commission at not less than half the rate laid down in Appendix 39 for buying and selling the same Stock for the same Principal during a maximum period of twenty-eight days from the day on which the bargain was executed. (Rule 197a (1).)

This concession it is again laid down must not be given unless the orders are for £50,000 Stock or over.

Finally follows a concession having particular advantages where large transactions are carried out for, say, Banks or other large institutions, the £50,000 Rule—

RULE 197B

(1) In the case of a Transaction for the same Principal in not less than £50,000 Stock of a Security of or guaranteed by the British or Indian Government having a currency of not more than ten years, a Broker may at his discretion charge a reduced Commission of $\frac{1}{8}$ per cent on the entire amount. This reduced Commission may be shared with an Agent provided the share actually retained by the Broker is not less than two-thirds of the Commission charged in the case of an Agent subject to Rule 199 (2) (*a*), (*b*), (*c*) or (*d*) or three-quarters in the case of an Agent subject to Rule 199 (2) (*e*).

(2) In the case of a Transaction for the same Principal in not less than £50,000 Stock of a Security of or guaranteed by the British or Indian Government having a currency of not more than ten years, a Broker may at his discretion charge to his Principal a reduced Commission of $\frac{1}{16}$ per cent on the entire amount. This reduced Commission shall not be shared with anyone except a Remisier or an Attaché or Clerk in the Broker's own exclusive employment.

(3) The above Commission rates of $\frac{1}{8}$ per cent and $\frac{1}{16}$ per cent are definite minimum rates to be charged on each purchase and each sale and may not be reduced except under Rule 203. The rates may only be applied in cases or orders of not less than £50,000 Stock; they may not be applied in the case of orders for the same Principal in less than £50,000 Stock given subsequent to the original transaction in that amount.

It will have been noticed that all of these concessions regarding the Commission Rules may be extended to the client at the discretion of the Broker. In practice these concessions are usually given, as the aim of a Broker is to give his principal the fullest advantage possible under the Rules.

Stock Exchange Rules do not permit a Broker to receive more than one commission on a transaction put through between two clients. Rule 89 (1) reads—

A Broker shall not receive brokerage from more than one Principal on a transaction carried through directly between two Principals.

(2) Subject to the provisions of Rule 204, Brokerage shall be charged to the Non-Member who initiated the business.

When orders to buy and sell the same security are received simultaneously and put together the operation is known as "marrying."[1] When orders are "married" without the intervention of a Jobber to regulate the price only one commission is charged. The usual procedure in such instances is for the Broker to buy from and sell the security to a Jobber who deals in the security. In practice this is the fairest course to both principals concerned, and ensures a just price to seller and buyer. This procedure is known as "putting a security through" the market. The centre between the ruling buying and selling quotation is chosen as a basis for the price, and a small difference is decided on as remuneration for the Jobber. That this arrangement has official sanction is seen from Rule 90 (1), which clearly indicates the Council's anxiety that such price adjudication shall always be just—

When a Broker receives an order from one Principal to buy and from another to sell the same security and executes the two orders simultaneously with the same Jobber, the prices agreed upon must be such as at the time of dealing are believed to be fair to both Principals. All such transactions must be marked . . . . .

Clause (2) of Rule 90 lays down one important prohibition—

A Broker may not put business through for another Broker.

[1] See Glossary, page 429.

An instance of such a "put through"[1] transaction would be where a security stood at 99½ to 100½, and two orders were received, one to buy and one to sell £1,000 Stock. In such a case the prices decided upon would probably be $99\frac{15}{16}$ for the seller and $100\frac{1}{16}$ for the buyer. This would give a remuneration of £1 5s. to the Jobber who had regulated the price, and at the same time allow the Broker to charge two commissions instead of the one which he would charge if he "married" the two orders.

Are Commissions Too High?

Before leaving the subject of commissions, the point may have arisen in the student's mind as to whether the charges are equitable. It has been urged that commissions are too high and should be reduced; it has been urged with equal force that any alteration should be in the other direction. Comparison with other businesses reflects very favourably the view that the commissions charged are just. The charge for buying or selling house property is out of all proportion compared with the charge for transferring property of the same value in Stock or in Shares. It is true that the time involved in the completion of a transaction tremendously favours the Stock Exchange, but the risks involved are very little removed one from the other. If anything, Stock Exchange transactions leave a Broker in a more exposed position than an estate agent. Moreover, it must not be overlooked that the actual transaction of a Broker is possibly the result of much preliminary correspondence and inquiry. Expressions of opinion are constantly being canvassed and advice sought, all of which are gratuitously forthcoming. Small bargains are admittedly carried through by Brokers at a loss. As we shall see later, little more trouble is involved in carrying through large and important transactions than in trivial investment or realisation requirements, but the larger transactions are instrumental in maintaining the present scale on an economic basis.

It is noteworthy that despite the increase in the prices of commodities, wages, and the cost of living no advance has been made in Stock Exchange charges to the public for many years.

The above remarks lead naturally to consideration of a matter having deliberate bearing on the subject—the existence of

[1] See Glossary, page 433.

Agents and Their Remuneration.

Stock Exchange Rules make provision for the sharing of commission with Agents, but during recent years drastic revision has been brought about dealing with the subject. Whereas hitherto it was possible for any person to lay claim to a return of commission it is now necessary, except in the case of Members of the Stock Exchange, to be registered for this purpose. Admission to the registers kept for this purpose by the London Stock Exchange is confined to institutions, firms and persons who satisfy the Council they have a genuine claim for admission, and the Provincial Exchanges act in unison. The first step in this matter was taken in June, 1941, when all Stock Exchanges working together set up the machinery, arranging that the rates of rebate for Banks, Remisiers, Attachés and Clerks be reduced to one-third of the gross commission charged; and to one-quarter for all other agents.

In December, 1947, amendments to the Agency Rules were passed by the Stock Exchange Council which affected the whole question of commission-sharing, introducing a new body known as Retired Associates, increasing the annual registration fees payable, and precluding the return of commission to solicitors, accountants, the Trustee departments of banks and insurance companies, together with the Public Trustee. These amendments were later confirmed, despite a considerable body of Stock Exchange opinion which questioned the wisdom of such drastic changes. A Resolution from dissenting Members requested the Council to defer the coming into force of the amendments until a date not earlier than 1st January, 1950, and this action was reinforced by the intervention of the Chairman of the Clearing Banks, who asked for three months deferment for the examination of fresh proposals. These proposals were not forthcoming from the Banks, but the Stock Exchange Council, taking into consideration all the factors and having regard to the even division of opinion amongst Members, felt that the interests of all would best be served by cancelling the amendments to the Agency and Commission Rules in order to leave the field clear for a fresh approach to the problems involved. The much discussed amendments were thus rescinded on 24th January, 1949, and this action was confirmed by the Council on 14th February, 1949.

Clerks and Remisiers.

There are, therefore, at present, as will be seen by reference to Rule 199 which deals exclusively with the subject, five Registers, on either of which inclusion is necessary in order to obtain a return of Stock Exchange commission. An annual fee is payable—except in the case of the Register of Banks—and the rebates and fees are as follows—

	Rate of Rebate	*Annual Registration Fee*
Register of Banks	½	Nil
,, ,, Clerks	⅓	£1 1s. od.
,, ,, Attachés	½	£3 3s. od.
,, ,, Remisiers	⅔	£5 5s. od.
General Register	¼	£3 3s. od.

"Remisiers" are agents resident abroad and may only transact business with one Broker. "Attachés" covers the identity of what were known as half-commission men. "Clerks" must be in the full-time employment of the Member applying for them. Where Clerks or Attachés are Authorised, Unauthorised or Settling Room Clerks, the registration fees are not payable.

It should be observed that the controversy surrounding the question of returning commission centred around the General Register. Rule 199, which sets out in Clause (2) "The Council shall keep Registers of Agents under the following categories," proceeds in Section (*e*) as follows—

A General Register which will . . . . contain the names of the Public Trustee and the Trustee Departments or Trustee Companies of Banks placed upon the Register of Banks and be open to such persons, firms and corporations not eligible for admission to any of the above mentioned Registers as shall satisfy the Council that they are or propose to be professionally and/or habitually engaged in handling, transmitting, collecting or introducing Stock Exchange business. . . . .

It is upon this General Register that are entered the names of Solicitors, Accountants, Trustee Departments of Banks and the Public Trustee, all of whom, with very few exceptions, themselves make a charge to their principals, no part of which is returned to the Stock Exchange. It is also noteworthy that many prominent firms of Solicitors and Accountants decline to look to the Stock Exchange for any rebate of commission. Those who opposed the amendments stress the undesirability of disturbing long-existing arrangements, and hold that the Stock Exchange should encourage, and not discourage, the

flow of business from all legitimate sources. The Rules as outlined above are for the present left unchanged.

Clause (3) Rule 199 and Rule 201 (1) deal with the share of commission allowed in the above cases, and these conform with the particulars given. We give Clause (2) of Rule 201, which reads as follows—

Brokers will be held responsible that the Rules and Regulations of the Stock Exchange are in every way strictly observed by Attachés or Clerks remunerated under this or any other rule and in particular that no allowance of or return of their share of Commission is made by such Attachés or Clerks, directly or indirectly, to any Principal or Agent they introduce or to any other person.

Definite rules are in existence for Agents, and reinforcement of the prohibition on an Agent handing back commission to a Principal, and other restrictions, are seen from the following rules, the strict enforcement of which is the responsibility of the Broker. Rule 199 (4) states—

A Broker may not share his commission with an Agent if the Agent's share is divided with or allowed to his Principal or any other person.

Furthermore, Clause (5) provides that

A Broker may not share with an Agent (except in the case where such Agent is his Attaché or a Clerk in his own exclusive employment) the commission charged on the Agent's personal business, nor on the personal business of any firm or of the partner of any firm by whom such Agent may be employed. A Broker may not share with an Agent (except in the case where such Agent is his Remisier, Attaché or a Clerk in his own exclusive employment), any of the commission on business done for a Principal for whom he deals under the provisions of Rule 197. [The rule relating to transactions over £2,500.]

It is further laid down in Clause (6) that

A Broker may not share his commission with an Agent who advertises for Stock Exchange business in the Public Press or in any other manner in Great Britain, Northern Ireland, or the Irish Free State. A Broker may not share his commission with an Agent who issues circulars in Great Britain, Northern Ireland, or the Irish Free State respecting Stock Exchange business to other than his own Principals.

The naming of Agents is provided for by Clause (7) as follows—

A Broker who shares commission with an Agent other than an Attaché or Clerk registered in accordance with Clause (2) (*c*) or (*d*) of this rule shall render a Contract Note naming the Agent and stating that the commission charged is shared with such Agent under

the provisions of this rule. Such Contract Note must not be rendered "net," and must show commission at not less than the scale laid down in Appendix 39.

The object of these rules is clearly to prevent the introduction of an agent for the purpose of evading the minimum commission rules. If an agent were allowed to return any part of the commission received by him it would in effect be for the principal or client the equivalent of a smaller commission charge. This the rules are designed to prevent. Stock and Share Brokers not affiliated to any recognised association and known as "Outside Brokers" may have their business transacted for them, but full commission charges must be borne by them. The rule governing these people runs—

A Broker shall . . . charge commission at not less than the minimum scale as laid down in Appendix 39 without modification, to any Stock and Share Broker or Dealer in Great Britain and Northern Ireland and the Irish Free State, whether carrying on business in the form of a limited company or otherwise, who advertises in the Public Press or in any other manner for Stock Exchange business or issues circulars respecting such business to other than his own Principals, or who is a member of any other Institution within the London Postal Area where dealings in Stocks and Shares are carried on, and no allowance or rebate in respect of such commission shall be made to such Broker or Dealer or any other person, but such restriction shall not apply to a Broker who remunerates an Attaché or Clerk in his own exclusive employment with a share of the commission charged to such outside Broker or Dealer. (Rule 198.)

Attachés or Clerks to Broker Members of the Stock Exchange are therefore the only agents who can share the commission derived from the business done for "Outside Brokers."

Banks and their Contribution

By far the largest agents contributing to Stock Exchange business are the joint-stock banks. These institutions, appreciating the close relationship of money to Stock and Share investment business, have during recent years organised special departments to deal with Stock Exchange matters. In consequence an extensive business has been built up between the banks and the Stock Exchange. Large sums of money are returned by Stock Exchange Brokers to the banks, the division of commission being, as stated, $33\frac{1}{3}$ per cent of the whole. In view of the important contribution made by banks, and the criticism that banking profits or fees are never shared

with the Stock Exchange, we think the following factors are material—

1. The Stock Exchange is particularly anxious to encourage all channels through which business may legitimately flow.
2. Banks are safe mediums for the transaction of Stock Exchange business.
3. Banks make a definite contribution to the collection of business and assist towards its completion.
4. Some clients prefer to do their business through a bank.

With these and other points in mind, it is clear that banks can be and are very valuable agents. Their business—the collection and care of money—automatically allies them in close relationship to the Stock Exchange, which after all exists for money's employment. The protection enjoyed both by the customer, who gives his order through a bank, and the Broker, who executes it at the request of the bank, is too noticeable to be stressed. Often, moreover, a customer would not or could not do his business without the assistance of his banker. Bankers, too, undertake the safe custody of documents and bonds, the collection of dividends and the payment of calls, and the registration of deeds, all of which strengthen their claim to an interest in the disposition or acquisition of these securities. Whether the discharge of their ordinary duties constitutes an irresistible claim by bankers to a division of a Broker's charges, or whether charges that are made by bankers or profits earned by them should be handed back in part to Stockbrokers, will probably be discussed long hence; but we have tried to show that bankers have fair claim to be regarded as agents in a way that does not apply to other professions. The banks work closely in touch with the Stock Exchange, and prefer to obtain a Stock Exchange opinion rather than express their own on any matters touching the science of investment. On balance, it would appear that bankers play an important part in Stock Exchange business, and, as such, deserve to be recognised and remunerated. The amount of commission which Stockbrokers are allowed to return to banks at present is 33⅓ per cent of the whole, except in the case of their Trustee Departments where the return of commission is 25 per cent.

Where certain advantages are given to the client under what is known as the £2,500 Rule the return of commission to Banks is precluded.[1]

Stamp Duties and Registration Fees

The charges in respect of stamp duty, registration fee, and contract stamp, which figure on an ordinary bought contract, will complete our inquiry into the costs of a transaction entered into by a member of the public. The registration fee is usually 2s. 6d. per deed, but exceptions to this fairly general rule do exist. Contract stamps vary in accordance with the value of the security involved and are regulated by statute. Amounts involved below the sum of £5 need bear no contract stamp, but this does not absolve the Broker from the necessity of issuing a contract note. Contracts for Irish Brokers must bear an English contract stamp.

The Finance (1909–1910) Act, 1910, amended by the provisions of the Finance Act, 1947, lays down the following scale for Contract Stamps—

Where the value of the Stock or marketable security							
is	£5	and does not exceed		£100	.	.	1s.
Exceeds	£100	,,	,,	£500	.	.	2s.
,,	£500	,,	,,	£1,000	.	.	4s.
,,	£1,000	,,	,,	£1,500	.	.	6s.
,,	£1,500	,,	,,	£2,500	.	.	8s.
,,	£2,500	,,	,,	£5,000	.	.	12s.
,,	£5,000	,,	,,	£7,500	.	.	16s.
,,	£7,500	,,	,,	£10,000	.	.	20s.
,,	£10,000	,,	,,	£12,500	.	.	24s.
,,	£12,500	,,	,,	£15,000	.	.	28s.
,,	£15,000	,,	,,	£17,500	.	.	32s.
,,	£17,500	,,	,,	£20,000	.	.	36s.
,,	£20,000	.	.	.	.	.	£2

Each separate Stock or Share transaction must bear its individual stamp, and options, continuations, or contangoes must also be similarly franked. By the Finance Act these charges are recoverable from the principal. No legal claim can be enforced in respect of any contract that does not bear its appropriate stamp. A Broker omitting to affix a stamp to his contract is liable to a fine of £20 and to forfeit all legal claim to commission, brokerage, or agency. Each contract note must be effectively cancelled, by writing on or across the stamp the name or initials of the person or firm executing the note, together with the true date of his so writing. Members of the

[1] See page 83.

Stock Exchange are not required to issue contracts for business transacted between one another, and country Brokers' contracts are without contract stamp, as they themselves issue a contract bearing a contract stamp to their own principals in respect of every transaction. Country Brokers' contracts, as mentioned, bear the words "Agent's Contract."

Transfer stamp duties are more formidable, and their incidence at the present high rate threatens to exercise a restrictive influence on Stock Exchange dealings. The scale of charges in recent years has continued to increase, and the amounts now levied are sufficiently substantial to discourage the purchase and therefore the sale of securities. However, the duty laid down is prescribed by Parliament, and is contained in the Stamp Act, the scale being as follows:

On transfers of Stocks or Shares, the consideration money of which does not exceed

£	s.	d.	£	s.	d.
£5		2 –	£175	3	10 –
£10		4 –	£200	4	– –
£15		6 –	£225	4	10 –
£20		8 –	£250	5	– –
£25		10 –	£275	5	10 –
£50	1	– –	£300	6	– –
£75	1	10 –	£350	7	– –
£100	2	– –	£400	8	– –
£125	2	10 –	£450	9	– –
£150	3	– –	£500	10	– –

and so on after £500 at the rate of 20s. for every further £50 or fractional part of £50.[1]

Sect. 42 of the Finance Act, 1920, however, allows a Jobber who in the ordinary course of business finds it necessary to take up Stock or Shares to do so on a nominal transfer stamp of 10s. In this case a certificate has to be signed by the Jobber and bear these words—

Delivery on a ten-shilling stamp under the Finance Act, 1920, Sect. 42. I (we) certify that the purchase referred to in this Ticket was effected by me (us) in the ordinary course of my (our) business as Jobber(s) on the Stock Exchange. (See Rule 128 (3).)

This concession does not apply to contangoes or continuations as will be seen from Clause (4) of Rule 128.

A Jobber shall not apply to a continuation the provisions of Clause (3) of this Rule.

Stock or Shares taken up on a 10s. stamp must be retransferred within two months or the full transfer stamp falls due less the 10s. paid.

[1] Requisition Form. See page 260.

It is of interest also that where Companies buy their own Stock for purpose of redemption, stamp duty is not thereby attracted.

Transfers of shares in companies registered or incorporated in the Union of South Africa are liable to a stamp duty of 1s. for every £100 or part thereof of the amount of consideration given. This duty is in addition to the stamp duty given above, and South African stamps can usually be obtained from any mining companies having London registrars.

By a recent South African Act all transferors, that is sellers of South African securities, must date the transfer when signing, and shares are no longer good delivery after 11½ months from the date of the transferor's signature. Penalties for delayed registration are 12 to 24 months, 5s. per cent; and 24 to 36 months, 8s. per cent. Registration fees must also be noted, as with many South African Industrial companies the charge is 2s. 6d. per transfer deed, while with many mining companies the registration fee is 2s. 6d. per deed per 100 Shares or part of 100.

The contracts on pages 75 and 76 are now more easily understood, and having been signed are ready for dispatch. In the case of sales it will be seen that no charges appear for transfer stamps and fee. Commissions, together with contract stamps, in such cases are deducted from the proceeds. Following the instructions of the principal, two purchases have been effected, and in due course John Student or his nominee will be registered as the proprietor of the Stock and Share interests he has purchased. However, from the time these purchases are made on his behalf, John Student enters into full possession of all rights, dividends, bonuses, and other benefits which may accrue.[1] On the other hand, his is the liability should the fortunes of the concerns in which he has become a part proprietor recede. The decision as to whether these two securities constitute a desirable medium for the investment or employment of money falls naturally for consideration under the heading of the following chapter, and, having reviewed the costs of commission, stamps, and fees involved by a purchase and a sale, we will next proceed to an exploration of that intensely interesting field—The Science of Investment.

[1] See Chapter XIV, page 298.

CHAPTER VI

THE SCIENCE OF INVESTMENT

FOREIGN Government Stocks—Nationalism—March of Science in the Commercial World—Trustee Acts—The Gilt-edged market—Government Loans: Bonds, Loans, and Debentures—Redemption Dates, Sinking-fund Purchases, and Drawings—Yields and Redemption—Various Classes of Company Security—Cover in Relation to Earnings.

IF the Business of Investment is a Science, then of recent years it has made rapid strides—in the wrong direction. We want to warn the student that while there are certain rules which may be laid down for simple guidance in matters of investment study, there are vast forces at work which may upset those rules. The economic history of the past decade has been chaotic, the trend of investment values pathetic. Stockbrokers, supposed expert craftsmen at their business, have at times found their experience valueless. World factors never before experienced have been present, and old standards of measuring what constituted a sound and safe investment have been ruthlessly swept aside. As these world developments so vitally affect the subject of investment study, we will briefly mention them.

Foreign Government Stocks

One of the most striking financial developments of this century has been the deterioration of foreign Government credit. Without attempting an examination of the causes which have brought about this unhappy state of affairs, we must record the fact that foreign powers, which for a generation have enjoyed a reputation for financial stability, have one by one fallen from grace. Unable to meet their obligations, quotations of their Stocks have fallen from proud heights to ignominious depths. Moratoriums have been sought where coupons should have been paid, and the ingenuity of Governments has been concentrated on the producing of funding schemes, instead of the production of cash. Monarchies have been overthrown, and with their disappearance proud records of financial probity have disappeared also. For many years the

credit of Russia was unchallenged, and Russian Stocks were considered first-class investment holdings. To-day, the Stocks of that country are practically valueless. The securities of countries such as China, Mexico, Chile, Greece, and Brazil—to leave out the principal contestants in the world embroglio—were once looked upon with favour. Interest payments were regularly and promptly met, and money was always available to meet such obligations when required. To-day, owing to internal budgetary difficulties and exchange complications, interest payments are deferred, prices have fallen, borrowing is practically impossible, and the respective Stocks, as against their old designation of sound and attractive, are now classified as speculative and therefore undesirable.

This is one of the developments which have completely changed the approach to the study of investments. Following hard upon it and charged with anxiety for those who have investments or wish wisely to guide those who buy them, is the trend towards

Nationalism

However disturbing the truth may be it must be recognised that for years an intense wave of nationalism has been sweeping round the world. This has resulted in Government purchases of railways, the State purchase of private banks and provincial acquisitions of utility undertakings, all of which in the past have brought prosperity to the countries concerned. In some cases expropriation has taken place. Authorities in many cases have acted within their statutory rights; in others, they seem unmindful of the benefits bestowed by the contribution of this country's genius and money, and are impressed only by the success of undertakings skilfully developed which can be useful to their own economy.

This tendency abroad has been sharply reinforced at home by the nationalisation of the Bank of England, followed by the Coal Mining and Electricity Industries, the Railway systems, Gas Company undertakings and Iron and Steel. It is not our purpose to discuss these developments apart from the complications they introduce to the study of investments and the restrictions placed upon a choice of available Stocks and Shares for investment purposes. It is probably intended

the country should benefit by these changes—whether it will only time will reveal—but at least Stock- and Shareholders in this land have had Government securities handed to them in exchange for their holdings, although possibly they were not the type of security they wished to hold, nor were the compensation terms as generous as equity holders felt they were entitled to.

Another factor we would counsel students to keep in mind in considering the question of investments is the

March of Science in the Commercial World

This matter is not so disturbing as the others we have mentioned. It will be present, however, when other disturbing features have adjusted themselves, as they should do in course of time. That it is necessary to one studying investments to have these things in mind can be easily shown by mentioning six modern developments—

Aviation	Motor Traction
Electricity	Wireless
Oil	Television

Atomic Energy

The investor in Railway Stocks could never have foreseen the competition of aviation and motor traction, nor the investor in Coal Shares the stupendous progress of electrical energy. Neither did these investors envisage the Government as a competitor for their property. Unenvisaged was the part which oil would play as a propulsive power, while Telegraph and Telephone Shareholders never dreamed of messages transmitted through the air by waves. Accepted mediums of to-day are the discarded methods of to-morrow, and while, strangely enough, the early history of all revolutionary scientific discoveries has usually been associated with financial loss and anxiety, still the menace to the security of Stock- and Shareholders is present the moment a competitive invention is launched.

These, then, are a few of the points for a well-informed student to have in mind in approaching a study of investments.

"Why," the student may ask, "should I or anyone else, in the face of the dangers here outlined, incur such obvious risks?" The answer is that the alternative—hoarding—is inherently distasteful to all but miserly and unprogressive intellects.

Whether it be that humans have in mind the parable in Holy Writ condemning the niggardly and unproductive methods of him "that had received one talent," and the premium placed therein on industry and investment; or whether it be a natural desire that one's savings should justify their existence by contributing their quota to man's enrichment (for after all, money at compound interest of 5 per cent doubles itself in fourteen years)—who can say? Sufficient to know that human instinct, unless warped, dislikes the immobilising of cash, and it is the principle of incurring risks which has in the past made this country financially great. Other things being equal, a man would rather risk losing money by becoming a part proprietor in a venture, than deliberately sterilise his savings. Man's crude philosophy is that money is made round to go round.

There is now a very wide field for the employment of money, and, by investing it, varying rates of interest can be secured. It is a safe rule to remember that high returns on capital invested usually carry high risks. Greed in the matter of interest may lead to grief in the matter of capital. The destination of cash available for investment must depend upon the requirements of its possessor. In order of respectability, perhaps the safest Stocks are those authorised by various statutes which have been framed from time to time, and which are known as

Trustee Acts

These Acts, as consolidated into the Trustee Act of 1925, are valuable in that they indicate what are presumed to be the safest Stocks that exist, and restrict the sphere of investment to those who are trustees. People who are not trustees are allowed to buy them, but those who are, enjoy the protection of having complied with the Acts designed for their observance. Trustee Stocks are safety-first investments, and, although the return obtained is comparatively small, the compensation is the security enjoyed. People of limited means should confine their investments to Stocks that fall within this class, as the smaller the sum possessed the greater the need for its preservation.

Trustees are governed by the instruments or trusts which they administer. For this reason they sometimes find themselves administering moneys invested outside the provisions

of the Trustee Act. Much depends on the terms of the trust. The Trustee Act of 1925, however, lays down specific clauses, and an examination of (*c*), (*d*), (*g*), (*h*), (*i*), (*j*), (*k*), and (*l*) will disclose how great is the need for the Act to be brought up to date.

The Trustee Act, 1925

The Trustee Act, 1925, consolidates all the provisions of previous legislation relating to trustees. This Act, unless otherwise expressly provided, extends to England and Wales only. In summary form, the provisions of the Trustee Act, 1925, regarding investments are as follows—

Section 1—

(1) A trustee may invest any trust funds . . .

(*a*) In any of the Parliamentary Stocks or Public Funds or Government securities of the United Kingdom.[1]

(*b*) On real or heritable securities in the United Kingdom including the security of a charge on freehold land. . . . . .

(*c*) In the Stock of the Bank of England or the Bank of Ireland.

(*d*) In Indian Government securities. . . . . .

(*e*) In any security the interest of which is guaranteed by Parliament.

(*f*) In Metropolitan Board of Works Stock, London County Council Stock, Metropolitan Water or Metropolitan Police District Stock.

(*g*) In the Debenture or Rent-charge or Guaranteed or Preference Stock of any Railway Company in the United Kingdom incorporated by Act of Parliament and having during each of the 10 years last past before the date of investment paid a dividend at the rate of not less than 3 per cent on its Ordinary Stock. (Order XXII, Rule 17 of the Supreme Court enlarges this Subsection to read—

"having during each of the 10 years next before the date of investment paid a dividend on Ordinary Stock or Shares.")

(*h*) In the Stock of any Railway or Canal Company in the United Kingdom leased in perpetuity or for not less than 200 years at a fixed rental to any Railway Company. . . . . .

(*i*) In the Debenture Stock of any Company owning or operating a railway in India, the interest in sterling on which is paid or guaranteed by the Secretary of State in Council of India.

(*j*) In Annuities of Indian Railways. . . . . .

(*k*) In the Stock of any Company owning or operating a Railway in India upon which a fixed or minimum dividend in sterling is paid or guaranteed by the Secretary of State in Council of India . . .

(*l*) In the Debenture, Guaranteed or Preference Stock of any incorporated Water Company in the United Kingdom which has for the last ten years paid dividends of not less than 5 per cent per annum on its Ordinary Stock. . . . . .

[1] References to the United Kingdom are deemed to include Great Britain and Northern Ireland.

(*m*) In Stock of any Corporation or Municipal Borough in the United Kingdom, having a population of over 50,000 inhabitants, or County Council Stocks issued under the Authority of any Act of Parliament or Provisional Order. . . . . .

(*n*) In Stock issued by Commissioners incorporated by Act of Parliament for the purpose of supplying water, who have power of levying rates over an area with a population exceeding 50,000, provided that for the 10 years last past the rates levied have not exceeded 80 per cent of the amount authorised. . . . . .

(*o*) In any Stocks, Funds, or Securities authorised under the Colonial Stock Act, 1900, or any Act extending the same, but subject to any restrictions thereby imposed.

(*p*) In Local Bonds issued under the Housing (Additional Powers) Act, 1919. . . . . .

(*q*) In any Stock or Securities issued in respect of any loan raised by the Government of Northern Ireland.

(*r*) In any of the Stocks, Funds, or Securities for the time being authorised for the investment of cash under the control or subject to the order of the Court.

Sect. 2 of the Trustee Act, 1925, lays down important restrictions relating to the purchase of Stock. In the case of those referred to in paragraphs (*g*), (*i*), (*k*), (*l*), (*m*), (*o*), (*p*), and (*q*) of Sect. 1, if the Stocks are liable to be redeemed at par or at some other fixed rate, a trustee shall not be entitled to purchase the Stock—

(*a*) At a price exceeding 15 per cent above par or such other fixed rate; nor

(*b*) If the Stock is liable to be so redeemed as aforesaid within 15 years of the date of purchase, at a price exceeding its redemption value.

Other provisions are contained in further sections of the Trustee Act, and relate to the circumstances in which money can be invested in land and mortgages. The powers, discretion, and limitations are of such importance and responsibility that trustees would be well advised to seek legal advice before taking fresh action. The above, however, are extracts from the Act of Parliament, and refer to the sections which commonly come before those engaged in the purchase and sale of Stocks and Shares. There is also a Trusts (Scotland) Act, 1921, which consolidates and amends the law relating to trusts in Scotland. The provisions of this Act follow closely those of the English Act with some reservations.

The Trustee Acts are distinguished for the care bestowed in the selection of Stocks available. Yet anomalies occur. It is

strange, for instance, that Port of London Authority Stock or Mersey Dock and Harbour Debentures should be excluded. It was singular also that the issues of the Central Electricity Board, with Parliamentary powers and semi-Government direction should until nationalised by the Government be excluded from the list, while issues of Dominion States should enjoy full trustee status. We recall years back Colonial securities so low in price that the yields if the Stocks were purchased then would have run into double figures. The reason for this was the uncertain outlook for the particular State's Budget, aggravated by political uncertainty. It will be seen also that Bank of Ireland Stock ranks equally with Bank of England Stock[1] as a full trustee security; while the fully-paid Shares of English banking institutions, and the Stocks of similar Scottish institutions with equally proud records in the matter of their sphere of influence, amounts of deposits, and reserve funds, remain outside the Trustee List.

Owing to their length, we are not able to give the Trustee Acts in full. If doubt arises as to whether a Stock is trustee or not, reference should be made to a Stockbroker or bank who will be able to give the information. Fresh issues of Stock always indicate if they are available for trustees. The clause relating to the purchase of Stock over 100 and having less than fifteen years to run needs to be watched. A trustee Stock bought on the 31st March, 1947, at 101, and redeemable 1st April, 1962, which in every respect is a desirable trustee investment, ceases to be so to a purchaser on the following day, because of its redemption date. If at the time of purchase it was eligible, then irrespective of its redemption date it is an acceptable trustee security. So that it is possible to sell a trustee Stock to a buyer to whom that Stock is no longer of trustee status.

The majority of the Stocks included in the list available for trustees are dealt in in what is known as the

Gilt-edged Market

As the name implies, the Gilt-edged Stocks are those considered most stable and least liable to fluctuation. During past years, owing to Great Britain's attitude towards the Gold

[1] Now Treasury 3% 1966 or after.

Standard, facetious Members dubbed it the *Guilt*-edged market. Some surprising fluctuations have been witnessed among Stocks famous for their stability. Securities such as $3\frac{1}{2}$ per cent War Loan, or Consol $2\frac{1}{2}$ Stock, aristocrats among Government issues, have moved violently from 86 to 110 and 61 to 99 respectively. Issues such as Funding 4 per cent Loan, Conversion $3\frac{1}{2}$ per cent Loan, and other Government Stocks, have frequently given pyrotechnic displays usually associated with less sedate Stocks; but when an end was seen to the acute crisis which brought about these fluctuations, they and the other similar Stocks referred to returned to the levels reflecting the proud positions they enjoy in national and international esteem.

An enormous business is done in the Gilt-edged market. This is not surprising when it is remembered that the great banks, insurance companies, friendly societies, discount houses, building societies, and other prosperous concerns invest large funds in the Stocks in which this market deals. There are numbers of private trusts which are confined to this section, and the purchases which are made for such accounts provide a steady support to the price levels of these Stocks. An important influence also in this market is the Broker who exclusively carries out the business of the National Debt Commissioners. This Broker, known as the Government Broker, receives a fee from the authorities for holding himself at their disposal. For many years the same firm have enjoyed the National Debt Commissioners' appointment, and when issues are made on behalf of the British Government this firm invariably act as Brokers. The Broker to the National Debt Commissioners does not deal only for the Government, but it is an unusual thing to see the Broker who used to mount a seat in the Consol or Gilt-edged market to announce a change in Bank Rate, endeavouring to negotiate business in, say, the miscellaneous mining market.

Government Loans

In addition to the important purchases on behalf of the Government for Sinking Fund purposes, there is the business of investors, large and small, who confine themselves to securities in this market. Probably the most popular Stock that ever existed was the 5 per cent War Loan, 1929–1947. The

Loan's popularity could be understood when it was seen that there was no less than £2,086,000,000 of Stock in issue. The return of 5 per cent was sufficiently generous to make it attractive to all types of investors. Floated during the First Great War, the provision that interest should be paid without deduction of tax made it immediately popular. That popularity it never lost. It enjoyed an exceedingly free market, and large lines of Stock could be negotiated with complete freedom. A quarter of a million or a million and a quarter sterling could be purchased on one day and delivery obtained on the next. Similarly, the smallest amount could be bought or sold and the bargain be just as expeditiously completed. Whether the holding of this Stock was large or small, the British Government's credit was behind both principal and interest. This applies equally to other British Government Stocks—Consol issues, Conversion Loans, Funding Loans, Victory, National War, Savings Bonds, and others. In all of these there is a large business transacted each day, but no other security has enjoyed the enormous turnover witnessed with the popular War fives! This Stock was converted to a 3½ per cent basis on 1st December, 1932.

Next in order in point of safety for the investor come those Stocks that enjoy British Government guarantee. The uninformed might hesitate before investing money in Perak River Hydro-Electric Power Co. Ltd. 5 per cent Guaranteed Debenture Stock, 1951, but actually it is as safe as an ordinary British Government security. Issued under the Trade Facilities Act, it is in fact guaranteed by the British Government. This guarantee gives the Stock full trustee status, and, the security standing at about 102, the flat yield to a purchaser is more than 4½ per cent. This status also applies to Stocks with such unfamiliar names as Kassala Railway 4½ per cent Guaranteed Debenture Stock, 1934–53, Gedaref Railway & Development Co. (Sudan) 5 per cent Guaranteed Debenture Stock, 1962, and others. Irrespective of what these companies do, their Stocks at present all stand at relatively an identical price, reflecting at once not the confidence felt in the venture to which the money loaned to them is applied, but faith in the Government which has given them its guarantee. Advances under the Trade Facilities Act are no longer made.

Following hard upon the heels of Loans guaranteed by the

Government come such Stocks as Metropolitan Water Board and London County Council issues. Some conservative people prefer the former Stocks to any, feeling that, whatever Government is in power, water is and always will be a first necessity of the nation.

Next in order of attractiveness in the trustee class are probably British Corporation Stocks. No English Corporation of note has ever defaulted. Secured on the rates and rateable values of the various towns and districts to which they belong, Corporation Stocks rank high in point of safety and freedom from price fluctuation. Foremost among these Stocks must, of course, rank those of the Corporation of London, the greatest city in the world. Corporation of London Stocks are usually difficult to purchase, and the yields obtainable are even less than on British Government Stocks. The smallest sums of money can be invested in Corporation Stocks. Lower prices will usually be found quoted for the Stocks of Corporations whose rateable value per head of population is high, or whose administrators are considered reckless. The great Corporations —Glasgow, Edinburgh, Birmingham, Liverpool, Manchester— all present, through the loans they have issued, opportunity for the investment of the people's capital, and councils as remote as Belfast or Ayr provide inhabitants or investors with similar facilities.

Stocks issued under the auspices of the Crown Agents for the Colonies are also very popular. These are issues such as Ceylon 4½ per cent, 1965, Gold Coast 4½ per cent, 1960–70, Kenya Government 5 per cent, 1948–58, Nigeria 4 per cent, 1963, Sierra Leone 4½ per cent, 1955, or Federated Malay States 3 per cent, 1960–70 Stock. These stocks and others of varying dates issued by these and other Governments are known as "Crown Agent" Stocks and are trustee holdings. Following come the many Loans of the Dominions of Australia, Canada, New Zealand, South Africa, and the various Colonies.

Following the British Government, Colonial, Corporation, and other Stocks included in the trustee class, in order of importance come Loans, Bonds, Debentures, Preference, and other Prior Charge issues. These Prior Charge issues are many in number and varied in character. As will be seen in the following list, some bear rather strange designations, but often the style or title of the issue will give an indication of the

exigency that brought it into existence. Among others the student will find under the three headings—

LOANS	BONDS	DEBENTURES
Internal	Prior Lien	Mortgage
External	Sinking	Sterling
Government	Guaranteed	Income
Stabilisation	Treasury	Prior Lien
Gold and Silver	Mortgage	Maximum
Funding	Sterling	Minimum
Consolidation	Refunding	Permanent
Settlements	External	Additional
Refugee	Unified	First Charge
Banking and Currency Reform	Hypothecated	Secured
	Assented	"A," "B" and "C"
Reorganisation	Rescission	Extension
Public Works	Salt	Enfaced
Conversion	Railway	Special
Unified	Irrigation	First
Indemnity	Adjustment	Second
Coffee Realisation	Sealed	Third
Imperial Railway	International	Supply
Government Railway	Terminal	Redeemable
Waterworks		Irredeemable

Other forms of borrowing and indebtedness are—

Obligations	Certificates of Deposits
Notes	Deposit Receipts
Annuities	Coupons
Treasury Bills	Monopolies
Treasury Notes	Gold Rentes
External Debt	Rentes, etc.
Dividend Notes	

Important points mainly affecting Prior Charge and Stock issues are

Redemption Dates, Sinking-fund Purchases, and Drawings

So important is the matter of redemption that Jobbers lists offering trustee and other high-class investment Stocks for sale include columns showing (1) flat yield obtainable; (2) yield including redemption.

It is the practice of most Governments and Corporations when issuing Loans to give a date on which the amount borrowed will be repaid. This date is known as the redemption date. More frequently it happens that two dates are given, between which at any time convenient to the borrower the issues may be retired. The popular 5 per cent War Loan to which we made reference earlier had two dates, 1929–47, during which years it was necessary for the British Government either to pay off the holders, or to convert into another security. Had conditions in 1929 been favourable, the Government

could have exercised its right to pay off the Loan or otherwise deal with it at that date. As we are aware, the conversion of this gigantic Loan was undertaken in 1932, when either cash or another security bearing a lower rate of interest was substituted. Had this conversion scheme not been introduced, it would have been incumbent upon the Government to deal with this particular issue by the final date, 1947. This principle applies to all other Government issues bearing definite redemption dates, but the Loans are numerous and the terms varied. Loans bearing no redemption date are known as "irredeemable."

Varying means are devised by Governments and others for paying off their Loans. With some a Sinking Fund is created, and the money allocated to this fund either accumulates pending the final date of the Loans' redemption, or is applied in the purchase of the Stock in the open market. This latter method of buying for redemption is popular amongst foreign Governments, and when such Government Stocks or Bonds are standing below their ultimate redemption point it is obviously a profitable purchase for the Governments concerned. Another method is to have annual or periodical drawings. In this case the money available for redemption is applied in paying off at face value those whose Stock or Bonds are drawn for repayment. In the case of Bonds standing below their redemption price, this would constitute a bonus to a holder who was fortunate enough to hold a Bond which was drawn.

Yields and Redemption

What we desire to explain is that Governments or Companies are bound by the various redemption dates attached to each issue, and to emphasise the importance of these dates in arriving at the yields that are obtainable at various prices. A 3 per cent Stock purchased at 80 shows, by the process of multiplying the rate of interest by 100 and dividing the result by the price of the Stock, a yield of £3 15s. per cent. This is called the "flat" yield. If no redemption date existed, this is the return that would be enjoyed for all time so long as the rate was undisturbed and the Stock was held. Let us assume that our 3 per cent Stock is redeemable, however, at 100 in ten years' time. This means in effect that in ten years' time no less than 20 points can be secured in capital appreciation.

The Stock purchased now at 80 will be repaid at 100. This profit at the rate of 40s. per cent per annum if added to the flat return of £3 15s. would appear to give a redemption yield of £5 15s. Redemption yields, however, are calculated actuarially at compound interest, according to the years which constitute the life of each given Stock. The example quoted is but to illustrate the principle that an increased return is obtainable by buying a security below its redemption price, provided it is held until maturity.

It must be observed that this improved yield on redemption is reversed if the Stock is standing over par or above its redemption price. A 6 per cent Stock standing at 105 appears to give a good return of £5 14s. 3d. If, however, this Stock is due for repayment at 100 five years hence, a capital loss of £5 spread over five years must be faced. This appears to reduce our flat yield of £5 14s. 3d. to £4 14s. 3d. over the whole period. No matter how high above redemption point a Stock may stand, the obligation on the borrower is only to pay off the Stock or Loan at face value unless otherwise provided for. This point, then, must always be remembered. The redemption figure exercises a steadying influence on price levels below par, and tends to restrain extravagant upward movements above. For this reason careful investors prefer to purchase securities below the redemption price rather than above, as with the former class capital gain can be looked for as against loss in the case of the latter class.

Various Classes of Company Security

The classes of security usually issued by companies are Debentures or Debenture Stock, Preference Shares or Stock, Ordinary Shares or Stock and Deferred Shares or Stock. In each class there are still further subdivisions, but these are the classes most easily recognised. Debentures are usually considered to be a debt rather than a Stock, being in the nature of a loan on the company's assets. Debenture Stockholders do not share in the prosperity of a company, although it may be that, through them, prosperity is possible. Neither are they in the ordinary way allowed to vote on the policy being pursued by a company. Theirs is not part of the company's share capital. Debenture-holders have a prior claim on the

assets of a company, and are usually able to take control of these assets and compel winding up of a company's activities if their Debenture interest is not forthcoming. Various kinds of Debentures exist, such as First and Second Mortgage Debentures, Prior Lien Debentures, Secured Debentures, Participating Debentures, Convertible Debentures, Redeemable and Irredeemable Debentures. The first three explain themselves. Participating Debentures enjoy the privilege of taking further profits after the fixed rate has been paid on them, that is, if the other series of Stocks have received a certain distribution. Convertible Debentures usually carry the right of exchange into another class of security at the option of the Debenture-holder. Debentures with a fixed date of redemption are known as "Redeemable," while Irredeemable Debentures constitute for the whole life of the undertaking a fixed charge upon its assets. Trust deeds determining the nature and rights governing the Debenture Stock or Bond should be familiar to a holder. It is regrettable to find that sometimes the security behind a Debenture is weakened by the alienation of assets or the raising of fresh Debentures either in front of or *pari passu*—that is, ranking equally with—a Debenture Stock already in existence.

Guaranteed Stock and Preference Stock and Shares rank next in seniority. Preference issues should not be confused with Preferred issues, as the latter fall more often under the category of Ordinary Shares or Stock. As the description implies, Preference issues rank before the Ordinary in matters of dividend. They sometimes carry preferential consideration should the company be wound up. Dividends on Preference issues are more secure than on Ordinary, and such issues usually carry a fixed rate of interest, payable before a distribution is made to Ordinary Stock- or Shareholders. Preference participation, however, is usually limited to the amount which a company undertakes to pay. If the Stock carries a 5 per cent dividend, Stockholders receive this amount each year, notwithstanding the fact that the company earned or is able to pay 50 per cent on the Stock. If they are 7½ per cent Preference Shares, this amount the Shares receive, despite the fact that the company could, if allowed, pay many times this amount. In some instances Preference Shareholders have "Participating" rights

which allow them to receive an additional payment governed by the terms of the issue and the prosperity which the company enjoys. Often Preference issues are "Cumulative," which means that if in one year a company finds itself unable to meet its Preference dividend, then it is in arrears until such time as that year's dividend and any subsequent ones can be paid. It is not an unusual experience for a company to be several years in arrears with its Cumulative Preference dividend. In cases of this kind a person buying the Shares or Stock at a depreciated level in consequence of the company's inability to meet its dividends enjoys a considerable bonus in the event of the situation improving and making it possible for the company to resume dividend payments. With a non-Cumulative Preference Share or Stock this obligation does not exist.

Preference shareholders do not always enjoy voting rights, and often when such rights are in existence they are dependent upon certain contingencies. Often voting control is so small as to be illusory. Such a case would be where the capital construction of a company was £25,000 in £1 Preference Shares, and £20,000 in 2s. Ordinary Shares. Here, assuming one share one vote, the Preference shareholders have provided most of the company's capital, but are relegated to hopeless inferiority by the Ordinary shareholders, who outnumber them 8 to 1.

Generally speaking, a Preference participation in a company is considered a better investment holding than an Ordinary. A good Ordinary Stock or Share is, however, a preferable holding to a poor Preference. The greater security offered by Preference holdings is the compensation for inability to participate in a company's good fortune. Many people hold the opinion that Preference Shares are not worth this disqualification, reasoning that if a company does badly the Preference Shares will get no dividend, while if the company does well then they, the Preference Shareholders, reap no benefit from the company's prosperity.

An important development during recent years has been the introduction of "Units" as part of a company's capital construction. The object of this introduction has been the elimination of the enormous detail work involved by the constant repetition of share numbers whenever any change in ownership

takes place. A method employed has been for companies to take power to convert their Shares to Stock, when the Stock is further divided into Units of £1 or 5s. in accordance with individual company requirements. In view of the great saving in clerical labour involved, this development has been adopted by many of the largest industrial concerns in the country.

To comply with Stock Exchange requirements for such a conversion, Forms "G.U." (General Undertaking) and "C.S.S." (Conversion Shares into Stock) must be obtained from, and when completed returned to, the Secretary of the Share and Loan Department. "C.S.S." requires an impressed Stamp of 10s.

This tendency to eliminate share numbers is growing among companies who find that no legal disqualification exists for the practice, and a similar result is achieved by application to the Stock Exchange to "discontinue the use of distinguishing numbers." Undertakings required for this transition are "G.U." and "U.S.U." (Unnumbered Shares Undertaking),[1] and these can also be obtained from the Share and Loan Department. Undertaking "U.S.U.", like "C.S.S.", requires an impressed Stamp of 10s.

It should be mentioned that in either case where companies adopt such a course, whether Shares into Stock, or Unnumbering of Shares, application to the Stock Exchange to quote the securities in their new form is necessary. Companies are also advised to take legal advice before abolishing Share Numbers as complications may ensue in matters touching unissued capital.

Cover in Relation to Earnings

An important consideration in judging whether Debentures or Preferences are a desirable holding or not is the number of times that the particular security is "covered." By "cover" is meant the earnings, revenue income, or profits which the concern can point to as a result of a year's activity. With Debentures, an additional requirement is to know whether, apart from revenue, the issue is covered by assets of a realisable nature. That is what Debenture-holders have recourse to in

[1] Distinguished in the Official List by the letter "U" following the name of the Company.

the event of a company ceasing to be a paying concern. If the "cover" behind an issue is substantial and consistent, then little fear as to the worthiness of the issue need be entertained, and the security is good. "Cover" should be carefully and critically regarded, as it is a sound, though not infallible, test of security. Even cover can "run off." It can also be misleading, as is shown in the following simple instance—

A company with £1,000,000 capital earns in one year £100,000 net profit. It has a 5 per cent Debenture issue of £500,000, a 5 per cent Preference issue of £100,000, and the balance in Ordinary Shares.

This is how the "cover" is often made to appear—

Company's Net Profit	£100,000.	
Amount required for payment of 5% Debenture Interest	£25,000	Covered four times.
Leaving	£75,000.	
Amount required for payment of 5% Preference Dividend	£5,000	Covered fifteen times.
Leaving	£70,000	for further distribution.

That this is an incorrect method of representing "cover" can be seen when we point out that while Debenture interest is covered only four times, the Preference issue, which ranks after the Debentures, is covered, by reason of its size, much more substantially. Given a drop in the company's earnings to £50,000 net, the Debenture interest would be covered twice, and the Preference five times, while if a sharper drop in profits occurred to £25,000, Debenture interest would just be covered, while the Preference would be very much exposed!

True "cover," of course, can only be arrived at by calculating the amount available for both issues, or all issues where the number in question exceeds two. This simple formula applied to the illustration given shows the following result—

Amount required for payment of 5% Debenture Interest	£25,000.	Covered 4 times.
Amount required for payment of 5% Preference Dividend	£5,000.	,, 3½ ,,

It follows therefore that, assuming this company finds it necessary to create a Second Preference issue, which for simple argument's sake required for its service £20,000 annually, the sum total required for all three issues would be £50,000, showing the last-mentioned Second Preference covered twice only, assuming a continuance of the £100,000 profit in the year under review.

A much more reliable method of calculating "cover" is by means of what is termed "The Priority Percentage Method." Where this method is used, it can be seen at a glance just what proportion of earnings are set aside for service in relation to the amount available. Taking the illustration used as an example, the result would be as follows—

Earnings.	£100,000	
Amount required for Debenture Interest .	£25,000 =	0–25%
,, ,, ,, Preference Dividend .	£5,000 =	25%–30%
,, ,, ,, Ordinary Dividend (say)	£60,000 =	30%–90%
,, carried forward or to Reserve .	£10,000 =	90%–100%
	£100,000	

The science of investment may be summed up as the art of safe and remunerative employment of money. The rapid acquisition of wealth through Stock and Share dealings is not ordinarily attempted by the investor. He is content with a modest return on his outlay. The sage advice of a well-known Stockbroker to clients who approached him with their money was "Do you want to eat or sleep?"—which aptly sums up that "safety-first" principles can best be relied upon to give peace of mind. There is probably little excitement to be gained by purchasing sound British Government Stock, but the lack of excitement is compensated by stability not enjoyed by other forms of investment. "Capital appreciation" is what every investor in his heart desires, but experience teaches that often in close attendance stands a relative—"capital depreciation." Those for whom "sleeping" in matters financial is a dull occupation, and who find "eating" more engrossing, will seek the opportunities offered by equity Shares and Stock with which we deal in the next chapter. Here excitement abounds in plenty, and money can be both made and lost.

CHAPTER VII

THE ATTRACTIONS OF EQUITY INVESTMENTS

ORDINARY Stocks and Shares—Gear Ratio—No par value Shares—Yields and Purchase Price—Dividends free of Tax—Capital—Unissued Capital—Uncalled Capital Liability—Bulls, Bears, and Stags—Continuations or Contangoes—Making-up Prices—How Account Days are Arranged—Differences—Cash Transactions—Options and Forward Dealings—Single Option—Double Option.

IT is when we leave the trustee class that greater care and knowledge are required by the investor. Speaking roughly, securities must now all be examined on their merits. Insurance Shares call for attention because of their actuarial soundness and magnificent records. Here, however, will be found companies that are relatively more or less attractive than others: Bank Shares and Stock which reflect in the prices they command and the balance sheets they present a spectacle of fundamental soundness, but even these institutions have found it necessary in the past to reduce dividends, despite their enormous reserves; Stocks of Trust companies who specialise in the scientific spread of investments; Shares of Discount Houses; Telegraph and Telephone Companies, Canals and Docks, Shipping and Transport undertakings, Breweries, Oil Shares, Tea, Textile and Tobacco companies; Rubber, Nitrate, Mining, and hosts of companies specialising in various departments of industrial activity follow, all having representative Stocks and Shares to which investors are attracted from time to time.

The classes which perhaps are the best known of all are

Ordinary Stocks and Shares

Rightly or wrongly, it is generally regarded that the equity or value of a business is the possession or perquisite of the Ordinary Stockholder. Ordinary Share- or Stockholders certainly have the most speculative proprietary rights, and earn, or have the chance of earning, the largest profits. They also are exposed to the greatest risk. Voting rights are usually vested with the Ordinary holders, and therefore the destiny of a company is in their hands. Ordinary capital is sometimes further divided to include Preferred Ordinary and Deferred Ordinary issues. The latter is the most uncertain of all holdings.

As a rule, Deferred capital is small, but distributions on that capital are large. Often Deferred capital is so small and dividend payments on that capital so large as to be altogether out of proportion. In these cases the explanation usually is that the Deferred capital is in interested hands. Founders Shares are another form of capital designed for the preservation of control and possession. In the event of a company being wound up, Ordinary capital, unless otherwise provided for, is the last to participate in a distribution of assets.

It is no uncommon thing to find that in an appeal to the public for cash, the Shares or Stock that are offered by a company are in the form of Preference or Debentures. The whole of the Ordinary Share capital remains in the hands of the vendors or promoters. The reason for this is not because the sellers of the business desire to protect the investor from loss. Frequently it is desired by those who "float" the company that investors should provide the working capital, to earn profits which fall into the lap of the Ordinary Shareholders. Sometimes an Ordinary participation in a successful undertaking is conditionally offered, such as the right to apply for one Ordinary Share for every Preference applied for. Another method is to offer Ordinary Shares at a heavy premium. It is usual, however, when £1 Shares are issued at, say, £2, for the profit of £1 a Share to be carried to a Reserve Account.

Ordinary Shares have always held a great appeal for investors, and in many cases they are an extremely desirable holding. Fortunes have been made from them, and it is this potentiality that provides the attraction of Ordinary Shares. Often Ordinary Shares of a company are retained in one family for years. It should always be appreciated by a holder that Ordinary Shares hold the possibilities of penury as well as the germs of gain. Unless strong reasons exist, persons of slender means should frequently overhaul Ordinary Share holdings with a view to providing against depreciation.

Ordinary Share or Stock distributions are dependent upon earnings. In prosperous times imposing dividends are paid. In bad times Ordinary Shareholders suffer. The aim of a prudent board of directors is to distribute dividends well within a company's capacity. It follows, therefore, that a company's

profits should not be divided up to the hilt. A well-managed company is likely, having earned 20 per cent on its Ordinary capital, to pay 10 per cent and place the balance either to a Dividend Equalisation Fund or to its General Reserves. That is why the equity or goodwill of the company rightfully belongs to Ordinary Stock- or Shareholders.

Ordinary Stock is usually issued in amounts of £100, Shares in the denomination of £1. Often Shares of £10, £5, 10s., 5s., and even 2s. and 1s. are issued. The last form of Share was much in vogue during the industrial boom of 1928–29, but a feature of the new issue activity of 1946–47 was the issue of 5s. Shares at very high premiums. Bonds or Debentures can also be of varying amounts and carry different rates of interest. Interest, as pointed out in the case of Prior Charge issues, is usually fixed; also the date on which interest falls due. In the case of Ordinary Stocks or Shares, holders wait upon the announcement made by the directors, and the amount paid is dependent on the degree of prosperity enjoyed by the company concerned.

In arriving at the attractiveness or otherwise of Ordinary Shares as an investment, an important consideration is what is termed

Gear Ratio

Gear ratio is the amount of a company's Ordinary capital in relation to fixed interest or prior charge in issue.

The method of expressing gear ratio is by terms such as "highly," "lowly," or "moderately" geared. In simple terms a company with £500,000 First Debenture and 500,000 Ordinary Shares in issue would be moderately geared, the ratio being expressed as 1 to 1.

Reduce the amount of Ordinary to £50,000 and the ratio leaps at once to 0·1 to 1. The capital structure is now highly geared.

In an inverse ratio, if Ordinary Shares are issued and in time stand at £1,500,000, and the Debentures in issue remain at £500,000, then we see a gear ratio of 3 to 1, which could reasonably be described as low.

The importance of "gear ratio" in calculating the trend of share prices under varying trade conditions is lucidly explained

by Mr. Hargreaves Parkinson in his book *Scientific Investment*, where simple charts clearly bring out and support the deductions that

1. Highly geared shares are likely to fall more rapidly, and rise more quickly, according to varying trade cycles. They must therefore be regarded as the more speculative.

2. Lowly geared shares are less exposed to fluctuating profits; for this reason they suffer less when profits are declining, but do not stand to gain so substantially when profits are advancing.

In brief, the matter may be summarised—

"The higher the gearing, the faster the pace;
The lower the gearing, the less to face."

Shares of "No Par Value"

The practice, common in America, of issuing these Shares, while not unknown, is not popular here. No par value Shares represent a division of a company's equity or value, and dividends, when declared, are at so much per Share. Having no fixed value, these Share certificates are immune from stamp duty.

The Balance Sheets of American Companies usually set out "Assets" in a similar way to English Companies, except that they appear on the opposite side. "Liabilities," however, appear under such headings as "Fixed" and "Current Liabilities" having a definite value, while in the case of Capital Shares having "no par value" they are represented at a given figure. Finally "Surplus" or "Earned Surplus" appears if such exists.

The ideal holding for an investor, of course, would be to have all his money in sound Ordinary Shares which pay increasingly large dividends each year. As financial Arcadies do not exist, the desirable course for estates of modest dimensions is to select gilt-edged or semi-gilt-edged, fixed-interest bearing securities for the bulk of the money available, and to invest a small proportion in approved, well-managed equity Shares. Income from this division of capital could then be judged with a fair degree of accuracy.

An elementary point which the student at this juncture would like perhaps to deal further with is that

Yield is Dictated by the Purchase Price

This applies to all classes of securities, trustee, prior charge, fixed- or variable-interest bearing Stocks or Shares. Now what

is yield? It is certainly not the amount a Bond bears on its face or the rate of interest paid on Stock, Shares, Loans, or Debentures. It is the return a buyer receives, based on the price paid. If a 5 per cent Stock could be purchased at 50, so long as interest is paid at 5 per cent, the yield or return each year to a buyer would obviously be 10 per cent. Similarly, if it should be necessary to pay 150 for the same stock, it is clear that the return or yield on the money invested must be less than 5 per cent. Actually the yield is £3 6s. 8d. at this price, and the simple method of arriving at this result is to—

Multiply the rate of interest (5 per cent) by 100 and divide by the price.

Thus, $\frac{5 \times 100}{150} = 3\frac{1}{3}$

It is seen, therefore, that the paramount questions to be faced by an investor are not only what rate of interest a Stock pays, but at what price can it be purchased or sold. A Debenture paying a low rate of interest will give a high return if it can be purchased well below its face value. A £1 Preference Share paying a high rate of dividend will afford a purchaser only a modest return on his money if he is compelled to pay well over its par value.

It can also be seen that the changing level of price values is continuously affecting the yields which various Stocks and Shares give. This must be constantly kept in mind. A 6 per cent Preference Share in a well-managed company may be cheap when it is standing at 20s. and showing a yield of 6 per cent. That same Share is probably just as sound when it rises to 25s., but the yield of £4 16s., which is what it shows at this price, suggests that it may be desirable to sell. Whether a sale is decided upon or not, to the purchaser at 20s. this 6 per cent Preference Share will always return 6 per cent, no matter to what heights it may rise. Alternatively, if it falls below the purchase price of 20s., providing the dividend is duly met, the yield of 6 per cent is undisturbed. It is this principle of deciding when a Stock or Share is under- or over-priced, that leads to the exchange of securities which goes on in the Stock Exchange from day to day. If this factor is remembered in relation to the vast field of Ordinary Stock and Share investments, an idea can be obtained of the forces at work to bring prices into their true relationship with yields.

Have in mind that the fortunes of undertakings fluctuate almost hour by hour, and dividends may vary year by year. The greatest cross-current of all, however, is due to the ever-varying requirements of the public and the demands which follow the opinions investors form.

A necessary factor to be taken into consideration when arriving at the yield offered by a Share is its denomination. An illustration will explain. A company declares a dividend of 40 per cent on its Ordinary Shares which stand in the market at £2 a Share. A cursory glance would suggest the Shares yield 20 per cent, at which level they appear very attractive. Actually the Shares may be of 5s. denomination, which gives them a yield of 5 per cent, and, therefore, at £2 a Share our industrial Ordinary Share is not nearly so attractive. Sometimes a company's dividend declaration takes the form of a money payment, when, again, the denomination of the Share must be taken into consideration. A cash dividend of 1s. per Share is a modest 5 per cent if the Shares are of £1 each. If the Shares are of 1s. denomination the distribution is of a very different kind, amounting at once to no less than 100 per cent. The yield, of course, is another affair. If our 1s. Shares stand at 2s. the 100 per cent yield is reduced to 50 per cent, while if, as is much more likely, they stand at 10s. per Share then our 1s Shares, having paid 1s. a Share dividend, show a reasonable return of 10 per cent.

Dividends Free of Tax

The calculation of yields is sometimes complicated by the declaration or receipt of dividends paid free of tax. The factor then, of course, is the prevailing rate of tax. In order to ascertain the yield on such a distribution, or to compare the return with other securities where payment is made and tax deduction is shown, it is necessary to "Gross Up" the dividend. To "Gross Up" a dividend multiply by 20 and divide by 20 less tax.

As Income Tax is subject to alteration, a simple formula may be helpful to show how the calculations are made.

To "Gross Up" a dividend multiply the net dividend

By	20	if the standard rate of tax is	a whole number	of shillings
,,	40	,,	,,	,, sixpences
,,	240	,,	,,	,, pence

Then divide the result

By	20	minus	rate of tax if rate is	whole number	of shillings
,,	40	,,	,,	,,	sixpences
,,	240	,,	,,	,,	pence

EXAMPLE (1)

To "Gross Up" a net dividend of £12 10s. with Tax at 7s. 6d. in £.

$$\text{We have} \quad \frac{12\frac{1}{2} \times 40}{40 - 15} = \frac{500}{25} = £20$$

EXAMPLE (2)

To "Gross Up" a net dividend of £1 3s. 4d. with Tax at 8s. 4d. in £

$$\text{We have} \quad \frac{280 \times 240}{240 - 100} = \frac{67200}{140} = 480 \text{ pence} = £2$$

Finally an instance of the tax at present in use—

EXAMPLE (3)

To "Gross Up" a dividend of £2¾ per cent with tax at 9s. in £

$$\text{We have} \quad \frac{55 \times 20}{20 - 9} = \frac{1100}{11} = 100 \text{ shillings or } £5 \text{ per cent}$$

The payment of a dividend by a company free of tax is apt to be misleading. It does not mean that the recipient is not liable, but that tax has already been paid to the authorities. Where a stock- or shareholder is not liable the tax may usually be recovered. See Glossary under "Free of Tax."

There are important and relevant points to be observed regarding

Capital

The AUTHORISED CAPITAL is the amount a company has the power to issue, sometimes called the nominal or registered capital.

The ISSUED CAPITAL is that portion of the Authorised Capital required for the business of the company.

The PAID-UP CAPITAL is that part of the Issued Capital called up and received from the Stock- or Shareholders of a company. In principle Called-up Capital and Paid-up Capital should be identical, but the distinction takes in the possibility, which occasionally arises, that some Stock- or Shareholders may fail to pay up the amounts which are due from them.

Unissued Capital

Various methods are employed by companies in raising their capital. For instance, a company may issue 150,000 £1 Ordinary

Shares, out of an Authorised Capital of £250,000 in £1 Ordinary Shares, leaving a balance of 100,000 Shares available for issue as and when required. The 100,000 Shares in this case would represent Unissued Share Capital.

There is another method employed by companies which is brought out by Lord Wrenbury in Buckley's *Companies Acts* in his explanation of Capital. Capital, states this authority, may have at least three meanings—

1. Nominal Capital. The amount named in the Memorandum of Association, say, £100,000 in 10,000 Shares of £10 each.

2. Issued Capital, say, 5,000 Shares of £10 each, part of the above nominal capital.

3. Paid-up Capital, say, £25,000, being £5 per Share on each of the above 5,000 Shares.

Such an instance as is given in the last clause, where a company decides to ask for part only of the whole amount due on a Share or on Stock, leaves a sum still to be paid. This unpaid portion constitutes what is known as

Uncalled Capital Liability

It does not follow that the amounts of Uncalled Capital which are indicated will be required by companies, but for so long as a £1 Share is only 10s. paid up, for such time does capital liability exist. Prudent investors are naturally shy of Shares or Stock of this description, as the sudden needs of a company, necessitating an equally sudden demand or call on that company's Shareholders, may easily prove embarrassing.

It will be found that Shares or Stock on which such liability exists can be obtained more cheaply than those in the same company which are fully paid up. Cases in point are banking Shares. Several of the best-known English banking companies have Shares carrying such liability and also Shares that are fully paid. For obvious reasons the yield to be obtained on the latter is smaller, reflecting the desire of investors, although the contingency is remote, to be free from the responsibility of providing further money in case of need. Although the possibility of calls being made on bank Shares may be small, such banks reserve the right not to register purchasers of their Shares. This is in order that the banks may satisfy themselves regarding the ability of new Shareholders to meet a liability where

such is in existence. Instances have often been seen where the "discount" [1] in the market on a partly-paid Share is greater than the amount paid up. For example, a £1 Share on which 2s. 6d. is paid may be quoted ¼ discount to ⅛ discount, or a £1 Share 5s. paid is quoted ⅜ to ¼ discount. This means that the holder of the Shares is compelled in both instances, if desirous of selling, to pay another person 2s. 6d. a Share to adopt his liability for the amounts unpaid. An even more striking example of this principle has been seen during recent years in the case of the Shares of a South American bank with large commitments. In this instance the £10 Shares, £5 paid, changed hands at 7½ discount, which meant that a holder who desired to sell was compelled to pay £2 2s. 6d. per Share to a buyer to take over the Shares with their liability.

Bulls, Bears, and Stags

The art of dealing successfully in Stocks and Shares is to buy at the bottom and sell at the top, or, to reverse this formula, sell at the peak and buy back at rock bottom. This is more easily said than done. A system to ensure the successful carrying out of this simple formula has yet to be invented, and the man who can claim to have mastered the art has yet to be born. If the process were simple, none would need to be poor. However, money is made by thus dealing, and those who attempt it are known as bulls, bears, and stags.

The public have long decided that the coat of arms belonging to the Stock Exchange consists of one bull rampant, one bear malevolent, and one stag lambent. In the seventeenth century, before the present Stock Exchange building was erected, dealers were given these names. Just why is difficult to trace. Possibly the word "bear" is a perversion of "bare," as an operator on the "bear" tack is short or bare of some security. "Bull" may be explained by the ponderous, determined, and aggressive behaviour of that animal, while the nimble anxiety to get out and away usually associated with a stag closely resembles the habits of this creature's City counterpart. These three are the best known in the Stock Exchange menagerie, and the descriptions have passed into common acceptance.

[1] See Glossary, page 424.

Actually a "bull" is a person who has bought, and, obeying a natural instinct, is hopeful of selling at a profit. The description "bull" does not quite fit a person who has bought for investment purposes, although in point of fact a holder is a "bull" of whatever he possesses. Some persons make money (at least they intend to) by buying Stocks or Shares with no intention whatever of paying for them, or of taking such securities off the market. The idea of such buyers is either to sell their securities before the date arrives for a settlement to be made, or to take advantage of the organisation evolved for such transactions, that is, borrowing by means of the "contango."[1] If the prognostications of the "bull" are justified and the rise takes place, then that operator sells out, and, without any money having been put up to pay for his purchase, he is able to secure the difference between the buying and selling price—less expenses. That is a simple "bull" transaction. Sometimes, alas! markets are perverse and prices go down. Then the result is not so happy. Our operator for the rise is still a "bull," and if he does not sell his security he becomes what is known as a "stale bull." When he does close or get out, if the market has not recovered, instead of securing a profit he has a cash difference to pay.

A "bear" transaction is the reverse of a "bull." In this case an operator sells "short" in the belief or hope that he may be able to buy back his security at a lower price. If he is successful, then a profit results. If the market goes against him and he is forced to buy back his security at a higher price than that at which he sold, then there is a difference against him. If the settlement arrives, and our "bear" is still uneven, he must take advantage of the facilities we have just mentioned —the "contango"—to borrow the security. We will return shortly to the subject of the contango.

These are the two proceedings so perplexing to the outsider: how is it possible to buy securities for which you are unable to pay, and to sell securities which you do not possess? On the Stock Exchange these two transactions are common, and, although not the most desirable type of business, extensive trading of this kind is carried on, as we shall see shortly.

The "stag" is a milder type of animal, with a very keen

[1] See page 124 and Glossary, page 423.

scent. In the first instance the "stag" neither buys nor sells —he applies. If a new issue of Stock or Shares appears which holds the ingredients of a successful turnover, then the "stag" slips in an application. The "stag" asks for an allotment with all the assurance of a genuine investor, with no intention whatever of retaining the amount he secures. If the "stag" is fortunate and secures an allotment in a successful issue on which a "premium"[1] is established, he sells. The difference between the issue price and the premium established is his profit. This "stagging" venture, however, is not altogether free from risk. Sometimes plans miscarry, i.e. the response to a public issue is small, when the "stag" finds his application is supplied in full, and the price of the issue opens at a discount. In this case, unless the allotment can be taken up and held for more propitious times, a loss ensues.

It is no uncommon thing to read that such and such an issue was heavily oversubscribed. Often large numbers of the applications in these cases are not from genuine investors. They are the applications of professional "stags," whose interest in the venture to which they subscribe is temporary. Oft maligned, there is just this in their favour: they contribute to the success of what possibly might be otherwise a poor result, and they run risks which sometimes are substantial. It is fair to say that "stags" are the underwriters'[2] friends, as, although their applications are artificial, they are real inasmuch as they adopt liability and rank together with applications of a genuine nature. There is little to distinguish the applications of a "stag" to an issue, and various subterfuges are adopted to obtain recognition for his applications. If he is of opinion that the bank or issuing house will give preferential consideration to small applicants, then the "stag" will go to the trouble of making out, say, ten applications for one hundred Shares in place of one for a thousand Shares. A "stag" will even press into service the name of every member of his family in order to give the application a *bona fide* appearance. Sometimes small applicants are ruled out by promoting houses, in which case cheques for the amount payable on application are returned, and our persevering "stag" has had his trouble for nothing. The results depend on the methods of allotment adopted by

[1] See Glossary, page 432. [2] See page 204.

the issuing house as well as the response of the public to the issue.

"Stags" by nature are "bullish," which means they look for a rise rather than a fall. There is no adjective to describe "stags" who, however, herd, swarm, and congregate whenever there is anything good on offer. Many of those who lightly apply for large quantities of Stock which they are quite unable to finance would be sorry if they received allotment in full, were it not for Stock Exchange facilities which enable them to unload. Furthermore, few are aware of the liability they carry for a time under company law for the payment of future calls in the case of these not being met by the purchasers who take the Stock off their hands.

The terms "bull" and "bear" are usually applied to those who take advantage of the Rules of the Stock Exchange to do

Continuations or Contangoes

The word "contango" is interesting because of the obscurity of its origin. The *Oxford English Dictionary* declares the word to be "an arbitrary or fortuitous formation from 'continue'," while *Webster's New International Dictionary* considers "contango" to be "probably a corruption of contingent." *Lloyd's Encyclopaedic Dictionary* frankly states that the etymology or true source of the word "contango" is doubtful, and that perhaps it is only a slang word. This latter authority then proceeds to throw light on this strange word by suggesting a comparison with the Spanish "contante," meaning ready money, and concludes by remarking that it is a Stock Exchange term and refers to "The commission on continuances." We cannot trace the word as being used in any other business, and will therefore describe a "contango" as being "an operation peculiar to the Stock Exchange, consisting of borrowing money or borrowing securities."

Before the First World War a very large contango position was in existence. The great crisis threw into relief the risks run by the building-up of huge unwieldy positions on an admittedly speculative basis. On the outbreak of hostilities in 1939 continuations were withdrawn by the provisions of Temporary Regulation 2 (2) (1).

This Temporary Regulation remained in force for ten years,

but in order to assist in maintaining free markets has now been amended by the Stock Exchange Council to read as follows—

Continuations may be made between Broker and Jobber and between Jobber and Jobber, but the provisions of Rule 128 (3) may not be applied. Continuations may not be made between Broker and Broker. Dealings for future Accounts (except as below provided) and options are not allowed.

The contango facilities again made available differ from those previously in force in that—

(1) Continuations between Broker and Broker are prohibited.
(2) Jobbers are required to furnish the Council each March and September with returns of aggregate amounts open on Contango Account.

Jobbers are also reminded of Rule 108 which precludes them from "taking in" securities on a 10s. stamp under Section 42 of the Finance Act, 1920. Rule 108 reads—

Continuations are Bargains and not Loans; but the provisions of Rule 128 (3) may not be applied . . . .

Rule 128 (3) is referred to on page 93.

What transpires to bring a contango into existence is that a client conceives the idea that, say, Courtaulds are cheap, and buys 500 Shares on the 1st March for settlement on the 14th of that month. Before the Settling Day, known as the Account Day, the client finds that either he has not got the money to pay for them, or it is inconvenient to find it. It may be that he never intended to finance the view he had taken. The client accordingly instructs his Broker to "carry them over," which means deferring the settlement to the next account, the 28th March. This the Broker does by finding somebody through his Jobber, with whom he can arrange to "give" a rate of interest for the accommodation of the cash required to finance the purchase until the following Account Day. The rate of interest arranged in cases of this kind is dependent on several factors: (1) Money rates, (2) the class of security, and (3) the market "position" in the particular Stock or Share. Contangoes are now arranged with the Jobber with whom the security is open, and a business is done by him in rates, in precisely the same way as with ordinary dealings. The day fixed by Stock Exchange Rules for these continuations is known as Contango Day, which is arranged in such manner as to leave three clear days between that and

the Settling or Account Day. In practice, preliminary notes pass previously to this day, stating whether a man is a "giver" or "taker" of certain Shares or Stock, so that on Contango Day little remains to be done but to fix the rate, and clear up the residue of contangoes not previously arranged. On the Contango morning prices are fixed for all securities at the mean price reigning, and these are known as

"Making-up Prices"

These "making-up prices," known as M/U prices, are used for the purposes of the Settlement, and for securities which pass through the "Clearing." They are fixed by the Jobbers who know the actual prices. They are entered on boards supplied by "House" officials, who collect them at about eleven o'clock and copy the prices on sheets which are posted in the Settling Room. They are also issued to the Press for publication. "Making-up prices" are sometimes called "striking prices." Here it should be stated that Stock Exchange Regulations regarded all contangoes as bargains. The effect, therefore, of the contango in 500 Courtaulds is to *sell* them for settlement on the 14th of the month, to close the bargain for that date, and to *buy* them again for the 28th instant at the same price. As will be seen from the illustrations on pages 77–8, a "bull" carry-over contract is actually worded "Sold for 27th March Account and Bought for 10th April Account," or whatever the respective dates may be, while a "bear" carry-over contract would read "Bought for 27th March Account and Sold for 10th April Account," if this was the period under review.

Account Days

These days are usually arranged to fall fortnightly, but the intervention of holidays makes it occasionally necessary to resort to an account of from fifteen to twenty-one days. Stock Exchange Rule 96 lays down that "the Council shall at their first meeting in September fix twenty-four Account Days for the ensuing year." With the transition in January, 1947, from the war-time system of cash transactions to Fortnightly Settlements, a departure from long-established custom was seen. Temporary Regulation 2 (1) sets out the arrangements decided

upon by the Council under the heading Fortnightly Cash Settlements; and these arrangements until they are rescinded take precedence over Rule 96 which we have quoted.

The Settlement shall consist of—

The Making-up Day (referred to in the Rules as Contango Day).

The Ticket Day.

The First Intermediate Day.

The Second Intermediate Day.

The Account Day.

The Settlement shall include all bargains entered into up to and including the business day preceding the Making-up Day.

Thus to facilitate the smooth working of the Settlement an additional Intermediate Day for the passing of Tickets was introduced. At the same time the pre-war custom of a Thursday Account Day was discarded, and, Friday being considered unacceptable, Tuesday was chosen as the most convenient day as Account Day. We thus find as a rule—and the intrusion of public holidays may sometimes bring about a change—that Wednesday, Thursday, and Friday of the week preceding Account Day are given up to the preliminaries of the Settlement. This system, although a little perplexing to the public and to staffs accustomed to the old arrangements, appears to be working smoothly. It will assist clients to remember that transactions entered into on any one of the five days from the Making-up Day onwards will automatically be for the New Account, unless they are transactions in Government securities which as referred to later are still dealt in for cash.

It frequently occurs that clients desire to sell ordinary securities for cash during the Settlement week. In this case a special bargain is arranged but the price is usually affected. It would be fairly obvious if we approached a Jobber for a "cash" quotation during Settlement week that we were "sellers."

We should here explain that Brokers, Jobbers, and clients are interested in what are known as

Differences

Following the arrangement of contangoes and the fixing of making-up prices, entries can now be made in the ledgers

with a view to finding the client's cash position. This is done regularly each Account. Assume our 500 Courtaulds to have been contangoed continuously. For the Settlement at 14th March the "making-up" price is, we will say, 40s. For the Settlement at 28th March, a rise having taken place, the "making-up" price is fixed at 42s. 6d. It will be seen that on the last-mentioned Account Day a difference of £62 10s., less the rate of interest charged for the accommodation and cost of the contract stamp, will be due to the client. This difference will be paid him on the Account or Settling Day, 28th March. If the price of Courtaulds has gone down, the "striking price" or "making-up" price will show it, and accordingly a difference will be due from the client and should be paid on the Account or Settling Day. This fortnightly Settlement is useful in that a stocktaking or closure is applied within a brief and adaptable period. It is easy to visualise the size of the differences and the dangers attendant upon the Settlement were they arranged for longer, and consequently less manageable, periods.

The "making-up" price is liable to be misleading to a student. It should be remembered that it is a temporary adjustment only, and in no way does it affect the validity of or liability for the original bargain price. Although a carry-over contract was rendered, what was *sold* for 14th March was *bought* for the 28th March at the same price, and what was *bought* for the 14th March was similarly *sold* for the 28th March at the same price. So the position in each case is "As you were." A contango is an extension of time for the completion of a deal, and the "making-up" price is purely an entry to enable a settlement to take effect on each and every Account Day. It will be easy to see that a client who purchased a number of Shares at 10s. which he carried over from Account to Account and which steadily depreciated in price would be, by the payment of his differences, writing these Shares steadily down in price. If they ceased in time to have any value at all, they would have been paid for, through the medium of his frequent disbursements on differences. At least each Settlement would have directed his attention to the dwindling fortune of his particular fancy. If happily the Shares had gone in the opposite direction, and in due course reached 20s., at which price he decided to sell, in

the event of their having been contangoed, welcome remittances would have reached him from time to time. The final cheque in this case would but round off a happy sequence and would only partially represent the accretion to his fortune, the other remittances paid from time to time, with the final cheque, representing the whole of his profit.

Differences are a familiar quantity to Jobbers and Brokers as well as to clients. On Account Day hundreds of clerks with tabulated lists can be seen in the neighbourhood of the Stock Exchange hurrying around collecting differences. How these differences are arrived at where there has been a multitude of transactions between Brokers and Jobbers during an Account we will not now inquire. We will, however, state that—

1. The "making-up" price plays an important part in this process.
2. There is scope for improvement in the method of paying these differences.

Hundreds of cheques are now drawn by individual firms, many for trifling sums, where one cheque would suffice if sent to a central authority. Messengers trail from one side of the City to the other in pursuit of a sum which frequently is disagreed, while underneath the Stock Exchange is all the organisation required for expeditiously passing slips, chits, and cheques, it being assumed that no more modern methods are adopted.[1]

Cash Transactions

All dealings are not for the Account. Stock Exchange Rule 97 provides that—

> Unless otherwise arranged, dealings in the following Securities (except those subject to Stamp Duty) are for settlement on the business day (Saturday excepted) following the day of the bargain—
>
> (*A*) British Funds, etc.
> (*B*) Corporation and County Stocks—Great Britain and Northern Ireland.
> (*C*) Public Boards—Inscribed Stocks.
> (*D*) Dominion, Provincial, and Colonial Government Securities.

This in effect means that practically the whole of the vast business transacted in the gilt-edged market is done for cash. Even securities not under the headings mentioned, but which are freely dealt in in this market, can usually be settled for

[1] Differences now pass in the Settling Room, but the House awaits the larger system of payment through a central authority.

cash. British Government Stocks, therefore, and the many others falling under the above headings may be sold on one day and delivered on the next. All such Stocks that are purchased are liable to be presented by the sellers for payment the following day. It is also possible by special arrangement to deal for cash in the Stocks and Shares usually dealt in for the Account. The sales of small lots which are dealt in "free"[1] —that is, where the stamp and fee attaching to the deal is borne by the seller instead of the buyer—are usually entered up for cash, and pass at once without awaiting the arrival of the Account. Where it is necessary for cash to be raised immediately, a sale with such conditions attached would probably mean the acceptance of a lower price than would ordinarily be obtained, as not only would the buyer be "out of the money" for an additional time, but he would also have to bear the costs of stamps and fees for immediate registration, which expense might be avoided if he were buying the particular security in the ordinary way for the Account. With sales of Government securities for cash, it is not always possible to complete the details to enable immediate delivery to be made, but the wheels of the Account do not move in connection with such bargains, which are a law unto themselves. Thus we have two settlements concurrently in operation—dealings for cash and dealings for the Account.

There is another set of transactions, still precluded by Temporary Regulations 2 (2) (1) to which in view of possible reinstatement we will refer.

Options and Forward Dealings

Option dealing, which was not widely understood, consisted of giving a sum of money to acquire the right to deal in a security at a fixed price during a definite period. The cash consideration given by an operator for this privilege was known as "option money," and the advantage of giving option money to use this method was that liability could be limited to the sum which was specifically given. This sum was small compared to the capital controlled or amount required to secure similar opportunities from an outright purchase or sale, and if no opportunity for securing a profit presented itself during the period

[1] See Glossary, page 426.

of the option, the "giver" of option money could simply abandon his claim. Although option prices were quoted in similar terms to ordinary jobbing prices, dealing in them was not restricted to Jobbers. Indeed, the largest dealers in options also acted as Brokers. The public bought or sold options through their usual Stockbrokers in the same manner as ordinary security transactions. The longest period allowed was three months, which was usually referred to as the "full period." Options could be purchased for shorter periods, but, in proportion to the rates charged for the full period, were more expensive. The illustration on page 133 of an old list of option quotations will illustrate this point.

Several courses were open to a person who wished to do an option, and the one chosen depended upon his view of the particular Stock or Share which engaged his attention. He may have elected to do either a "single" or "double" option, and he may have either "given" or "taken" the option money. So that the terms used may be more clear, we give a glossary from a useful book on the subject compiled by a prominent firm of option dealers—

"SINGLE" OPTION. There were two kinds of single Option, i.e. the "Call" and the "Put."
"DOUBLE" OPTION. The "Put" and "Call" combined, which usually cost double the single Option.
"GIVER." The buyer of an Option who "gives" or pays money for an Option.
"TAKER." The seller of an Option who "takes" or receives money for an Option.
"OPTION MONEY." The price paid for an Option.
"CALL" OPTION. The right to buy, or not, at the choice of the giver at an agreed future date, a stock or share, at an agreed price, which is termed the "Striking Price."
"PUT" OPTION. The right to sell, or not, at the option of the giver at or before an agreed future date, a stock or share at an agreed price.
"PUT AND CALL" (P.A.C.). The right either to buy or sell at the choice of the giver a stock or share at or before an agreed future date, at an agreed price.
"STRIKING PRICE." For a "Call" Option this is the market "offered price" of the share or stock at the time, plus an amount which covers the cost of the "Contango" or interest and stamp for the Option period.
"CONTANGO." The cost of interest and stamp, incidental to financing stock for the given period. Generally, the allowance for the Contango is included in the "Striking Price" which is fixed for the Option.

As the above operations differed from ordinary purchases and sales, we will deal with the single and double options separately.

Single Option

This consisted of giving or receiving money for either the "call" or the "put" of Stock or Shares at an agreed price. Like any transaction entered into by a "bull," "bear," or

"stag," the ultimate aim was profit. We will assume that we were greatly impressed with the prospects of "Eldoradoes," and confidently expected them to rise in price. We arranged therefore to "give" 2s. 6d. a Share for the "call" of one hundred Shares. The price at which the deal was arranged, 25s., was near the price at which they stood. We then had the right to become the owners of these Shares at 25s. at the date decided upon. We were not called upon to finance the Shares. All we could lose was the 2s. 6d. per Share plus expenses. What we could gain was unlimited. If the impression we had formed was correct, they might move up 2s. 6d. a Share or more in one day. Between the period when we purchased our option and the date it expires they may have doubled in value. In that event we could then sell our Shares at, say, 50s. and call them, namely buy them, not at the market price, but at our original figure of 25s. This was a simple and successful option deal, and the usual practice of "declaring" the option on Declaration Day would have been unnecessary. This option would have "declared itself." Where a verbal declaration was necessary was when, at the time of expiry of the option, the market price approximated to the option price which we fixed. Then it was for us to instruct our Broker to declare how we wished to act. If the price was just 25s. we should have probably abandoned our option. If it were 26s. then naturally we should have called the Shares, and the 1s. difference we could secure by selling would be saved from the 2s. 6d. per Share we had given for the option. If the price were over 27s. 9d. (that is allowing for the 2s. 6d. option money and 3d. per Share commission), then by selling we could have secured a profit. If the Shares had not moved during the period, or had gone down, the option would be abandoned. No matter to what level they had descended, our liability would have been only 2s. 9d. per Share. We "gave" for the "call" expecting them to advance. As our view was incorrect, we lost our option money and no more. Therein lay the advantage over an outright purchase which increased liability to the whole value of the Shares, as it was possible for them to become valueless before we could sell them and cut our loss.

Now let us assume the "put" was decided upon because we formed the opinion that a Stock or Share was too high in price.

OPTIONS

Single Options declared on:	25 May A/c 19th	22 June A/c 16th	20 July A/c 14th	
Amal. Banket Areas	1/0	1/3	1/6	*0/1⅛*
Ashanti Goldfields	2/9	3/3	3/9	*0/10⅛*
Brazilian	2/9	3/6	4/3	*0/7⅛*
Burma Corporation	1/1½	1/3⅛	1/6	*0/1⅛*
Chartered	1/9	2/0	2/3	*0/4⅛*
Crown Mines	8/0	9/6	11/0	*4/0*
De Beers Defd.	⅜	⅝	1	*1/9*
East Rands	2/3	2/9	3/3	*0/9*
East Rand Cons.	0/7½	0/9	0/10⅛	*0/0⅛*
General Mining	3/0	3/6	4/0	*1/1⅛*
Goal Coast Select.	1/9	2/0	2/3	*0/3⅛*
Goldfields	2/6	3/0	3/6	*0/10⅛*
Johannes	2/6	3/0	3/6	*0/7⅛*
Kleinfontein	2/6	3/0	3/6	*0/9*
Nourse Mines	2/0	2/4½	2/9	*0/6*
Rietfontein	2/3	2/9	3/3	*0/6*
Rand Mines	6/0	7/0	8/0	*2/3*
Rhod. Anglo-American	1/9	2/0	2/3	*0/3⅛*
Rio Tinto Selection Trust	1/6	1/9	2/0	*0/3*
Roan Antelope	1/6	1/9	2/0	*0/3*
Robinson Deep "B"	2/3	2/9	3/3	*0/10⅛*
Spencer & Jack	0/10½	1/1½	1/3	*0/3*
Western Reef	2/6	3/0	3/6	*0/3⅛*
West Rands	2/0	2/4½	2/9	*0/6*
Anglo-Dutch	2/0	2/3	2/6	*0/4½*
Rubber Trust	2/0	2/3	2/6	*0/4½*
Anglo-Iranian	3/9	4/3	4/9	*1/1½*
Burmah Oil	3/9	4/3	4/9	*1/0*
Lobitos	2/3	2/9	3/3	*0/4½*
Mexican Eagles	1/0	1/3	1/6	*0/1½*
Canadian ,,	1/0	1/3	1/6	*0/1½*
Royal Dutch	1⅛	1⅜	1⅝	*⅛*
Shells	3/3	3/9	4/3	*1/1½*
Trinidad Leaseholds	3/9	4/3	4/9	*1/1½*
V.O.C.	2/0	2/3	2/6	*0/3*

Single Options declared on:	25 May A/c. 19th	22 June A/c. 16th	20 July A/c. 14th	
Associated Portland Cem.	3/0	3/6	4/0	*1/0*
Austin Motors	2/3	2/9	3/3	*0/4⅛*
Brazil Traction	1⅛	1¼	1⅜	*⅛*
British American Tobacco	3/6	4/3	5/0	*1/3*
Courtaulds	1/9	2/1½	2/4½	*0/4½*
Daily Mirror	1/0	1/3	1/6	*0/2½*
Distillers	3/3	3/9	4/3	*1/3*
Dunlops	1/9	2/1½	2/4½	*0/4½*
Elec & Musical Ind.	1/1½	1/3⅛	1/6	*0/2½*
Hydro Electric	⅜	⅝	⅞	*⅛*
Imperial Tobacco	3/6	4/3	5/0	*1/9*
Imperial Chemicals	1/4½	1/7½	1/10½	*0/4½*
Intern. Nickel	2⅜	2⅝	3⅛	*⅛*
Lever Bros. N.V.	2/0	2/6	3/0	*0/6*
United Molasses	1/7½	1/10½	2/1½	*0/3⅛*
Vickers	1/7½	1/10½	2/1½	*0/3*
Anaconda	10/9	12/6	14/3	*1/0*
Atchison	3½	4	4⅛	*⅛*
Bethlehem Steel	4½	5⅛	6¼	⅛
Canadian Pacific	11/16	13/16	15/16	*⅛*
Celanese Corp. Amer.	⅞	1	1⅛	*⅛*
Chrysler	9/0	10/6	12/0	*1/0*
Con. Edison	5	5⅛	6⅛	⅛
Electric Bond	2¼	2⅜	3½	*⅛*
General Motors	1½	1⅝	1⅞	⅛
New York Central	3¼	3⅜	4¼	*⅛*
Southern Pacific	1⅜	2⅛	2⅜	*⅛*
U.S. Steel	2	2¼	2⅜	*⅛*
	4¼	5¼	6	⅛
Berwicks I Pref.	2⅛	2⅜	3	⅜
,, II Pref.	1⅛	1⅜	1⅝	*⅛*
Brums.	1⅛	1⅜	1⅝	*⅛*
,, I Pref.	2⅛	2⅜	3⅛	⅜
,, 1923 Pref.	2⅛	2⅜	3⅛	*⅛*
Great Western	2⅛	2⅜	3	⅜
South Deferred	1⅛	1⅜	1⅝	*⅛*

The approximate Contangoes for three months are printed in *italic*.

Note.—Options as stated are precluded by Temporary Regulations. The rates quoted above as a specimen would of course be affected by changes in security prices and money conditions to-day. The Railway Stocks quoted are now represented by British Transport 3% 1978/88 Stock.

The procedure was the same: we paid for the privilege or right of selling at the then existing price Stock or Shares that we expected to purchase at a lower one. It was a "bear" transaction, just as "giving for the call" was a "bull" transaction. At the end of the agreed period if our "bearish" view proved correct, we "put" or sold our Stock or Shares at the prearranged higher price and bought them back at the depreciated level. The difference in the two prices, less expenses, was our profit. If, instead of falling in price, a rise took place our "put" option was abandoned, and our loss was limited to the amount of the option money and commission paid, no matter to what height the security had risen. Here, again, the advantage can be seen, as a "bear" position exposes one to an unlimited loss, there being no limit to the extent to which a price may rise.

These two examples are of cases where option money was "given." Option money could be "taken," as was done by the firm with whom we dealt in the two quoted instances. If we were of opinion that little move was to be expected from the Shares in question which we possessed, we should have had no objection to taking 2s. 6d. a Share if it were offered to us for the option to "call" them from us within three months at the price then prevailing. At least we should be certain of receiving 2s. 6d. per Share, as, whether exercised or not, the option money would have been ours at the end of the period. If the Shares were "called" we had to deliver them at the option price. If the Shares were not called, the option money reduced the cost of them to us. Thus we reasoned as we "took" the option money offered. The view we had when we "took" money for the "put" is that we considered the price of the Shares or Stock to be the correct value of them, and should not mind if we were called upon to buy them, at a price less by the amount of the option money than the current price. Here, again, a consideration was offered us for a view that might not eventuate. We were "bullish" and did not mind the risk, while the "giver" was "bearish" and did not mind paying for his doleful expectancy. Thus it came about we "took" for the "put." If at the end of the period the price was lower than the option price, the Shares were "put" on us at the option price. Then we sold them and either reduced our receipts from the option money or "cut a loss." If the price was higher, we

pocketed the option money, and the operation would have been successful from our point of view as a "taker."

In addition to the above options there was another kind of option, which, because of its greater risk and potentiality, was approximately twice as costly, namely, the

Double Option

A double option is the right either to "put" or "call" a given Stock or Share at an agreed price on a given date. This transaction had all the combined advantages of the single options we have outlined, and made provision for both emergencies. A person who bought such an option was in a position to reap an advantage whichever way the market price moved. He, of course, paid for this privilege, and the only problematical point at the time the double option was purchased, was whether the movements in the security in which he was interested would be of such proportions as would cover him for his expenditure. On the face of it, it looks as if a person who "gave" double option money could not make up his mind which way the market was likely to go, and in some respects this was so. An operator might have had a very decided view concerning a Stock or Share, but there might have been such unsettling factors present as to make a measure of protection such as was afforded by a double option a very valuable possession. It is the unexpected that so often happens, and here, as with a single option, whatever the movement in either or both directions, one's loss was limited to the amount which was agreed at the time the option was entered into. We may remark that, unless the price of a security at the end of the period, usually three months, was exactly the same as it was at the time the double option was bought, it was impossible to lose the whole of the option money. This was a rare contingency, although such instances occurred. Any difference either way at the expiration of the double option could be taken advantage of, and would be so much saved from the option purchase money, even if a profit was not obtainable.

In practice some surprising fluctuations occurred within the maximum period allowed for options, and shrewd "givers" made this form of operating profitable, particularly in unsettled times. It must not be overlooked that "givers" of option

money could, and did, deal during the period the options were in force—selling on a sharp rise and purchasing on a fall. The possession of a double option was often a valuable protection, allowing an operator to sell—knowing that he had the "call" —or purchasing—knowing that he had the "put." If he could close his transaction at a profit it was usually possible to deal for settlement at the same date as the expiry of his option. This obviated contangoes or uneven positions during the unexpired period of the option, and the operator retained his option to its maturity. Here is a case quoted in round figures for the sake of simplicity.

A "giver" pays $5 a Share for the put and call of some American Shares at $30, for three months. If these American Shares fall to $20 at any time during the three months, it is clear that, if they are bought, a net profit of $5 a Share less commission is available. If by the end of the period or at any time during the period they rise to $40, the Shares can be sold, and the same remark applies. It is, of course, necessary to deal against the option, in order to secure such profit, a pleasant privilege not likely to be overlooked. This position may have been established but half-way through the period of the option. There still remains the opportunity, having sold the Shares at $40, to buy them back if they slump to $20, and still have the right to "put" them at $30 at the end of option time. Or, having been bought on the set-back at $20, they can be sold on any improvement to over $30, at which price the "giver" has the "call." These figures seem Utopian, but show the utility of the double option.

For a person who "took" double-option money the position was not quite so straightforward. Actually he could never tell until the Declaration Day how he stood. Market developments may give an indication, but the final destination of the Shares or Stock on which he had taken money was not known until the end of the option period. The people who "took" double-option money were usually those who felt that they could not go far wrong in accepting cash. That was the one certainty in the transaction for them, the destination of the cash. The disposition of the security at the end of the option period was unknown. People who owned Shares or Stock, the movements of which they studied, were not averse from accepting what appeared

generous terms for the double option. Their reasoning was that they had no objection to the Shares being "called" from them as they would then be securing a considerably higher price than the present, taking into consideration the option money they received. If the Shares were "put," then it but added to their holding—if they decided not to sell them—and, again allowing for the option money, they would be cheaper than ordinarily obtainable. This was the attitude of the operator who "took" double-option money. Should the security move but little, or, having moved, it gets back to near the option price, then for him the operation has been successful, as he secured all or most of the option money as profit. If a pronounced rise took place his Shares were bought from him, but at least he had secured part of the advance in his option money. If a bad fall occurred, he was asked to take Shares at a higher price than that at which he could have bought them in the market, and he stood to lose, unless he had anticipated the set-back and had previously sold the Shares.

What, the student may ask, did the dealer in options do when at any time of the day a Broker may have gone to transact these option bargains? The answer, of course, depended on what the Broker did. If the Broker "gave" him money for the "call" of Shares, the option dealer usually bought half the quantity to store against the risk of the Shares being "called." This was considered a fairly safe margin against such eventuality. Similar methods would be employed for a "put" option, but here, of course, the dealer would have sold half the quantity as protection against the possibility of having to take them. Another course was for the dealer to give a third party somewhat less favourable money for the same option, which is a simple jobbing "turn." A further method was to turn the single option into a double option, the additional cash required being added by the dealer in return for the increased facilities obtained. These various means of obtaining protection from the risks involved depended upon the position of the option dealer's book. Often the risks of one option could be set off against the risks of another. With a "put and call," the efforts of a dealer were directed to unloading his liability by offering slightly less advantageous terms for the same operation to people interested in that particular security. If successful, the

dealer became simply a middleman, and took his jobbing "turn" at the expiration of the option period. If unsuccessful, he ran the risk for which he would be paid. He could, of course, take advantage of market price movements if it was desired to deal against his liability.

The price charged for an option was largely dependent upon the marketability and the nature of the security, and also the current conditions which affected the particular Stock. It is obvious that an option on a Stock which seldom moved would be much cheaper than on one which fluctuated violently. It was difficult to arrange an option in a comparatively unmarketable Stock. Where contango facilities were restricted, abnormal rates were charged. Ordinarily, the "striking price" fixed for a "call" as mentioned in the option glossary was the price at which the security was obtainable at the time plus a charge to embrace the contango. That for the "put" was the selling price plus a similar amount. For a "put and call" option the "striking price" was usually about the middle market price at the time the option was arranged.

Naturally, all dividends, bonuses, rights, and other advantages accruing followed the option. If a bonus or dividend was declared during the life of an option, a "giver" who called his security would call it "cum everything." If he abandoned his "call" he, of course, was not entitled to such bonus or dividend. "Rights,"[1] where they arose during the life of an option, were adjusted by means of an "official valuation," as we show on page 312, where rights are explained.

The maximum life of an option is laid down in Rule 94 which reads—

"A Member shall not do an option for a period beyond the seventh ensuing Account Day."

The Rule which relegated options to an inferior position when the question of failure arose, viz. Rule 183, has been amended as follows—

The following claims will not be allowed to rank against a Defaulter's estate until all other claims have been paid in full, but assets arising from such transactions shall be collected and distributed among the creditors—

(i) Claims arising from Bargains other than Options for a period beyond the Third ensuing Account Day.

[1] See Glossary, page 434.

This means in effect that all options rank with other creditors in the case of failure.

Options were allowed in British Government securities, despite the general opinion that this was unusual. The prohibition attaching to Banking Shares would seem to suggest inability to transact options in British Government Stocks, but this was not the case. Few of the lists which were issued by option dealers quoted the rates for Gilt-edged Stocks, which suggested that the demand was not a large one. No options or contangoes were permitted in Banking Shares, this being forbidden by Act of Parliament.[1]

The method of entering an option in the Jobbing Book was as follows: When a principal "gave" money either for the "put" or "call" or the "double option," this was treated as a purchase or *bought* bargain. When the principal "took" money for "put," "call," or "double option," then the transaction was treated as a *sale*. In the first instance the principal had to pay the option money, and the entry would therefore be to his debit through the Bought Journal, while in the second he received the option money, which was placed to his credit through the medium of the Sold Journal. These entries were, of course, made under a separate date, later to be merged into the ordinary Account. At the time the option was done an ordinary contract note was rendered, setting forth all particulars, and on this contract note commission was charged in accordance with the usual scale laid down, the price of the security determining the amount of commission charged. It is important to note that on this original contract only the consideration for the option was mentioned—not the value of the security. If an operator duly "put" or "called" a security at the expiration of the option period, a further contract note was rendered which showed that the security had in fact been purchased or sold, and here the value of the security appeared. On the second contract note no commission was chargeable. In effect, this was the completion of an arrangement already entered into, a charge for which had already been made, and this principle was recognised by the Inland Revenue, who allowed the charge

[1] LEEMAN'S ACT. This Act, 30 and 31 Victoriæ Reginæ, cap. 29, was passed in 1867, and prohibited all dealings in Bank Shares except by real holders. It may not be generally known that the extent of this Act is limited and that its provisions do not apply to Shares or Stock in the Bank of Ireland.

for contract stamp duty to be spread over the two contracts. No additional expense was incurred if an option was abandoned. It was possible to deal once against an option free of commission, such deal being treated as a "closing"[1] transaction. An operator, therefore, having the "call" of Stock, could sell it free of commission, if for the same Account, or, having the "put," could buy it and no further charge would be incurred. Should he deal more than once, this would be regarded as a fresh transaction. If a registered security was "called" and taken up, the stamp and fee would automatically be charged. All deals against an option were entered in the ordinary way, it being important to note the date for which they were transacted. The date on the option contract was the date for settlement, and no cash consideration was payable, and no difference that might have been due, or Stock that might have had to pass, needed to be settled until the date for which the option had been contracted.

The times for the declaring of options were laid down in Rule 110 as follows—

(1) The time for the declaration of Options done for the Account in all securities is a Quarter before Three o'clock on the last business day (Saturday excepted) preceding the Contango Day, provided that unless otherwise arranged Options in securities referred to in Rule 97 shall be declared at a Quarter before Three o'clock on the last business day preceding the Contango Day (subject to Rule 94), but settlement shall take place on the business day (Saturday excepted) immediately following the day of declaration.

(2) The time for the declaration of all other Options shall be a Quarter before Three o'clock (Half-past Eleven o'clock on Saturdays) on the day for which the Option is done.

(3) In the case of Options done for and declared on the Contango Day, the bargains, for the firm stock, if any, and the Option Stock, shall be for settlement on the Settling-Day of the following Account.

The reference to Rule 97 in Clause 1 of the above Rule indicates that options in British Funds, etc. (to which we drew attention on page 139) had to be settled on the day following the option date, as against the arrangements made for settlement on the Account Day for other securities.

Declaration time on the day before Contango Day was interesting and often exciting. The adjustment of the various

[1] See page 83.

option positions on this day was often reflected in market prices. The people who used options as a medium for their dealing, and the firms who specialised in them, could be considered shrewd and skilful judges of market developments. Often an inquiry as to why prices in a particular market were better was answered by the significant remark "option buying." Market operators only "gave" money when they held decisive views, and, therefore, while it was not an infallible test of which way a particular market was moving, this powerful factor commanded attention, and led one to admit that frequently "Options spoke louder than words."

CHAPTER VIII

FACTORS AFFECTING STOCK EXCHANGE MARKETS

PSYCHOLOGY of Price Movements—Publicity and the Press—Trade—Bank Rate—Dividend and other Announcements—Politics—War—Other Factors —Slumps and Booms—Investment and Speculation

THE winds that play upon Stock Exchange markets are as varying and inconstant as those that blow upon the ocean. They are frequently just as disturbing. By markets we mean the level of prices at any one time in existence. These price levels are extremely sensitive and susceptible to all kinds of influences. For days, barometrically speaking, the needle will point to "Fair," and trading on the floor of the "House" will proceed along quiet and uneventful lines. This it will be easy to see is a desirable state of affairs. Brokers are satisfied, as steady markets lead to confidence and confidence leads to a hopeful outlook. Jobbers are pleased, as the Shares they buy they are able to sell at a reasonable "turn," and the Stock they sell they are able to replace without much difficulty. Clients are able to deal at prices they have seen recorded in previous market reports. Sooner or later, however, the cloud "little larger than a man's hand" appears, to be followed before long by wind and storm. Even before Members are quite aware of it, they are in the midst of a veritable squall. Often news, good or bad, is dramatic, when price movements are violent. In this case the result is of an unsettling character. Repercussions are felt throughout the whole market, and Stocks and Shares far removed from the actual scene of the disturbance are affected.

Psychology of Price Movements

Often the change of sentiment is imperceptible. One of the most puzzling and extraordinary features of market phenomena is the psychology of price movements. For no apparent reason whatever, "things"—meaning prices—will suddenly turn dull. An experienced Stock Exchange Member or clerk will immediately sense it. Things are dull, and the dullness is felt. The

professional term for this indefinable something is "tendency." [1] When this intangible quantity, "tendency," is in evidence it is soon translated into reality, and a skilled dealer, Broker or Jobber, possessed of shrewd "market sense," is quick to act or counsel his principals to act on what practically amounts to intuition. This accentuates the "tendency" which, inoculating all who are interested, soon brings about a quite different level of prices. Buyers, observing the "tendency" or "way" [1] of markets, cancel their orders, and with this support withdrawn, sellers find the market "weak." Anxious inquiry as to why things are "dull" is met with the reply "More sellers than buyers." Pressure to sell quickly finds the market "flat," [1] which doleful condition persists pending a change of sentiment.

The transition stage is when markets hesitate and Stocks that are offered are "absorbed" or taken. Then markets are said to be "on the turn." A "harder" tendency is in evidence, and things begin to "firm up." Often, for no tangible reason—just as in the case of the "dull" tendency—markets will turn suddenly good. Things are better—that is, market prices are better! The improved sentiment will spread like a contagion. A better "tone" [1] will be in evidence. A better feeling will be in the air. Hesitant buyers will be unable to get their Stocks or Shares for the prices at which they have recently refused them, and the answer to an inquiry as to why quotations are higher is, usually, "Things are better all round." What happens, in practice, is that, finding a change for the better in market sentiment, sellers withdraw their "limits," [1] that is, their instructions to sell at a definite price. Stock is unobtainable, pressure to buy continues, and a sustained upward movement commences. The axiom that you can always get the public to buy on a rising market is justified by experience. Anxious not to be forced by a quick rise to pay a higher price for a security which is getting more valuable every hour, the client feels induced to cancel his limit at a lower price, and to buy at "best." [1] A continuance of these conditions will soon see markets "blazing good." [1]

Just how this "tendency" or "tone" comes into existence it is difficult to say. We hinted in our early chapter, when telling how price movements were born, of the effect produced

[1] See Glossary for explanation of these terms.

by ordinary supply and demand. Numerous large factors, however, are at work, and some of these we must mention in due course because of their importance. This imperceptible change of sentiment that steals over markets in an unexpected way is probably explained by the major forces at work which, while not on the surface and apparent at the time, are exerting their undeniable influence. Briefly, we will examine them.

Publicity and the Press

Under this heading comes practically every development that troubles, pleases, or interests the whole human race. The power of the Press is proverbial. What it actually does is just to hold up the mirror to Life, and, as every student knows, there is plenty to be seen by those who gaze into its depths. What we want to convey is that headlines, leading articles, stop-press news, company reports, and general news down to the tiniest and most obscure paragraph, all contribute their quota, and make an impression on the outlook of the great human family. Investors, speculators, market operators, heads of businesses large and small, all survey the world's news, knowing that the recorded developments sooner or later find their expression or reflection in the trend of Stock Exchange market price values.

The needs of investors and others who follow Stock Exchange price movements are well catered for. As we have previously remarked, no profession or phase of the nation's activity is accorded such publicity. Pages are devoted to Stock Exchange matters, and trained writers compete in their lucid presentation of Stock and Share values and market developments. Not infrequently "tips" appear—that is, an indication that such and such a security is overvalued and should be sold, or that such and such a Share is undervalued and should be bought! These recommendations naturally have a following, and, if a writer on financial matters has established himself as a safe and reliable guide, his contributions may easily become market factors. The week-end, during which the public have more time for study and review, usually produces a crop of recommendations, and the opening quotations on Monday morning very soon testify that some Pied Piper has been playing his melodious instrument, in the number of buyers or sellers who

cheerfully dance to his tune. In justice, one must point out that financial guidance is usually given with scrupulous fairness and extreme care. Analytical surveys are undertaken, difficult for the man in the street to make for himself. Statistical charts and comparative tables are prepared, past records are examined and paraded, and prospects diagnosed in a manner so thorough as to be almost embarrassing to directorates themselves. The investor in this department is well served, and, provided that he reads a responsible paper, can rely on being kept well informed.

The foregoing applies to papers of repute. Journals appear from time to time containing information and recommendations not of a disinterested character. Golden promises are held out, and are usually an inducement to transfer money from one pocket to another. A first condition is that it leaves the reader's pocket. Then the Stock Exchange adage is applicable: "Where there's a tip there's a tap."[1] Such papers are unreliable. They bear the hall-mark of undesirable origin, and should be easily recognised as having something to sell. They should be dealt with in a manner indicative of the ingrained common sense of the average investor.

Of recent years a Rule—93 (*a*)—has been passed by the Council of the Stock Exchange designed to give additional protection to the public in this matter. The Rule enjoins that "any Member, Attaché or Member's clerk who wishes to contribute articles on financial matters to any newspaper . . . must apply in writing to the Council for permission." This Rule is designed to ensure that as far as possible information given by Members and others associated with the Stock Exchange should be reliable and disinterested.

Under the heading of Press and publicity there immediately appear definite subdivisions, all having important bearing on Stock Exchange markets, among them being

Trade

Trade returns are of great importance. They affect not only the traffics of our railways and the fortunes of particularised industries, but the general health of the nation. Strangely enough, when trade in the country is brisk, business on the Stock Exchange is quiet. The reason for this is that money

[1] See Glossary, page 437.

required for the financing of trade expansion is diverted from Stock Exchange channels. This, of course, is only a temporary dislocation, as ultimately the profits resulting from improved trading conditions, it is reasonable to assume, will find their way back into investment markets.

Bank Rate

Time was when regularly on Thursday of each week the Bank of England announced the official rate of discount. From this announcement the banking world used to take its cue. If an alteration was made an announcement would be issued by the leading joint-stock banks in the Press the following day. If the rate was increased, then borrowers were asked to pay a proportionately higher rate for their accommodation. If the rate was lowered, then borrowing became, or should have become, proportionately cheaper. Similarly with deposits. The rate announcement of the Bank of England set the standard by which all deposit rates were governed. If the rate was raised, a better return was usually obtainable on money lying on deposit with a bank; if it was lowered, then the return obtainable was so much less. It followed, therefore, that this Bank Rate was an extremely important factor. The actual announcement was usually given out just before twelve o'clock, and any effect of a change, *dependent on the element of surprise*, was immediate, as the whole basis of money-rate arrangements was automatically altered.

Alteration of Bank Rate has, however, ceased to be a factor to security price levels since 26th October, 1939, when a change to 2 per cent was announced. The Directors of the Bank of England still meet on Thursdays, as on this day the indicators continue regularly to announce "No Change." Perhaps one day the Exchange Equalisation Fund, which seems to have stepped into the breach for the purpose of regulating gold and currency movements, will have served its purpose, and Bank Rate will again become the factor it once was in favourably or adversely affecting Stock Exchange prices.

Dividend and Other Announcements

In point of size and importance amongst the indicators in the Stock Exchange must rank "Trans Lux," installed and worked for the first time on 16th January, 1939. This apparatus

conveys dividend and other important announcements by passing the information across a screen illuminated for the purpose. Thus all Members receive information simultaneously. The first announcement to appear was the "Cow and Gate" dividend, and this was at once construed by Members as a "bull" point.

The actual announcements that appear on these screens, three in number, are of great importance to the Stock Exchange and to the public. They confirm calculations made by Brokers and Jobbers or Stock- and Shareholders of the progress or set-back of various undertakings; or prove those deductions to be incorrect. Frequently they mean a reconstruction of yield shown on a Share, based on a distribution which it is deemed by directors unwise to continue, or which it is decided to improve. This alteration of yield frequently leads to realisations or further buying, which quickly brings in its train a price adjustment as a natural consequence. Often a dividend announcement is accompanied by a cash or share bonus, and if this development is of an unexpected nature then price movements are frequently rapid.

We return to the words shown in italics, *dependent on the element of surprise*, on page 146, to explain a phenomenon which some students find rather difficult to understand. Why is it that often prices will fall on good news, and contrariwise go up on bad? The simple explanation is that experts who follow the fortunes of either a Stock or a Share usually deal on the expectation of certain happenings. The moment the information is public property there is "nothing further to go for"; so the man who bought for a rise becomes a seller, and the man who sold for a fall turns a buyer. This tendency is seen also when Bonus issues are announced. Intelligent calculations of appropriations taken by companies to Reserve, of their cash position and progress in busy times, may lead some to the conclusion that a favourable distribution must be forthcoming. The changes that occur *before* the announcement show the bonus to be "discounted" in advance. Similarly with dividend announcements—a particularly gratifying statement may witness a paradoxical set-back in the price quotation of a company's Share, purely because intelligent anticipations have led to previous "bullish" purchases. The buyers,

not being permanent investors, have Shares for sale on the company's announcement, and if the "bullish" position built up is of any size the selling more than outweighs any genuine buying. The covering of "bear" positions operates in an inverse direction. Bad news may serve to put a market rather better, solely because the development has been expected. This is known as discounting information in advance. Price movements in correct relation to development are where the element of surprise is present, and on occasions such as these, when unexpected news is sprung on the market, sharp price fluctuations occur.

Politics

Political developments, both home and foreign, vitally affect the delicate mechanism of the Stock Exchange. Changes of Government are anxiously regarded, as the attitude of political parties towards such questions as nationalisation, taxation or limitation of dividends, does not contribute to investors' peace of mind. Of paramount importance also is the attitude of one country's Government to that of another. The cabinet of a Government may contain the names of statesmen whose presence is an earnest of sober administration and friendliness to other powers. On the other hand a Government may contain elements which are disturbing to peaceful relationships. So sensitive are markets to these influences that a single speech by a politician may result in a set-back so marked that its cost, translated into cash, runs into millions of pounds sterling. At such times the investor can be forgiven if he subscribes to the belief that "Silence is golden—only monkeys chatter." Mercifully the "ill men do by opening wide their mouths" can be, and often is, offset by speakers whose utterances respect the value of words and reflect the wisdom of responsibility.

War

It is hardly necessary to outline the devastating effect upon markets produced by even a suspicion of the possibility of war. The machinery of international finance is built up on the foundation of friendly intercourse and relationship between nations. Destroy this basis and the machinery to all intents and purposes ceases to function. The effect of the two World Wars may be likened to a bludgeon descending on a watch. Not only

was the watch stopped—it was smashed! The piecing together of civilisation's watch is proceeding by painful stages, but the bludgeoning effects are still very much in evidence. Some securities there are that benefit by an outbreak of hostilities, amongst which are, for instance, armament, equipment, and shipping Stocks, but the general effect of news indicating any possibility of peace being disturbed is destructive to confidence, and demoralising to market price levels.

Other Factors

Other factors there are which play their part to a lesser or greater degree. Earthquakes, explosions, assassinations, fraud, failures, death, devastation, and disasters—all contribute to the undoing of man's eternal struggle to improve the scheme of things, and at the same time earn for himself a profit. Truly the dice seems loaded against the poor "bull," while the "bear" would appear to have all the disintegrating forces working on his behalf. Against these forces are pitted by Man ordered government, courage, fortitude, ingenuity, thrift, organisation, inventiveness, patience, genius, hard work, progress, and prosperity. They are all needed, and at times even these appear powerless against the overwhelming odds. It is just the play of these conflicting elements that finds expression in the constantly changing price values seen from day to day on the floor of the Stock Exchange.

The times when the forces of gloom and disappointment so greatly favour "bearish" temperament, and when values persistently shrink and consistently fall, are known as periods of

Slump

At such times intrinsic values seem to count for little. Good securities are sold because poor ones are often unrealisable. Stocks are thrown overboard from sheer economic pressure. Like dislodged stones on the side of a hill, they disturb by their downward progression. One seller makes many others. Professional operators sell in the confident expectation that they will be able to buy back at lower levels, and things go from bad to worse. What is required at times such as these is a liquid position, which means freedom from the need of cash, a sense of proportion, and patience in plenty. With these supporting

him, an investor may smile at the prevailing depression. Water finds its own level, and so does watered Stock. Sound securities will assert their value when, in time, markets resume normality. Periods of financial slump are trying to the nerves, but, while productive of much anxiety, they provide opportunities at other times not always available, for the discreet and remunerative employment of care, courage, and cash.

The disruptive forces which lend such assistance to "bearish" operations are not always triumphant. At times they suffer severe set-back. Hopefulness takes over the helm, and "bullish" sentiment hauls up the mainsail. If winds are favourable, the result is pleasing. Market prices start to rise. A continuance of such conditions is quick to attract attention. Gathering momentum from well-wishers and many friends, there develops what is known as a

Boom

Booms are interesting in that they make periodical appearances, and are profitable for a time, but are extremely dangerous. They break out in unexpected places, progress like a whirlwind, and burn like a forest fire. Among the early specimens was one for the propagation and sale of tulips, but pride of place in the history of booms must be awarded to the South Sea Bubble. This extraordinary outbreak, which is still quoted and discussed although it occurred as long ago as 1717–20, involved the highest names in the State, including those of Royalty and Cabinet Ministers. It required an Act of Parliament to deal with it. Probably the most virulent type of boom surrounds "a hole in the ground." This still holds a spell for speculators because of its rich prizes. Nothing attracts attention so much as a hole in the ground, and, despite the fact that many millions have been won from the bowels of the earth, it is problematical if more has not been deposited there. Men still talk with bated breath of the Kaffir boom of '95, the equal of which has probably not been seen in recent history. During that period fortunes were made, fortunes were spent, and fortunes were lost. Following at intervals have been oil booms, railway booms, rubber booms, tin booms, industrial booms and of latter years even a Gilt-edged boom.

Booms are not always boons—that is, to the investing public.

They are extremely busy and remunerative times for Brokers and Jobbers alike, involving the augmenting of staffs and the working of long hours to settle the enormous number of bargains transacted. Booms have little degree of permanency. At these times the noise is so great that men lose their hearing, also their clear sight and clear-headedness. They even lose their reason, or so it seems when they come to contemplate worthless certificates many days after the excitement of a boom has subsided. They certainly lose their money. The soil of the City at such times is fertile for production purposes, and the tendency has been seen in the past for all kinds of doubtful propositions to be put forward by unscrupulous promoters. The history of the 1928–29 outbreak—known as the "Dirt-track Boom"—is well remembered as it was rich in its record of promotions of a speculative character. So numerous were the rubbishy companies foisted on an avid, gullible public at this time that the Stock Exchange resolved to extend its powers in a protective sense on behalf of the investor, and the rules governing permission to deal were rigorously tightened up. Now every new issue must bear the strictest scrutiny, and it is extremely difficult, owing to the vigilance of the Stock Exchange Council, for any but *bona fide* efforts to secure the coveted permission to place or offer shares with the investing public.

So a much-needed check is administered to an undesirable tendency always present at boom times.

The student may inquire why such times are known as booms? They are probably described as such because they are times of great inflation, and because of the disturbance they cause when they collapse. After the boom comes the crash, and what the investor has to watch is that he is not wounded by the falling splinters or buried under the financial debris. Where one is unwillingly left in possession of undesirable Stock or Shares this is aptly described in the City as being left "holding the baby!"

We have managed so far to avoid any direct comparison between

Investment and Speculation

These are the twin sisters of Stock Exchange activity. By nature closely related, they provide subject-matter for constant

debate by moralists, theorists, and economists. Is speculation desirable? Should it be discouraged? Does it make any contribution to the life of the business community? Consideration of these questions inevitably leads to the inquiry: "Where does investment end and speculation begin?" To lay down a hard and fast rule for this last question we find as difficult as to say just where a fresh-water stream enters the salt sea or when a car leaves the limits of safety and is driven at a dangerous speed. That the two businesses are at times separate and distinct we must agree; just where they part company we prefer not to judge. As illustrating the difficulty of deciding what is investment and what is speculation, we suggest that for a rough, working arrangement our two preceding chapters erect a flimsy partition between the two. Chapter VI refers to securities ordinarily chosen by investors who desire to "sleep" soundly, and who had in mind when they invested their capital only a reasonable return on their money. This chapter could reasonably have borne the title "The Science of Safe Investment." What, however, could be more speculative than the price movements of Foreign Government Stocks which for years had been regarded as strict and sound investment holdings? What more disturbing, or more resembling the fluctuations usually associated with speculative holdings, than the price movements in the Stock recently referred to, 5 per cent War Loan 1929–47? This particular Stock was the first choice of thousands of investors who desired only freedom from such fluctuation. Yet within a few days in September, 1931, holders saw their Stock drop from 104½ to 90½, a depreciation of 14 points, with no guarantee that an even lower level might not be reached! While this disturbing set-back was being experienced by holders of the choicest Trustee Stocks—and at this period Funding 4 per cent Loan fell from 97 to 78, Conversion 3½ from 85 to 67, and Consol 2½ from 60 to 49½—many of the equity Shares indicated in Chapter VII, which ordinarily would be included in the speculative class, not only showed no depreciation, but actually registered advances! This is what makes so difficult an approach to the subject. Chapter VII in relation to Chapter VI could bear the title "The Science of Speculative Investment," but included in this category are Shares such as those of insurance, banking, utility, power, and

industrial enterprises, many of which by reason of their stability can lay claim to inclusion in other than the speculative class.

Speculation and speculative effort can be helpful to a country and beneficial to a market. Their existence is certainly not limited to Stock Exchange transactions. All pioneer effort is by its very nature speculative, and efforts to deprecate this natural urge and impulse must, to be consistent, frown on the noblest achievements of man. Columbus, Cook, Livingstone, Pasteur, Alcock, Brown, Marconi, to add to legions of other names famous in history, surely were all speculators. The greatness of England was built up by the flagrantly speculative work of our early forefathers, who, not content with tilling the soil, dug pits in the ground to find the coal which made us as a country rich. Many investors who would shudder at a hint of speculation often enjoy a staid return of 4 per cent or 5 per cent from an undertaking only through the most blatantly speculative efforts having been put into the undertaking in its initial stages. Strange, too, that most of the epoch-making scientific discoveries, which have blessed the lives of man, have experienced stormy passages when endeavouring to obtain financial recognition. Aviation issues are now regarded as sound investments, but we can remember such issues in the speculative group. We also remember the contribution these companies made to our salvation in the War, when their output was manned by the few whose courage, skill and unselfishness marked them out for immortality.

It is not our purpose to discover the proportion of investment bargains to speculative bargains carried out on the Stock Exchange. Post-war business we feel falls largely into the investment class. Here again, what is so attractive to an ordinary investor is the possibility that his purchase will do well and later sell well. Is this wrong? On examination an industrial purchase may be no more speculative than the action of a haberdasher in stocking what he considers will be "this season's goods," or of a tailor laying in this year's suitings. All business is a very definite speculative risk, but many can be found to condemn in Stock Exchange dealings what they condone in ordinary commercial risks. Why? Is it more moral to buy goods than to buy Stocks, and is not the legitimate underlying reason

the hope of a profit? As far as we can see, no form of healthy business enterprise can be quite divorced from speculative risk, although we should be quick to discriminate between reasonable and unreasonable risk. Unbridled and misguided speculation is at once dangerous and destructive, and it is the practice of the Stock Exchange to discourage such development. In this it has a difficult task, as the "quality" of speculation is subtle and hard to define: the desire for gain is inherent in human nature, and the psychology of the public with its mind made up in a free country is difficult to restrain and control.

We hold no brief for gambling, being of the opinion that this is a vicious propensity quite apart from speculation, with which by some it is always associated. We also find ourselves in sympathy with those who contend that safety first in matters individual and national is a cowardly flag to fly.

An interesting point regarding Stock Exchange operations is the odium attaching to "bears." As a class, they are unpopular and misunderstood. Why this should be is difficult to understand, unless it be that most men and women by nature are optimists. "Bears," on the other hand, are pessimists, and thrive on unfavourable developments. They are regarded as the Ghouls of Gloom, a predatory type of pessimist. Actually "bears" are useful in a market, as often they are the only ones to unload upon when none else will buy. Their activities also will often administer a sober check to too-rapidly advancing prices, and as their transactions are indistinguishable from genuine sales a free market results. We have also seen in the preceding chapter that the "bear's" presence in the market used to give the "bull" the facilities he required to contango his Stock requirements. So, malevolent, unnatural fellow that he be, the "bear" still has his uses. "Bulls," on the other hand, are popular, as buyers are always welcome. The Stock Exchange is never happier or busier than on a rising market, and the "bull" is usually the medium who assists to bring about this pleasant state of affairs. In lending our approval to the activities of the "bull" let us remember a case can be made out for the "bear." Surely it is as moral to sell something you do not possess, as it is to buy something you cannot pay for, or is it only pardonable to be confident in a venture, and not pardonable to have confidence in a view?

With these observations on the activities of investors, "bulls" and "bears" individually, and the strange results they bring about collectively, we will leave them, quite sure that discussion will long continue as to where investment ends and speculation begins, that "bulls" will always believe the "sky to be the limit" to which prices may rise, and that the lugubrious "bear" will continue to hug closely to himself the creed by which he lives, namely, "What goes up must also come down."

CHAPTER IX

THE ARTERIES OF THE BUSINESS

PROVINCIAL Exchanges—The Council of Associated Stock Exchanges—Glasgow—Liverpool—Manchester—Birmingham—Dublin—Edinburgh—Belfast—Sheffield—Bristol—Leeds—Cardiff—Provincial Brokers Stock Exchange—Oldham—Mincing Lane—Prevention of Fraud (Investments) Act, 1939.

THE Stock Exchange, London, is not the only institution of its kind in this country. It is by far the largest of the Stock Exchanges, and the volume of each day's trading stamps it at once as quite the most important. London's age and membership give it the premier position, and its unique system of Jobbers, whereby a more free market exists than in other Exchanges, makes it the centre to which the bulk of investment and speculative business naturally flows. It follows that it is often more convenient for a client who lives, say, in Liverpool to call and consult his Broker there, when discussion on financial matters can freely take place, than to be compelled to enter into voluminous correspondence with a Broker whom he does not know. It is far more satisfactory for the London Broker also, as that personal knowledge and touch so necessary in business must of necessity be lacking under such circumstances. These conditions have resulted in the opening up from time to time of Stock Exchanges in many of the large cities; several towns of importance also have their own representative institutions. Smaller localities, as we shall show soon, can also be recognised as properly constituted for officially conducting Stock Exchange business. The large institutions, situated as near as Birmingham and as remote as Belfast, are known as the

Provincial Exchanges

These Provincial Exchanges, many of them in the heart of the large industrial areas, transact among their own Members an important business, and contribute to London a steady stream of orders. These orders represent business that it is found impossible to execute in the Provincial Exchanges. As

far as is practicable, clients' orders are carried out in the local Exchange to which a Stockbroker belongs, the Member there dealing with a fellow-Member. When he is unable so to deal the order is passed through to London, or to another Stock Exchange in the Provinces. If the order is in a security in which there is a strong local interest, it is reasonable to expect that he can find someone near at hand with whom to deal. In the absence of Jobbers the method usually employed is what is termed the "Call Over." This means that at given times the Chairman or the officials of the Exchange pass all quoted securities under review, giving the quotation at the time being. Any Broker having business in these securities then has the opportunity either to offer or to bid at, above, or below the prices ruling, when he is expected to deal, providing it suits another Member to enter into an engagement with him. A contract is then rendered to the client in precisely the same way as is done in London, the securities being bought or sold subject to the Rules and Regulations of the particular Exchange in question. The scale of commission used by the Provinces follows very closely the scale used in London, and the dates of Settlements are also brought into harmony with those of London.

It follows that securities having a local interest enjoy a local market. There is a fairly free market, for instance, in Motor Shares on the Birmingham Exchange, and Textile Shares on the Manchester Exchange, while Liverpool deals extensively in Insurance Shares. At times London finds it necessary and advantageous to go to the Provincial Exchanges, but, in general terms, the majority of the business collected by the Provinces flows eventually through to London. Many of the influential firms are connected by private telephones directly with London, while those who do not enjoy this privilege can immediately get into touch with London through firms who engage private wires for that purpose. These firms are known in the respective Exchanges, London included, as "shunters," [1] and any change in price in either the London or a Provincial Exchange is to them immediately of vital import. If a Share can be purchased in London and sold in a Provincial Exchange at a profit, or sold in London and purchased in the country at a profit, there is no need to have clients. Neither does it matter

[1] See Glossary, page 435.

what the security happens to be. "Shunting" is a form of arbitrage. What the "shunters" do is to adjust the difference between the price levels of various Exchanges. Keen competition exists, and the stampede of "shunters" and their clerks to be first out of the Stock Exchange with news of a change of price, places the physical well-being of slower-moving Members in jeopardy. The original form of "shunting" allowed firms to transact business from one Exchange to another on joint account, the profits being divided at given periods. This arrangement is now forbidden, and all transactions must be treated as bargains and bear the usual commission charges. Firms not using the telephone send their orders by letter or telegram, and countless wires cross and recross from the telegraph office in Threadneedle Street, which is one of the busiest in the country.

Far-reaching changes designed to remove discord and to co-ordinate the work of London and the Provincial Exchanges resulted from a conference held in June, 1939. This conference led to the establishment of a permanent Joint Advisory Committee of Stock Exchanges, representation on which is open to London, the Associated Stock Exchanges and the Provincial Brokers Stock Exchange. Foremost amongst decisions agreed upon was the Registration of, and reduction in the rates of rebate granted to, Agents. These matters are dealt with under Chapter V. Other matters regularised were that country firms can now be given the benefit of the £2500 Rule (197), which commission rule hitherto worked harshly, and similarly in connection with Rule 197 (B) dealing with transactions in certain stocks where the amount is over £50,000 and the currency not longer than ten years, country firms are now allowed to benefit. Greater freedom is also allowed to London to deal with Provincial Exchanges, as while hitherto it was necessary to be able to deal to greater advantage in the country before this right was conceded, it is now permissible if London can deal in the country at the same price. This is justified as preliminary inquiries and quotations in the country often merit an order which London is pleased to send away to the country. The concern of London about the growth of Jobbing in the country was also tackled, and it was decided to forbid transactions where it was considered such

Jobbing was in competition with London and not in co-operation. Rule 92 (A) which gives the Council powers of prohibition in this matter contains also in Clause (2) restrictive provisions regarding the use of private telephone lines or teleprinters with Non-Members resident outside the London postal area without the Council's authorisation. All bargains with the country, that is orders sent from London, must be marked; but the marking of bargains transacted for the country in the London Exchange is not compulsory.

As a result of the setting-up of the Joint Advisory Committee much closer co-operation exists between London and the recognised Provincial Exchanges and Associations. Each Exchange, however, still retains its own Rules and Regulations and brief reference is made to them in the pages that follow.

The Council of Associated Stock Exchanges

All of the large Provincial Exchanges belong to this body. The Council was founded in May, 1890. Its objects, laid down in its Articles of Constitution, as amended in 1947, are "to discuss and consider all questions of general business interest, to interchange views upon, and devise methods for the convenient execution and settlement of business: to assimilate the practice of the several Exchanges, and generally to promote the interests of the Exchanges and their Members." Representation on the Council consists of one Member from each associated and properly constituted Stock Exchange whose membership does not exceed 25, two representatives from each Exchange whose membership exceeds 25, with an additional representative for every fifty Members in excess of the first fifty on its roll. A President and four Vice-Presidents are elected annually, and they, together with 5 other Members of the Council selected from the Exchanges who have no representative serving as President or Vice-President, constitute a Committee as the Adminstration for the purpose of carrying out the details of the work of the Association, securing alliances, obtaining legal advice when necessary, collecting information and recommending questions of general policy for consideration by the Council. A Secretary whose remuneration may be fixed by the Council is also elected annually. The general expenses of the Council are borne by the respective Stock

Exchanges in proportion to the number of Members on the Roll of each Exchange.

The Council of Associated Stock Exchanges at present embraces the following twenty-two Stock Exchanges, with power to add to their number—

Aberdeen	Cork	Greenock	Manchester
Belfast	Dublin	Halifax	Newcastle-upon-Tyne
Birmingham	Dundee	Huddersfield	Newport (Mon.)
Bradford	Edinburgh	Leeds	Nottingham
Bristol	Glasgow	Liverpool	Sheffield
Cardiff			Swansea

All of these Exchanges publish their own *Official Lists*, and have their own Rules and Regulations. These rules in general conform to those in use in London, but interesting differences exist to which we shall refer later.

Important as are the various Exchanges which comprise the Council of Associated Stock Exchanges, it is surprising to find the number of Members of all the twenty-two Institutions totalling just over one thousand. The membership, therefore, of the whole of the Provincial Exchanges together represents approximately one-fourth the total membership of London.

None of the Provincial Exchanges can be said to have exactly similar rules, yet many of them are alike. Advertising, for instance, is forbidden by all. Strict rules also govern the conduct of all Members, and one Exchange has a Schedule of Fines for any and every shortcoming, commencing with 2s. 6d. for tiny technical offences, and ranging from not exceeding £5 for frivolous or vexatious disputes to not exceeding £100 for wilful evasion of rules. Each Exchange has its own Constitution, and, as the means of entry together with the conditions imposed upon entrance are so diverse, each must be treated separately. We propose to give a few particulars of the most important Exchanges, as it is possible that students may desire information on the subject. We will deal with them as far as possible in order of the size of the Exchange, judged by the number of its Members.

Glasgow

The Glasgow Stock Exchange is the largest in the British Isles with the exception of London. It was founded in 1844, the earliest meeting place being at 3 North Court, Royal

Exchange. Three years later the Association moved to National Bank Buildings, Queen Street, which premises were occupied for thirty years. The original portion of the present Exchange was taken in 1877 at the corner of Buchanan Street and St. George's Place. The steady growth of its influence made extensions necessary from time to time, and the present commodious Stock Exchange Building is now occupied by 200 Members. The Glasgow Exchange is unusual in that with several other Exchanges its Members may engage in business as insurance agents and, on certain conditions, accountants. An important feature also of this Exchange is that dealers who must not deal for principals are provided for by rule, but advantage has not been taken of this provision. As is the case in all the Provincial Exchanges, applicants for membership must be eligible in respect of means, position, business knowledge, and experience. They must be at least 24 years of age, except when entering into partnership with a Member or firm. Applicants over 30 years of age are not eligible for admission unless they are sons of Members at application, sons of deceased Members, or clerks who have served not less than five years with Members of that or any other duly constituted Stock Exchange. All applicants must be proposed and recommended by two or more Members. The entrance fees payable and the security required are as follows—

Sons of Members. A sum equal to one Share of the Free Funds of the Association (at present £573 5s. 9d.), and find security of £2,500.

Clerks. A sum equal to one Share of the Free Funds of the Association as above, and find security of £2,500.

Also an additional £500 if they have served 5 years and less than 10 years.
,, ,, £350 ,, ,, 10 years and less than 15 years.
,, ,, £250 ,, ,, 15 years or over.

Service with Members of other Exchanges counts at the discretion of the Committee as service with Members of the Glasgow Association. Applicants who do not fall under the foregoing descriptions must as a condition of membership pay a sum equal to one Share as before mentioned, and, in addition, the sum of £1,000, providing, as well, security of the value of £3,000. The Committee have power in certain circumstances to modify the entrance fees, and, following five years of membership, a Member's security (or the balance not appropriated to meet his liabilities) is returned to him unless objection is lodged. The annual subscription is £10 or such other amount

as may be decided at the annual meeting of the Association. (At present it is £50.)

The representatives of deceased Members and, in the discretion of the Committee, Members who resign after attaining the age of 55 and completing twenty consecutive years' membership, are entitled to be paid three-fourths of a Share of the Free Fund as ascertained at the 30th June immediately preceding the date of death or resignation. (At present three-fourths of a Share of the Free Fund amounts to £429 19s. 3d.)

Rules governing conduct are strict, and Members contravening the rules or guilty of improper conduct in connection with the Stock Exchange or otherwise are liable to a vote of censure, graduated fines to any amount, suspension, or expulsion.

The management of the Exchange is vested in a Committee of 12 Members, four of whom retire annually by rotation, when four others are elected. Retiring Members of the Committee are ineligible for re-election until one year has elapsed. The system of having authorised clerks, who may, as in London, attend regularly for the transaction of business, is observed, but in Glasgow they are designated "accredited clerks." For these "accredited clerks" Members pay an annual subscription of such amount as is decided at the Annual General Meeting. (At present it is £12 per annum.) The clerks are not eligible until 18 years of age, and with at least one year's training in the office of a Member or five years with a Member of any other Stock Exchange. They must also wear a badge in the lapel of the coat.

The Constitution and Rules of Glasgow are probably the most distinctive of all those which govern the Provincial Exchanges, and several of their regulations are worthy of attention. For instance, insurance is provided for the Exchange as a body against the risk of forged transfers. A resolution was passed at a special meeting of the Association on 20th July 1927—

That the Association being of opinion that it is desirable to protect its Members against claims which may be made against them in respect of loss or damage arising out of or from any forgery, etc., the Committee is instructed and authorised to arrange and conclude with such Insurance Company, etc., a general indemnity Policy for the sum of £50,000—that the Premium payable from time

to time on such Policy (estimated at present at £4 15s. per annum in respect of each insured Member) be provided by an addition of the amount of such premium to the annual subscription payable by each active Member of the Association, etc.

Another Rule lays down that—

Members shall exchange with each other written memoranda setting forth the terms of their transactions in their respective transaction books—the form of which shall be prescribed by the Committee, etc.

Members must also lodge with the Secretary of the Exchange on the afternoon of the 2nd Intermediate Day a Balance Sheet or Statement of Differences, if any, owing by and to them respectively. These balances between Members are settled through the Secretary on the Settling Day. Members owing balances have to pay these to the Secretary by bank draft not later than 12.30 p.m., and Members with credit balances receive bank drafts for these from the Secretary between 1.30 and 3 o'clock.

COMMISSION. Ths Scale of Commission in force follows closely that of London, and under an agreement made between the London Stock Exchange and the Council of Associated Stock Exchanges in 1941 the Associated Exchanges agreed not to charge Commission at a lower rate than the London Minimum Commission Scale. Under this agreement it was also decided that Commission could be shared with banks, and persons or firms whose name appears in the General Register of Agents.

The General Register of Agents is a National one, and once a person or firm has been admitted to the Register he may be allowed a share of Commission by Members of either the London or Associated Stock Exchanges.

The Register is subject to review each December.

Liverpool

The Liverpool Stock Exchange, next in seniority, celebrated its centenary in April, 1936, when an attractive Centenary Book was issued to Members containing a short history of the 100 years, together with a number of illustrations. The membership, which reached a high level of 187 in 1847, is at present 132.

The Liverpool Exchange, as in the case of London, was formed in a coffee-house—The Merchant's Coffee House, Old Church Yard.

After a number of moves the building on the present site was purchased in 1879 on the corner of Dale Street and Exchange Street East. Besides the Market the present block comprises the Secretarial Department, the Clearing House and a number of shops and offices.

In 1882 the Liverpool Stock Exchange Buildings Co., Ltd. was formed with a capital of £100,000 divided into shares of £100 each, £60 paid. Six shares were allotted to each of the 157 Members of the Exchange representing the interest of each Member in the accumulated assets to that date. Every Member was required by the rules to hold at least one share as part of the qualification for membership. Members are now required to hold 100 Ordinary Shares of £1 each, fully paid, and the present capital of the Company is £60,000 divided into 30,000 Ordinary Shares and 30,000 Preference Shares of £1 each, fully paid. There is also a Mortgage Debenture £110,000.

In the year 1890 the Liverpool Exchange initiated consultations which resulted in the founding of the Council of Associated Stock Exchanges, an Association which comprises all the Exchanges outside London and watches over the general interests of the Provincial Exchanges.

In 1910 a General Fund was created by resolution of the Members which considerably strengthened the finances of the Exchange and gave each Member a personal share payable on retirement or death. The Exchange and individual Members have the first claim on the amount payable. This Fund has enabled the Committee to avoid recommending an increase in the Members' Subscription of £30 per annum, at which figure it has remained since 1920.

The Fund is valued annually, and increased from £39 per Member in 1911 to a high level of £365 in 1934. A number of special repayments have been made to Members during the past 14 years.

The Clearing House is widely used for the passing of Tickets and Names and the settlement of bargains and differences under the supervision of the Secretary, acting as Inspector of Clearing.

The management of the Exchange is vested in a Committee of fifteen Members elected annually. The Committee recommend the Members, and fix the Room Clerks' subscriptions.

The calling over of the Price Boards, a feature of the system of transacting bargains, is presided over by the Chairman, Vice-Chairman, or any Member of the Committee.

Here, as in other Exchanges, rules governing admission are strict. Every applicant must be not less than 21 years of age and recommended by two Members. He must be a British subject, or naturalised for five years and resident for ten years. He must not engage in any other business, but may be an agent for an Insurance Company.

A Member must pay an Entrance Fee of £700 and provide security for the sum of £2,500, to be maintained for four years from the date of admission, either in cash or in the form of security to be approved. If the person admitted shall be the son of a Member or of a retired or deceased Member of not less than seven years' standing, or shall have served as a clerk to a Member or as a Registered Attaché for not less than five consecutive years prior to his application for admission, then the Committee shall have power to accept security from him in the sum of £1,500 and reduce the Entrance Fee to £350.

The Liverpool Stock Exchange Benevolent Fund was founded in 1887 and the Liverpool Stock Exchange Clerks' Provident Association in 1891.

There are a number of Domestic Rules, but the General Rules on Bargains, Commissions, Permission to Deal and Official Quotation are similar to the London Rules.

No stranger can be admitted to the Room except by permission of the Chairman, Vice-Chairman or Member of the Committee, but we may mention from experience that this latter courtesy is usually extended with cordiality, as was found to be the case with Glasgow, Edinburgh, Manchester, and other of the Provincial Exchanges.

Manchester

The Manchester Stock Exchange has been established more than one hundred and twelve years, having been founded in 1836. The Exchange which in addition to the "House" consists of Settlement Room, Committee Room, Secretarial Offices etc. is situated in a building owned by the Manchester Stock Exchange Buildings, Ltd., and membership of this Company is confined exclusively to Members or Ex-Members of the

Exchange. The rules governing the title and constitution lay down that the Association shall be called the Manchester Stock Exchange. Its Members at present number 120 which places it numerically third in order of importance. Its rules and by-laws open with an exhortation to "Interpret the parts by the spirit and purpose of the whole," and its regulations make frequent reference to the Code Laws which they appear to embody from time to time. The management consists of a Chairman, Deputy-Chairman, and nine others, all of whom retire annually, and are eligible for re-election. This Committee have power to fix the amount of subscription payable for Members and accredited clerks. They have also power in cases of dishonourable conduct to fine up to £100 or suspend for one month. Expulsion requires a General Meeting of Members. No resolution reflecting on the character of a Member must be passed without summoning such Member, who will have opportunity of speaking in mitigation of sentence. Rules governing membership again are stringent. Every applicant for admission shall be recommended by two or more Members, who have been Members for two years. Recommenders shall severally enter into agreement to pay each such equal sums as shall in the aggregate amount to £1,000. Entrance fees and subscriptions are as follows—

(*a*) Every Member shall pay an Entrance Fee of £800—except as follows—

(1) In the case of a Member whose father shall have been a Member for not less than 10 years, a reduced Entrance Fee of £300.

(2) In the case of a Member who has previously served as a Clerk with a Member of this Exchange for a period of

5 years and less than 10 years .	£500
10 years and less than 15 years .	£400
15 years or more . . .	£300

(*b*) The Annual Subscription is such an amount as shall have been fixed by the Committee.

(*c*) Every Member elected after 19th June, 1907, shall acquire within one month after his Election and thereafter hold at least Shares of the nominal value of £200 in the Manchester Stock Exchange Buildings, Limited, to be termed his qualification Shares. No Member shall hold more than £2,000 of the above Share Capital.

Any Member may introduce one or more accredited clerks, called in the Code of Laws "authorised clerks." These clerks must be 20 years of age, with 12 months' experience in a

Sharebroker's office. No Member shall approach any member of the Stock Exchange staff over 18 years of age with a view to offering him a situation, nor shall any Member engage any such member of the staff without the consent of the Committee.

The rules of the Exchange provide that it shall be compulsory to make a charge for valuations, and the following Scale is authorised and recommended—

Estates not over £1,000 in value .	10s. or at discretion, a minimum of 5s.
Estates over £1,000 and upwards	10s. per £1,000 or part of £1,000.
Larger estates than £20,000 .	At discretion, with a minimum of £10.

The penalty for any wilful infringement or evasion of the rules relating to commissions shall be, for the first offence, a fine of £100 and suspension for a period; for the second offence expulsion subject to confirmation by a special general meeting of the Members.

The rules also provide—

With a view to preventing mistakes Members shall be required to check off all Bargains as soon as practicable, and to exchange written contract notes before 10 a.m. on the following business day—

and, as with Glasgow who settle all differences through the medium of their Secretary, Manchester similarly bring them to account through an Inspector. By-laws provide that—

On the day after Ticket Day, any Member who has to pay or receive Cheques on the Inspector for the settlement of the Balance of Differences on Bargains made by him, shall be in attendance in the Clearing Room, either personally or by representative at 9.30 a.m., and on any Settling Day fixed for a day, other than an Account Day, at 10 a.m. Failing such attendance a fine shall be imposed.

Birmingham

This Stock Exchange, the nearest to London of the large Provincial Exchanges, is at present composed of 105 Members. The Birmingham Stock Exchange Association was formed in 1845 by some of the members of a previous body known as the Birmingham Share Brokers' Association. The Debentures of the Birmingham Stock Exchange Buildings Company—the company who own the present Exchange building—are held by the public, but the Shares belong to the Birmingham S.E. Trust, Ltd., the Shares of which Trust are held by Trustees on behalf of the Stock Exchange Members. The Buildings

Company is therefore under the control of the Birmingham Stock Exchange Committee, and a new Member of the Exchange must acquire a share in the Birmingham S.E. Trust as a condition of membership. New members paying full entrance fee must hold two shares and other new members one share. The Rules and Regulations of the Birmingham Exchange are known as Laws and By-Laws. An annual general meeting is held on the fourth Wednesday in October for the purpose of—

(*a*) The re-election of Members, all of whom shall retire, but be eligible for re-election.

(*b*) Consideration of the Committee's Report and Accounts for the past year.

(*c*) The election of the following Officers, viz. a Chairman, a Deputy-Chairman, and eight other Members, who together shall form the Committee of Management. Any vacancies during the year may be filled by the Committee.

This Committee have power to fix the amount of subscriptions, which can be paid by two instalments. To be eligible for membership the Laws require that a candidate must fulfil one of the following conditions—

(*a*) He must have been, for three years at least, clerk to some Member.

(*b*) He must have agreed to enter into partnership with a Member, if and when elected.

(*c*) He must have purchased or succeeded to the business of a deceased or retiring Member.

(*d*) He must be a person who in respect of means, position, and business knowledge and experience, as well as in all other respects, shall be considered by the Committee to be qualified for election.

Except in special circumstances, candidates must regularly attend the Stock Exchange as clerks for at least one year before becoming eligible. Together with the application there shall be delivered recommendations signed by two Members of the Exchange. Admission of a new Member is conditional on his—

(1) Subscribing to the Laws and By-laws.
(2) Paying the entrance fee and subscription.
(3) Providing the security which may be required by the Laws.
(4) Acquiring one or two "A" Shares in the Birmingham Stock Exchange Trust, value per share about £223.

Entrance fees shall be payable and securities provided according to the following scale, viz.—

	Entrance Fee	Security
(*a*) Except as hereunder provided . . .	£500	£1,000
(*b*) Clerks with 10 years' service on this or other Exchanges or Articled Clerks to Members of this Exchange of not less than three years' service and who have paid a premium of not less than £250	£250	£1,000
(*c*) Sons of Members or deceased Members . .	£250	£1,000

The above security shall be deposited by new Members, and be maintained for a period of five years. Members shall not engage in any other business without the sanction of the Committee. All the Members are Brokers but they are permitted —subject to the consent of the Committee—to act as Dealers in certain specified stocks. These are usually stocks of companies for which the member concerned has acted as Broker on their introduction to the market. The By-laws provide that—

No clerk shall be admitted to the Stock Exchange except with the consent of the Committee, and upon payment of a subscription of £3 per annum, payable half-yearly.

These clerks are the equivalent of London's unauthorised clerks. Authorised clerks are also permitted, a Member or firm being allowed not more than five. Subscriptions for these authorised clerks are fixed annually (now £12), and are also payable half-yearly.

The Member's subscription is at present £50.

Among the Laws which call for special mention is one that provides that—

Members are responsible for all their bargains being marked without undue delay. A Member or his authorised clerk selling any security shall hand to the Stock Exchange Officials and to the buying Member a slip signed by himself or his authorised clerk, containing the necessary particulars of the transaction, and the name of the buying Member. A copy of the slip shall be initialled by the buying Member or his authorised clerk and returned to the seller.

Members are prohibited from communicating to the Press for publication information as to current prices. Each Member is also required to furnish the Secretary on each Account Day with a Balance Sheet showing his differences

with every other Member, together with a cheque in favour of the Birmingham Stock Exchange for the balance of such differences where the balance is against him. Where the balance is in favour of a Member he shall be entitled to receive the amount from the Secretary. Fines can be imposed for incorrect Balance Sheets.

"Name" Tickets are endorsed and circulated by means of Ticket Boxes in the Clearing Room. Stock is delivered twice daily in the Clearing Room.

Birmingham's Laws regarding commission are identical with those of London. A Law which, however, is dissimilar to London's practice, reads—

A Member "putting together" may charge a Commission to both buyer and seller. Members are advised specially to endorse Contracts issued in "put together" transactions.

Dublin

The Dublin Stock Exchange in point of membership ranks next to Birmingham, the number at present being 75. Its Rules and Regulations are approved by the Minister for Finance, and Members are entitled to style themselves "Government Stock Brokers."

The Dublin Stock Exchange Association was originally formed in the year 1793, when a number of persons formed a "Voluntary Association." In 1799 an Act of Parliament was passed "For the better regulation of Stock Brokers" (39 Geo. III, cap. 60), which Act established regulations providing that proper and approved persons only would be permitted to act as Brokers for the buying and selling of Government Stocks. The Act also established a Stock Exchange and enacted that the Rules and Regulations be approved by the Lords of H.M. Treasury (this power is now vested in the Minister for Finance of Eire). After that year it would appear that several sets of rules relating to the admission of Members were framed, but in the year 1850 a Commission was appointed, and its recommendations were framed in the rules published by the Lord Lieutenant in that year. These rules provided that every applicant for a licence should produce a Certificate signed by the Lord Mayor, the Governor of the Bank of Ireland, the President of the Chamber of Commerce, and the

President of the Stock Exchange, or any three of them, and applicants to-day are required to produce a Certificate so signed.

The present management of the Exchange is entrusted to a Committee of nine Members, including the President and Vice-President, all of whom are elected annually. The two Members longest on the Committee retire each year, and are not eligible for re-election until the following year. A review of the qualifications required in a candidate for membership will show that the Dublin Exchange is probably the most difficult of all to enter. Here are the conditions—

(1) Every applicant for admission shall be recommended by two Members of the Stock Exchange.

(2) Every applicant must satisfy the Committee that he is the *bona fide* owner of a sum of not less than £2,000—immediately available for the conduct of his business. [This sum is a qualification, and must be available over and above the amount deposited under another Rule.]

(3) Every applicant for admission shall furnish the names of two solvent and respectable persons prepared to give security for him in the sum of £1,000—each for the space of three years from the date of admission. This security must be maintained under penalty of £25 per month, and suspension if not completed within three months.

(4) Every applicant for admission shall in addition to the security mentioned provide security for the sum of £2,000—to be maintained for five years from the date of admission, either by cash, stock, shares, or other security.

(5) Admission fees for applicants shall be—

(*a*) For apprentices who have served a duly indentured apprenticeship of at least three years with a Member of the Stock Exchange	£250
(*b*) For clerks who have been in the continuous employment of a Member for a period of five years	£250
(*c*) Other applicants may be admitted to membership if considered suitable by the Committee. In such cases the admission fee shall be	£1,000

(6) The amount of the annual subscription shall be forty guineas per annum, in addition to which Members admitted subsequent to 1st May, 1913, shall be the holders of 150 Shares of £1 each fully paid of the Dublin Stock Exchange, Ltd.

Every applicant [goes on the Rule], having been approved of by the Stock Exchange, and who has obtained from the Minister of Finance a licence to act as a Government Stockbroker, pursuant to Act 39 Geo. III, c. 60, and Act 56 Geo. III, c. 98, Sect. 15, and is not disqualified by the foregoing Rules, shall, upon payment of the admission Fee and of the Annual Subscription, be admitted a Member of the Stock Exchange.

The Rules also make provision for authorised clerks who may attend regularly, after payment of a subscription of £21

per annum. Each firm shall have the privilege of the attendance of one clerk or apprentice during business hours. Firms wishing to have a second attendant shall pay an annual fee of £2 2s.

Among the Rules of the Dublin Exchange, which generally conform to those of other centres, the following are worthy of note—

Members shall not print, stamp or write their name or the names of their firm upon any Transfer, Certificate, Bond, or Allotment Letter, unless as parties or witnesses.

The fine for any infringement of this Rule is £1.

No Member shall hand over to, or divide with, any other person Commission received on Application for new issues.

The Authorised Fee to accompany an application (for quotation in the Official List) shall be £10 10s.

All of the above Rules and Regulations, and many more, are at present followed by the words—

I, Sean T. O'Ceallaigh, Minister for Finance of Eire, do hereby approve of the foregoing Rules and Regulations.

Signed—(Then follows the Minister's signature in Irish.)

Edinburgh

The Edinburgh Stock Exchange, like Glasgow, was founded in 1844. Its early meetings were held in a small room in Princes Street, but the expansion of its business led to the acquisition of larger premises. In 1890 the Exchange built a permanent home of its own which now stands in North Saint David Street at the corner of St. Andrew Square. Commencing in 1844 with a membership of seven, the number grew until it reached the record total of seventy-six in 1929. At present the number is fifty-nine. The Exchange is governed by a Committee consisting of a Chairman and nine Members of the Association, three of whom retire each year, and who are not eligible for re-election until one year thereafter. Members may carry on the business of Stock and Share Brokers in conjunction with insurance agency. Like Members of the Dublin Exchange, they may not print, stamp, or write their name or that of their firm on any transfer, scrip, or such document unless as parties, etc. A candidate for admission as a Member must be not less than twenty-one years of age, and be recommended by two Members of not less than five years' standing. He shall pay

the annual subscription fixed for the year, and an entrance fee as follows—

(1) If he is the son of a Member or son of a deceased Member and has served one year as a clerk with a Member of the Stock Exchange or as a clerk with a Member of any other recognised Stock Exchange	£210
(2) If he has served as a clerk three years with a Member of the Exchange or four years as a Member or a clerk in any other recognised Stock Exchange	£210
(3) If he has served as a clerk two years with a Member of the Exchange or three years as a Member or as a clerk in any other recognised Stock Exchange	£315
(4) If he has served one year with a Member of the Exchange or two years as a Member or as a clerk in any other recognised Stock Exchange	£525
(5) If he is without the qualifications under sub-sections (1), (2), (3) or (4)	£1,050

Applicants for admission must also—

Deposit for a period of five years from date of admission security to the value of £2,500.

Incoming Members shall also contribute a sum of £50 to the Property Depreciation Account, and shall in addition contribute a sum, for credit to the Capital Funds, to be fixed by the Committee.

This share of the Funds of the Association is non-interest bearing and costs approximately £650.

The Rules provide for accredited clerks who may attend at the Stock Exchange to act on Members' behalf. Subscription rates, as with Members, are fixed at the Annual Meeting. Noticeable among rules which generally conform to those laid down for the settlement of transactions are those requiring that—

Members shall pay in Cash to the Bankers of the Association the balance of Differences owing by them as shown in their statement, etc.

In the case of differences owing to Members, these are, of course, paid by the Secretary.

Members shall have the privilege of selecting those in the Exchange with whom they are to deal.

Commission rates are virtually the same as those charged by London but Members are allowed no discretionary power, the fixed minimum scale including every class of security.

Belfast

The Belfast Stock Exchange was founded in July, 1895. Prior to this date, Stock and Share dealers had been carrying

on their business for some years at a disadvantage. They had been accustomed to meet at infrequent times and in odd rooms or "over coffee." Members of this Exchange, numbering at present thirty-seven, may also be insurance agents. The management is in the hands of a Committee of nine, including a President and Vice-President, elected annually. The Committee fix each year the amount of Members' subscription, also that for authorised clerks, who are permitted by the Rules. Every applicant on admission shall be recommended by two Members, and a condition of membership is that the applicant must be a British subject. The Committee must be satisfied that the applicant can pass the means, position, business knowledge, and experience tests, and the applicant must comply with the following requirements.

Within fourteen days after his election, and before exercising his rights of membership, each incoming Member shall pay the annual subscription fixed for the year current and entrance fees as follows:

(1) If he is the son of a duly qualified Member of the Exchange at the time of application or the son of a deceased Member who was a duly qualified Member at the time of his death, and going into partnership with his father's firm, the sum of . . £150

(2) If he is the son of a duly qualified Member of the Exchange at the time of application or the son of a deceased Member who was a duly qualified Member at the time of his death, and going into partnership with another firm, the sum of . . £250

(3) If he has served as a clerk with a Member or Members of this or any other recognised Stock Exchange for a period of not less than five consecutive years, ending not later than twelve months before the date of his application, and joining an existing firm in partnership, the sum of £300

(4) (i) If he is the son of a duly qualified Member of the Exchange, at the time of application or the son of a deceased Member who was a duly qualified Member at the time of his death and commencing business on his own account the sum of . . £500

(ii) If he has served as a clerk with a Member or Members of this or any other recognised Stock Exchange for a period of not less than five consecutive years, ending not later than twelve months before the date of this application, and commencing business on his own account, the sum of £500

(5) If he is without the qualifications under either (1) or (2) or (3) or (4), the sum of £1,000

Within fourteen days of his election, a new Member having the qualifications under Clause (3), above, shall provide security for the sum of £1,000. If under Clause (4) (i, ii) he shall provide security for the sum of £2,000, and a new Member without any of these qualifications shall provide security for the sum of £3,000, to subsist and be maintained in each case at the

discretion of the Committee for a minimum period of five years from the date of his admission, and that either by deposit of cash or by assignment of Stock, Shares, or other securities or property, such security to be provided to the satisfaction of the Committee, and shall sign and deliver to the Committee a letter of declaration in the terms specified in the Appendix (VII) of the Rules.

The Code Laws are referred to in the Rules and Regulations, which call for little comment. The Belfast Stock Exchange provides for the sharing of commission with banks and solicitors and trustee departments of banks only. Requirements for permission to deal and Official Quotation are similar to those of the London Stock Exchange. The scale of Commission is the same as for other Exchanges.

Sheffield

The Sheffield Stock Exchange was founded in 1844, at which date an older body was reconstituted. The Committee who manage this Exchange consist of five out of the present roll of 11 Firms. Any applicant, on election to membership, shall give as security £1,000 to remain in force for five years. New Members pay an entrance fee of £250, but Members elected before 1st January, 1911, may introduce one partner on payment of £100. It should be mentioned that this privilege only applies to one or two old Members. A qualification holding of ten fully-paid Shares in the Sheffield Stock Exchange Buildings Company must also be acquired. The annual subscription is fixed by its Committee.

The Code Laws are recognised.

Bristol

For many years before the Bristol Stock Exchange was founded, a number of the city's Stockbrokers had been transacting a large amount of business in connection with English Railway Stock and commercial investments. Finally, in 1845, the Stockbrokers concerned, together with several Bristol merchants, decided to form a local Stock Exchange. Originally it was intended that the Exchange should be composed not only of Brokers, but also of members of the general public. As time progressed, it was found that non-professional Members were

not as interested in work done on 'Change as were their colleagues, and eventually they withdrew, leaving matters in the hands of the Stockbrokers.

The present Stock Exchange with a membership of 40 is governed by a Committee of Management, six in number, who determine the amount of Members' subscriptions each year. Its Regulations are called Laws. Conditions of membership, laid down by its Laws, are that an applicant must—

(*a*) Have been a clerk to a Member, or
(*b*) Agreed to enter partnership with a Member; or
(*c*) Purchased or succeeded to a business of a deceased or retiring Member; or
(*d*) Be a person of such means, position, experience, etc., as the Committee may approve.

Two recommenders are required and also security for five years. The entrance fees shall be payable and security provided as follows—

	Entrance Fee.	Security
	£	£
(*a*) Except as under, every person elected . .	525	2,000
(*b*) Sons of Members	105	1,000
(*c*) Served three years with a Member . . .	315	2,000
(*d*) Served five years with a Member . . .	210	2,000
(*e*) Entering partnership or acquiring deceased Member's business	210	2,000

In addition to these entrance fees and securities a new Member is required to pay a sum equal to the value of one Share in the Capital Fund, this being approximately £500. Four-fifths of this amount is repayable on the termination of Membership.

Authorised clerks are permitted to Members on payment of the subscription fixed by the Committee.

Bristol, like other Provincial Exchanges, has adopted the London Rules on the matter of Agency and the various Registers for Agents.

Leeds

This Stock Exchange was founded 5th December, 1844, and has at present a membership of 30. Its Constitution lays down that it shall consist of Stock and Share Brokers resident in

Yorkshire. In former days the Exchange was a busy centre for dealings in Railway Securities. The Committee consist of five Members, including a Chairman and Vice-Chairman, and this Committee fix the amount of the subscription. Applicants for admission must be recommended by two Members, and a deposit, either in cash or securities, for £1,000 must be made, to be held for three years. A Member must sign the Rules and pay the entrance fee of £100. This entrance fee is reduced in certain cases. Authorised clerks are permitted. The Rules provide among others that—

A Member elected to the Committee declining to serve shall pay a fine of £30 unless he shall have served during the two years immediately preceding such election.

And also that—

A member of the Committee not being present at any Committee meeting five minutes after the specified time shall forfeit 2s. 6d., and if not present during the meeting 5s.—illness or absence from home an excuse.

Members, apart from the Committee, are reminded of their duties by the Rule which reads—

A Member absent from the Annual Meeting when the Roll is called or leaving before closing of the business shall be fined 10s.

A point of historical interest was a by-law dated 1845 which prohibited the sale of the Official List of the Exchange to any person not a Member. Copies of this List (published monthly) can now be purchased by any member of the public.

Cardiff

This is the largest of the Welsh Stock Exchanges, and has a present membership of 32. The Committee consist of five Members, one or more of whom retire annually by rotation. Candidates for admission must not be engaged in any other business, which prohibition applies also to an applicant's wife. To be eligible for membership one of the following conditions must be fulfilled—

(*a*) The candidate must have been a clerk for three years at least to a Member of the Association; or

(*b*) He must have agreed to enter into partnership with a Member; or

(*c*) He must have purchased or succeeded to the business of a deceased or retiring Member; or

(*d*) He must be a person who in respect of means, position, business knowledge, and experience as well as in other respects shall be considered by the Committee qualified, etc.

An applicant must be 24 years of age, unless the son of a Member or deceased Member, when he may be admitted at the age of 21 after having served two consecutive years in the office of a Member of any Stock Exchange.

Together with the application there must be delivered to the Secretary a form of Recommendation and Guarantee for three years of £1,000. Where candidates prefer to deposit securities instead of providing guarantors, this may be done, but such securities must be approved by the Committee.

Entrance fees and securities are as follows—

	Entrance Fee	Security
	£	£
(*a*) Except as under, every person upon election as Member	300	1,000
(*b*) By any clerk having served three years with a Member upon being taken into partnership with said Member	200	1,000
(*c*) By every person who is the son of a Member or deceased Member	100	1,000

The amount of the subscription is fixed by the Committee. Securities deposited are returnable after three years. The Committee is empowered each year to place a value upon the securities and other substantial assets of the Exchange, and to declare at the Annual General Meeting the value of the share of each qualified Member of one year's standing. This is payable to a Member on voluntary retirement or to the representatives of a deceased Member. Authorised clerks are allowed, for which firms have to pay an annual subscription.

The Laws adopted by this Exchange conform to those in general use. Included in the scale of commissions is a suggested list for use in cases of valuation, graduated from 10s. 6d., in the case of estates up to £500, to discretion, subject to a minimum of £10 10s., in that of estates of over £10,000.

As the remaining Exchanges average a small membership roll, we will not refer to them in detail. The membership of

the following Exchanges at present is as follows: Cork 10, Huddersfield 17, Nottingham 16, Bradford 12, Greenock 21, Swansea 8, Dundee 12, Aberdeen 9, Halifax 7, and Newport 6. Particulars, if required, can be obtained from the various Secretaries or on application to the Council of Associated Stock Exchanges.

In addition to the Provincial Stock Exchanges who are affiliated to the Council of Associated Stock Exchanges, are to be found firms and individuals in business as Stockbrokers, and who belong to the

Provincial Brokers Stock Exchange

In order of numerical importance this Exchange should rank in front of Glasgow, its present membership being 352. It is an unusual organisation in that it has no Exchange in which its Members can meet, although there are Members in 140 towns. Actually what brought the Exchange into existence was a desire to co-ordinate the business of stockbroking which is carried on in remote towns where there is no established Exchange. Its Members practise their calling in all corners of the British Isles. Two members have offices in the Isle of Man, while eight others are resident in Jersey. Its first meeting was held at Carlisle in 1912, and it was first recognised by the Inland Revenue as a properly constituted Stock Exchange on 15th May, 1925. The organisation is efficient; it has its own Benevolent Fund and also a Reserve Fund, and the standard required by its Members is in harmony with the best traditions of London and of the Associated Exchanges. No person is eligible for membership unless he carries on business outside the Postal Area of any City or Town where a recognised Stock Exchange is established, and an applicant must possess at least one of the following qualifications—

(*a*) He must have been in practice as a Stockbroker for at least three consecutive years immediately preceding his application for membership; or

(*b*) Acted as manager or clerk to a stockbroking firm for at least five consecutive years prior to application; or

(*c*) Passed such examination (if any) as the Committee may from time to time prescribe.

The Committee consist of not more than eight Members, including a Chairman and Deputy-Chairman. This Committee

have complete jurisdiction over all Members of the Exchange, and if any Member shall be accused of dishonourable conduct in his professional capacity, or otherwise, he is liable, after investigation, to expulsion. Entrance fees and subscriptions are fixed by the Committee. The entrance fee is at present 100 guineas, and annual subscription 10 guineas. As with all properly constituted Exchanges in this country Members are not allowed to advertise. Commission charges are based on those of London and other centres, and bargains are settled as is customary with other Exchanges. It follows that, with Members so far removed as England, Scotland, Wales, Ireland, and the Channel Isles, Committee meetings can be held only with difficulty, but goodwill and hearty co-operation among its Members make for loyal and efficient working of its constitution. A feature during recent years has been the Annual Dinner held in London. At this gathering the Chairman of the Stock Exchange, London, is usually the guest of honour; and in addition to providing an opportunity for the exchange of views, the occasion has been marked by pronouncements of importance regarding Stock Exchange problems and procedure. The Exchange issues a Year Book to its Members, and this annual is packed with interesting matter relating to Stock Exchange business and procedure.

Oldham Stock Exchange

This Exchange was established in 1875 as the Lancashire Sharebrokers' Association and the title was changed in 1928 to the Oldham Stock Exchange. It has a membership of 40 and business conducted embraces all classes of securities which are associated with the Stock Exchange.

The Market is also the principal centre for dealings in Cotton Spinning Mill Shares. An *Official List* is published weekly.

The Exchange is controlled by a Committee which is elected annually and is comprised of a Chairman, Vice-Chairman and five Members. Applicants for admission must be proposed and seconded by two Members and assented to by at least three Members. Proposers, Seconders, and assentors shall jointly and severally enter into an arrangement to pay an aggregate of £500 as surety for one year following election. The entrance

fee is 100 guineas or such other sum as the Committee shall fix and the annual subscription is determined at each annual meeting.

Any Member becoming a Member of any other Stock Exchange, or Sharebrokers' Association, ceases to be a Member of the Oldham Stock Exchange.

Settlements and scales of Commission are the same as those in London, and advertising is prohibited.

Mincing Lane Stock Exchange

This Exchange was founded in 1909 as the Mincing Lane Tea & Rubber Share Brokers' Association by a number of firms connected with those produce markets, to provide facilities for dealing in Tea, Rubber and Allied Companies' Shares. It was incorporated as a limited company under same name in 1912.

Later it became known as Mincing Lane Stock Exchange and as such is now a recognised Stock Exchange under the Prevention of Fraud (Investments) Act, 1939.

There are at present 8 member firms governed by a Committee of 5 who fix the Annual Subscription (now 30 guineas) and Entrance Fee (now 100 guineas) and make and alter the Rules. Members may carry on other business, but may not advertise as Stockbrokers.

This is the only Stock Exchange allied to certain industries instead of associated with a certain geographical area, and while members are not restricted in their dealings, their main interests are in Tea and Rubber Shares.

The Rules require applicants for membership to satisfy the Committee as to—

(i) Knowledge of and interest in Tea and Rubber Shares.
(ii) Experience and financial status

and be supported by two members. General Stock Exchange procedure is followed.

The Association publishes an *Official List of Tea and Rubber Share Quotations* (now weekly) and compiles a handbook of all such companies, the *Mincing Lane Year Book*, incorporating two former handbooks, *Rubber Producing Companies* and *Tea Producing Companies*.

Prevention of Fraud (Investments) Act, 1939

The passing of this Act provided for the country a much-needed reform. Its provisions included the compulsory licensing—with important exemptions—of all dealers in Stocks and Shares, the prohibition of circularisation—again with exceptions—the definition of accredited Fixed Trusts, and the registration of property societies. Under the Act, as will be seen below, all recognised Stock Exchanges, being institutions which have strict codes of conduct enforced by disciplinary committees, or who are under adequate authority such as to preclude the possibility of fraud, are exempt from the Act's licensing requirements.

Under the heading "Provisions for regulating the business of dealing in Securities" the opening section of the Act provides as follows—

1. (1) Subject to the provisions of the next following section, no person shall, on or after the appointed day—

(*a*) carry on or purport to carry on the business of dealing in securities except under the authority of a principal's licence, that is to say, a licence under this Act authorising him to carry on the business of dealing in securities . . .

Sub-sections of Section 1 lay down the penalties for contravening the Act, showing liability on conviction to imprisonment for a term not exceeding two years or to a fine not exceeding five hundred pounds or to both . . .

Section 2 of the Act provides the exemption of recognised Stock Exchanges referred to above in the following words—

2. (1) The restrictions imposed by section one of this Act in relation to dealing in securities shall not apply to the doing of anything by or on behalf of—

(*a*) A member of any recognised Stock Exchange or recognised association of dealers in securities, or

(*b*) the Bank of England, any statutory corporation or municipal corporation, any exempted dealer or any industrial and provident society or building society, or

(*c*) any person acting in the capacity of manager or trustee under an authorised unit trust scheme.

PRINCIPALS' LICENCES. Section 3 of the Act under the heading "Applications for, and grant and extent of, licences" gives authority for a principal's licence called for in Clause (*a*) of Section 1 above. Holders of such licences number approximately 28 firms and individuals, and they are situated in

different parts of England and Scotland. To obtain a principal's licence the prescribed fee must be paid and a sum of £500 deposited with the Accountant General of the Supreme Court of Judicature. The Board of Trade may also make rules for regulating the conduct of business by holders of licences.

Section 14 (1) of the Act gives recognition to the Provincial Brokers Stock Exchange whose activities we have dealt with. Under this Section the Board of Trade also give as a recognised association of dealers the body called

The Association of Stock and Share Dealers (Subsect. 2)

This Association includes in its members about 74 firms. A number belonging to the Association are Limited Companies, and as each often have more than one Director the total membership is approximately 146. A noticeable feature of both the Provincial Brokers Stock Exchange and this Association is that a number of women's names appear in their published list of members.

Recognition by the Board of Trade under this Section of the Act is also accorded to the

London Discount Market Association (Subsect. 3)

This comprises 12 firms eminent in the Discount market, with a Partnership or Directorate numbering approximately 70, and having offices situated in or near to Lombard Street or Cornhill, the banking circle of London.

The Association of Canadian Investment Dealers and Members of the Toronto and Montreal Stock Exchanges in Great Britain (Subsect. 4)

This comprises 6 firms with approximately 48 Directors.

The Association of New York Stock Exchange Member Firms having Representation in the United Kingdom (Subsect. 5)

This takes in 10 members.

The Societies named in the Second Schedule to the Solicitors (Scotland) Act, 1933 (Subsect. 6)

This comprises 33 Societies or Faculties bearing names which indicate their locality.

EXEMPTED DEALERS IN SECURITIES. Section 15 of the Act provides the exemption of certain dealers referred to earlier in Clause (*b*) of Section 2. An examination of the list published

by the Board of Trade will disclose the names of practically all the well-known Banking Institutions, Insurance Companies, Financial and Issuing Houses, Trust and Mining Companies, and Trustees Savings Banks, which together number nearly 300 names. The business of these institutions, particularly in the matter of prospectuses, allies them to Stock Exchange matters and brings them closely in touch with security dealing.

AUTHORISED UNIT TRUST SCHEMES. Section 16 of the Act gives power to the Board of Trade to authorise unit trust schemes where they are satisfied certain conditions are fulfilled. Groups numbering approximately 22, controlling about 85 different schemes which have proved popular with subscribers, are recognised. All have complied with the strict requirements of the Act and the Trustees appointed are usually seen to be banks or well-known Assurance Companies. A reference is made to Fixed or Unit Trusts on page 199.

These, then, are the authorised channels in this country through which Stock Exchange business flows to London. Many transactions are completed without recourse to London. In this chapter we have endeavoured to show the various institutions which have grown up in this country for the practice of stockbroking. We will now turn to other organisations, outside this country, and find out the contribution they make to the business about which we are inquiring.

CHAPTER X

THE ARTERIES OF THE BUSINESS (*continued*)

FOREIGN Bourses—New York—Switching—Arbitrage and Arbitrageurs—Parity Prices and how to calculate them—Banks and Discount Houses—Insurance Companies—Investment Trust Companies—Fixed Trusts—Issuing Houses—Underwriting—Public Issues—The Company Prospectus—Tenders—Other Sources.

THE Stock Exchanges of London and the Provinces which we have been examining are not alone among institutions of their kind. Situated as near as Paris and as remote as Buenos Aires, similar institutions exist. The influences they exert are of varying degree, but, in normal times, next in order of importance to the Provincial Exchanges as a contributory channel of business to London come the

Foreign Bourses

The transactions from these sources are often a more potent influence in their effect on our prices than any other. When buying emanates from abroad it is usually of a substantial character; when selling is in progress it is usually of a persistent and severe kind. The principal Exchanges outside this country with whose orders London was once familiar are—

New York	Amsterdam	Montreal
Paris	Brussels	Johannesburg

The last is better known as the "Cape." The contributions of Berlin, Vienna, and other Central European Bourses since the War have ceased. The Australian States also have their Exchanges, but the business transacted between London and these centres is not of great volume. The largest Stock Exchange in the great continent of America is

New York

It is not our purpose to make more than passing reference to this great financial centre, as considerably greater space—in fact, a complete volume in itself—would be required to treat it adequately. Between London and New York there has always been an active exchange of business. Before the Second World War in 1939 the turnover was of vast proportions, but prior to 1914 in no other market could such vociferous bidding

and offering be heard. "Lines"[1] of Stock and thousands of Shares changed hands hourly between London and New York, but trading conditions are now very different from what they used to be. The restrictions imposed by war, and the conditions exacted by peace, have successfully interfered with the once free market between the two centres, until now the volume transacted is but a skeleton of what it once was. When New York, however, decides to buy or, to use Stock Exchange parlance, when the Americans "have their buying boots on," their buying is of no uncertain quality.

Just as America can buy so can she sell, and although conditions have now much changed, scenes were witnessed between the two great wars when prices in the American market were of little importance and falls reached avalanche-like proportions. In present days "switch-over" arrangements are the best the market can offer, but maybe when exchanges are stabilised, economic crises are past and restrictions removed, the departed glory of the old active American market may once again return.

Switching

During the war years of 1939–45 London dealings in American Shares were limited, as the greater proportion of American securities owned by British residents was requisitioned by the Government under various Vesting Orders.

Any American securities not requisitioned, could, at the option of the holder, be sold under Bank of England licence, but the resultant dollar proceeds had to be handed to the British Treasury in return for sterling at the pegged rate of $\$4{\cdot}03\frac{1}{2}$ to the £1.

Dealings were, however, allowed between British residents in certain specified securities, such as International Nickel, Brazil Tractions, Canadian Pacific Railway, etc., and similar Stocks where the principal market has always been London.

After 1st October, 1947, with the passing of the Exchange Control Act, 1947, dealings in American securities were on a different basis. "Switch" licences were granted by the Bank of England to British residents to allow sales in America of any American security and the reinvestment in America of the

[1] See Glossary, page 428.

dollar proceeds into any other American security. For the most part, the remaining American securities owned by British residents were unmarketable securities, such as out-of-the-way Preference Shares and British Colonial bonds.

The introduction of this "switching" business produced a new technique in American dealings in London. Once a British resident was allowed, for the first time for many years, to *buy* an American security, the demand was far greater than the supply of dollars made available by the sellers of unrequisitioned securities, with the result that a premium was bid for any American security on offer. A London Jobber could bid a premium of, say, 5 per cent above the London parity of the American price, simply because he could then sell that American security in New York (at a loss of 5 per cent) and reinvest the resultant dollar proceeds in, say, U.S. Steel, Chrysler, General Motors or similar market leader which would be readily saleable in London at, say, 6 per cent premium.

Apart from the attraction of American securities as a "hedge" against possible devaluation of sterling, the yields afforded by comparative sterling Shares in England were very much lower than the yields obtainable on American common Shares.

Thus the demand for good American securities forced up the premium, because the supply of dollars available to fulfil that demand was limited. The premium has been as high as 35 per cent.

As an example, let us take Union Pacific Railroad Common Shares, standing at say $80\frac{5}{8}$ New York. The London parity of these Shares at the pegged rate of $\$4{\cdot}03\frac{1}{2}$ would be 100 London (London dealings being at the rate of $5 to £1 basis). Then the demand in London of 35 per cent premium would make the London price $135.

$$\frac{80\frac{5}{8} \times 5{\cdot}00}{4{\cdot}03\frac{1}{2}} = 100 \text{ (approx.)}$$

$$35\% \text{ premium} = \frac{135}{100} \times \frac{100}{1} = 135$$

In other words, the London demand for American Shares represents an approximate dollar rate of $2·99 to £1, as can be seen by substituting this rate in the first equation given above.

Dealings in Canadian dollar securities are again different.

While transactions may take place between British residents, no switching operations are at present allowed with Canada,[1] and London cannot buy Canadian securities in Canada, even though Canadian securities are sold to Canada. In such latter cases, the resultant dollar proceeds have necessarily to be handed over to the Bank of England in exchange for sterling at the official rate of the day.

Demand in London for certain Canadian dollar securities will force up the price in London, but any premium thus attained is peculiar to that particular Stock. For example, a premium of 20 per cent has been obtained by a London seller of, say, a Canadian paper industries security, whereas a seller of another security might not be able to obtain a premium of even 3 per cent because there is no local demand in London for that Stock, and the seller can only sell to Canada and accept sterling at the present official rate of $4·03\frac{1}{2}$ allowed by the Bank of England licence.

New York time is nominally five hours later than London. That is to say, we in London are closing our Stock Exchange doors about the time that New York opens hers. This meant that, when times were normal, an extremely active time for dealers in International securities in which both centres were interested commenced after the day's official trading in London was finished. In other days an enormous turnover took place in Shorters Court, a little square hard by the Stock Exchange and adjoining the cable companies from and to whose offices passed the telegraphic messages containing orders or advice regarding price movements. To Shorters Court repaired those engaged in this trading after the close of the London market, and in view of the importance this business assumed, and the possibility it may once more return, we will refer to the firms who were principally engaged in carrying out these transactions. The firms were known as

Arbitrageurs.

Arbitrageurs abroad could be described as foreign Country Brokers. Stock Exchange firms which transacted business with these foreign Brokers were also known as arbitrageurs.

For many years before the War a large arbitrage business was

[1] There has been one exception in the case of International Petroleum Co. Common.

done between London and firms outside the British Isles. This business consisted of purchases or sales to take advantage of any difference that might exist in price levels between one market and another. For instance, if United States Steel Corporation Shares or Canadian Pacific Common Shares were obtainable in London at a price which showed a profit when they were sold in New York, business would be negotiated to bring about this result. If Shares could be purchased in New York, and sold to advantage in London, business again would be negotiated to bring about a similar result. This adjustment of price levels between continental and transatlantic centres was continually in progress. The chaotic state of the exchanges made arbitrage business extremely difficult to transact of recent years, but several firms retained the privilege they had enjoyed for years of special permission to engage in this form of trading.

The business of arbitrageurs resembled very closely the business of "shunters" referred to in Chapter IX. Arbitrageurs' operations, however, were conducted between two countries instead of two towns. The transactions of the arbitrageur were not so straightforward as are those of his country counterpart. In order to take advantage of the difference between two foreign centres in the price of any one security, several factors had to be allowed for. The first factor was the rate of exchange. Since this fluctuated, any alterations had to be taken into consideration. Another factor was the cost of insurance and shiping, an item by no means negligible when it is remembered that practically all securities dealt in between New York and London were bonds to bearer or certificates, and that they had actually to be shipped across the ocean and provided with protection against loss in transit.

Another matter to be remembered is that all transactions in New York were for cash, while those on this side of the Atlantic were mostly for the Account. It is easy to see that some form of protection was required by an arbitrageur buying securities in London possibly at the beginning of a long Account, which securities were sold by his agent in New York where the transaction was for cash. Obviously it would be nearly a month before London could deliver. In a reverse case, where securities were purchased for cash in New York for delivery in London, these had to be paid for and "nursed" pending delivery. Thus

interest charges constituted another factor. Commissions were chargeable to arbitrageurs at half the minimum scale laid down in Appendix 39 to the Rules.

In addition there were cable tolls, which, in the case of an active arbitrageur, were an indispensable and expensive necessity. It was no unusual experience for arbitrageurs to receive cables by the score during an hour of trading, and frequently this expense, owing to market conditions, was quite unproductive of profit or result. The rapidity with which cable advices are flashed from London to New York and back can only be regarded with amazement. It used to be a proud boast when the "organ pipes" protruded into the London Stock Exchange —the organ pipes were the pneumatic tubes from the terminals of the cable companies' direct lines with America—that a message could be flung from one floor to another, London to New York, and an answer received in a space of three minutes! High standards of efficiency are still maintained by the cable companies, and to-day, with their offices outside the Stock Exchange, messages are sent and replies received from the other side of the world in less than a minute! Speed it will be seen was a vital necessity for arbitrageurs both in the dispatch and receipt of advices and in the accurate calculation of the margins that existed for profit. To assist in speeding up, and also for economy, messages were sent in code. Various systems were in use according to those found most suitable for trading requirements. Many firms evolved codes of their own. When it is remembered that there must be taken into account exchange rates, commission charges, interest, cables, insurance, settlement days, and the possibility that a commitment entered into in one centre may not be successfully undone or closed in another, it will be seen that arbitrage was a highly skilled and technical business. Firms that engaged in it had no desire to regularise the price differences existent in different financial centres—their aim was profit—but in plying their trade they required knowledge of a special kind, and considerable cash resources, as the risks they ran were unavoidable.

Regarding the facilities provided for payment to arbitrageurs, it should be mentioned that sellers of securities both here and abroad were able to obtain immediate payment through the medium of banks and discount houses. This was effected by

means of a draft, drawn upon their buyer, for value, with the Stock attached. The rate of exchange was mutually agreed upon, due regard being allowed for interest, insurance, shipping expenses, etc., during transit.

Special permission has to be sought from the Stock Exchange Council by firms carrying on this form of business, Rule 92 (1) which gives them authority reading thus—

> Subject to annual authorisation by the Council a Member, whether Broker or Jobber, may carry on Arbitrage business outside the United Kingdom and Eire with a Non-Member, but a Broker so authorised shall not make prices or otherwise carry on the business of a Jobber, and a Jobber so authorised shall not act as a Broker or Agent by executing orders for such Non-Member, nor shall he apply to such business the provisions of Sect. 42 of the Finance Act, 1920. (Appendix Form No. 32.)

The Section of the Finance Act refers to the privilege allowed to Jobbers of taking up securities which they are compelled to pay for in their ordinary trading business on a nominal 10s. stamp. The other restrictions in the Rule simply mean that a Broker must not attempt to usurp the function of a Jobber by making prices, nor must the Jobber, if acting as an arbitrageur, trespass upon the business of the Broker by dealing, say, in another market for the Jobber's agent overseas.

New York, as we have stated, is by far the most important and busiest Stock Exchange outside of London. The number of American securities listed in London's *Official List* is now much smaller than before the War but America is still keenly interested in our securities, despite the dislocation caused by the disparity of the exchange between the two countries.

The process of fixing relative prices as between different centres, according to the existing rates of exchange, is known as determining the

Parity Price

Parity, in short, is the equivalent price of a given security in a different currency. If the current quotations of the same security in, say, London and New York are taken as an example, it will be found that they stand at completely different prices. This difference is accounted for by the rate of exchange between the two countries. Some newspapers calculate and print

the English equivalent of the New York security prices, and these equivalent prices are known as the London parity prices.

For the purpose of the ordinary calculation in London of American securities, the simple rule has always been adopted of reckoning the dollar as valued at 4s. Securities, therefore, are worked out thus—

$500 = £100 Sterling.
$5,000 = £1,000 Sterling.

The sterling equivalent of 100 Shares at, say, $50 would thus read: 100 divided by 5 = 20; multiplied by the price, 50, = £1,000. This is quicker than dividing the price by 5, as it is unusual to deal in anything but multiples of 5 in American Shares, and price fractions might be difficult to calculate. There was always a slight margin of difference between New York and London prices because par of exchange was $4·86 to the £. Now the method employed in order to ascertain what a dollar-priced Stock or Share in New York represents in London is to multiply the price by 5 (which is nearly par of exchange, namely 4·86), and divide the result by the existing rate of exchange. For example, a Share standing in New York at $100 with the rate of exchange standing at 4·03½ would mean that its equivalent in London was as near 124 as could be calculated.

$$\frac{100 \times 5{\cdot}00}{4{\cdot}03\frac{1}{2}} = 124 \text{ (approx.)}$$

To ascertain what a Stock standing in London at 100 means in terms of dollars in New York the process is simply reversed, namely, multiply the sterling price by the existing rate, say 4·03½, and divide by 5, the nominal par of exchange, thus—

$$\frac{100 \times 4{\cdot}03\frac{1}{2}}{5{\cdot}00} = \$80\tfrac{7}{8} \text{ (approx.)}$$

A point of interest to be noted while on the subject of the disparity between the London and New York exchanges is that investors who hold securities, the interest on which is payable in either sterling or dollar currency, are able to encash such interest in whichever centre is most advantageous. If the dollar stood in the neighbourhood of 3·50, it would obviously buy more pounds sterling and for that reason encashment would automatically be sought in New York. Were the dollar at, say, 5·20 the position would be reversed, and an investor

holding such securities would naturally benefit by collecting his or her interest in London. This simple law explains why such securities enjoy a greater demand while the rate of exchange stands in favour of New York.

Obtaining membership of the New York Stock Exchange, known as purchasing a "seat," is ordinarily much more costly than membership in this country. It is, however, a tribute to the size and importance of London to recall that the membership of New York numbers about 1,300, while London numbers approximately three times as many.

Foreign bourses before the War all made their contribution to this business which London regulated. Trunk telephones kept them in constant touch with London markets, and if securities in which foreign bourses specialised fluctuated, or they had business to do which could with advantage be carried out in London, then speedy transactions took place. Paris specialised in Gold Mining Shares, Oil Stocks, and in the Loans of her own country. A British Share quoted in Paris would often command a considerable premium in London by virtue of the fact that it was transferable on the Paris Bourse. Keen eyes watched for "Paris Numbers"[1] in offices that knew of the premium on such numbers. Amsterdam was largely interested in Margarine Shares, and also International Utility Companies. The securities of the latter companies were also popular in Brussels and Montreal. Johannesburg is a factor where South African Gold Mining Shares are considered, and Cape buying or selling is sufficient to put the market better or to depress it according to the orders sent to London for execution.

Banks and Discount Houses

The business introduced to the Stock Exchange by the banks has already been referred to as extremely important. In addition to the vast number of customers whose funds the banks control and whose investment business is entrusted to them, there exist the very large sums belonging to the banks themselves. In view of the fact that it is of paramount importance for a bank's cash position to be liquid, these sums are invested only in securities of the highest order. Whether the investment takes the form of Treasury Bonds or British Government

[1] See Glossary under *Paris*, page 432.

Stocks, a constant turnover for the big banking interests proceeds. In the distribution of clients' orders, varying systems are in operation, all designed to work equitably towards Stockbroking firms who have accounts with the banks. With some banks a system of apportioning branches to various firms is adopted. With others several firms will act on separate days for the orders which are collected at Head Office and distributed. Banks will rarely vouchsafe an opinion regarding the merits or demerits of securities, preferring to pass along to a firm of Stockbrokers an inquiry on which they themselves may hold very decided views. So consistent are banks on this point that questions such as "Are Such and Such Bank Shares a desirable purchase?"—questions which banks themselves are as well, if not better, qualified than anyone else to answer—are often forwarded by them to Brokers to be dealt with. In comparison with the banks the business contributed by the discount houses is small, and is almost exclusively confined to the best class of Government security or short-termed Treasury Bonds. This takes them into the Gilt-edged market, where yields and returns are worked out so meticulously as to be expressed in terms of pence per cent. Foreign banks or institutions representing foreign Governments, in addition to their own or their customers' requirements, are often purchasers on behalf of various Sinking Funds. The knowledge that funds are accumulating for this purpose or are on their way will encourage Jobbers who deal in the Stocks to lay in supplies which they hope will be taken from them when Sinking Fund purchases are in operation.

Insurance Companies

The business contributed to the Stock Exchange by insurance companies is in connection with the vast sums which have been accumulated over many years through prudent methods and wise administration. Insurance companies have no customers or clients in the sense that banks have. It is, furthermore, not so vital for their invested funds to be so liquid as is the case with a bank. What insurance authorities have constantly before them is the question of maturing policies, and this allows more latitude in the matter of long-term investments. Speaking generally, insurance companies are

only concerned with securities of a high order. Examination of the investments of any well-established insurance office would show that the bulk of its funds were safely employed in Stocks of an unimpeachable class. It is the care which has been bestowed on the investment of the immense sums under their control that has ensured the foundation of the companies' strength. Realisations, investments of fresh surpluses, and changes from one Stock to another all, however, bring valuable business to the Stock Exchange, and this source probably ranks next in order of importance to that represented by the banking institutions.

Investment Trust Companies

Investment trust companies and the methods they pursue are a study in themselves. They have a direct bearing on the subject we are examining, and their operations are bound up with Stock Exchange markets. Some idea of the importance of this branch of investment activity can be seen when it is mentioned that over £300,000,000 capital has been subscribed in respect of just over 200 trust companies. This sum has been invested in trust companies in order that by them it may again be invested. In other words, the public, realising the advantages of expert administration and knowledge of financial values not in their own possession, have handed over their money to trust company directors with a request that the latter use it to the best advantage in their unfettered discretion. These investors are prepared to be guided by the directors, and literally "trust" to their judgment. In the past trust company directors have given a good account of their stewardship, and the history of their administration has proved their methods to be sound and highly successful. It may seem strange that money should be, and still can be, invested in companies which specialise in the investment of money, but this is true, and many investors believe this to be the safest method of ensuring a good return on their money, besides affording opportunities for capital appreciation.

Investment trusts are extremely popular in Scotland, and the records of the established companies with Scottish administration show them to have been eminently successful. Some exemplary trust companies also are managed by English

directors, and these as well can point to long and distinguished records of success. An idea of the financial strength of these companies can be gained by observing that Debenture Stocks of established trusts can be bought to yield returns only a little higher than that given by British Government securities. The Preference Stocks of the best companies give comparatively small yields, while the Ordinary Stocks are often only obtainable at very heavy premiums.

The severest test to which could be submitted the theories on which trust company finances are administered was the economic crises which followed the two World Wars. The devastating fall in investment values all over the world should have exposed trust companies to the risk of collapse, but so wisely were their investments distributed and so cautiously conserved was the companies' strength that the tempests found most of them serene and secure. The Prior Charge Stocks, in common with all other high-class fixed-interest securities, stand higher than before, but setback had to be faced temporarily by Ordinary Stockholders. Very generous distributions, however, have been enjoyed in years past by Ordinary holders, and in many cases bonuses have supplemented large dividend payments.

"What," the student may inquire, "are the methods employed by trust companies which ensure such satisfactory results? Why cannot individuals proceed along similar lines, and obtain equally successful results?" Before we attempt to shed a little light on the subject, note should be taken that a great deal of difference divides a financial trust company from an investment trust company. The former is a company which concerns itself with the earning of profit, while an investment trust is solely concerned with the obtaining of revenue. Financial trusts are often identified with the floating of companies, and the obtaining of capital. This form of activity is not wholly free from danger, and while profits may be large, risks also are considerable. Investment trust companies do not undertake this class of business, but confine themselves to obtaining revenue by purely investment methods.

Successful trust companies are experts in the art of scientific distribution of investments in order to produce a maximum of income with a minimum of risk. The personal element

in the composition of the board of directors is vital. The leading trust companies are guided by men not only of integrity, but of unusual sagacity. What an investor does, in effect, who takes an interest in a trust company of this description, is to enlist the knowledge and experience of such financial leaders for the administration of his own particular estate, at practically a nominal cost. This obviously is only possible where large sums are being managed, as on examination it is found that administration charges absorb on an average one-third to one-half of 1 per cent of a trust company's capital. This it will be seen is a modest charge for such expert guidance. The question then arises, why cannot an investor by carefully spreading his investments avoid even this small cost, and at the same time obtain similar results? There is no reason why he should not, but several important points immediately arise—

1. Opportunities occur from time to time for trust company directors to avail themselves of privileges because of their reputation and the funds they control. They are able to obtain participations in sound enterprises on profitable terms because of their resources. They are also able to obtain underwriting which would never be available for the ordinary investor.

2. Trust management calls for whole-time supervision. At the disposal of trust companies are trained staffs which cannot be employed by an individual investor, without tremendously increasing his ratio of expense.

3. Few investors are possessed of sufficient means to enable them to take an interest in the large number of investments required to reduce the all-round risk to a minimum. Two of the trust companies, for example, hold over 1,000 investments.

The advantage of being able to acquire desirable issues on the "ground floor" or under the "most-favoured nation" clause is considerable. Indeed, the growth of trust companies can be regarded as competitive to the Stock Exchange itself, as by their unique bargaining powers they are able at times to short-circuit business which otherwise would find its way to Throgmorton Street. Trust companies are often offered lines of Stock or Shares which they will accept on their own terms.

This method may prevent the disturbance of a market quotation through the security being pressed for sale, but unless this particular Stock is eventually re-sold in the market the business is lost to the Stock Exchange.

Profits made by trust companies through the purchase and sale of securities, together with amounts realised through underwriting, are treated as capital appreciation, which means they are not subject to income tax deduction. All sound trust companies aim at building up strong reserves. Having acquired a position of financial strength, the companies are able to borrow or raise fresh capital in the form of Debentures at a low rate of interest and use the money to earn large returns through the purchase of equity Stocks or high interest-bearing securities. When these profits have accumulated they are often distributed in the form of bonuses, and many original Stockholders have found their holdings considerably enlarged by these very welcome additions to the original capital invested. Some trust companies make a practice of publishing the full list of their investments with elaborate summaries showing the manner of distribution amongst different classes of undertakings, classifications according to localities, and also tables dissecting the various holdings according to denomination, that is, Government Stock, Bonds, Debentures, Guaranteed, Preference, Ordinary or Deferred Stock or Shares. From the name of a trust company can sometimes be gathered the geographical area in which that company specialises, or the class of business to which it confines its activities. Care, however, must be exercised, as often a title is misleading, and companies may change their policy, leaving their title untouched. Some companies specialise in estates, property and mortgages, others in industrial undertakings, but, with most, the Articles of Association permit the use of the company's funds in whatever direction is considered profitable. A careful examination of a detailed trust company balance sheet and summary will usually reveal that the fundamental principle on which it is constructed is the wide distribution of risk, which constitutes the soundest safeguard it is practicable to obtain against fluctuations such as are common and inevitable.

Few fresh issues of trust company capital have been made during recent years; this must be attributed to the restrictions

imposed on the capital market. A time of slump and depression should be suitable for the successful launching of a trust company. Those undertakings formed just before the early days of the great slump must certainly have suffered if their capital sums were then all invested, as no time was given to build up reserves, and fresh low price levels succeeded one another with monotonous regularity. With the knowledge that the curves of market movements periodically assert themselves in time, and that many sound securities are depressed below intrinsic worth, a trust company with experienced direction could hardly fail to succeed if launched during days of depression. It is not on the crest of a wave that wise men buy, but by going out during or after a storm when the financial coasts are strewn with wreckage. Courage, however, and cash are required, but it is just at the time when the opportunity exists that confidence is lacking.

However, trust companies frequently "turn out" securities and make fresh purchases, and this is what we are desirous of indicating. Their activities, even allowing for the occasions when they deal "direct," bring considerable business to the Stock Exchange. This is quite apart from the fact that a market exists in the Stock, Shares, and Debentures of the companies themselves, and that these are freely dealt in by the public.

While few fresh issues have been made recently by established trust companies, a noticeable tendency a few years back was to introduce to the public what are known as

Fixed Trusts

The principle on which Fixed Trusts are constructed lies in the acquisition by the Fixed Trust of a number of selected investments which are deposited with trustees. A given number of, say, twenty selected Industrial Shares are purchased to form one unit. These units are divided into small parts known as sub-units. These sub-units are then sold to the public, who by taking such an interest thereby acquire a participation in the fortunes of each industrial company whose Shares constitute a unit. This method is purely an extension of the principles on which trust companies' activities are based, and, provided that the management is sound, that the securities are

chosen with care, and that it is possible for an investor to sell his participation if he desires, there appears little reason why money should not be employed in this manner. The fact that no market for the sub-units exists in the Stock Exchange may be considered by some investors a disadvantage, as may also the knowledge that in many cases the selection is confined to one class of security. On the other hand, where the Trust is strictly fixed, no addition may be made to the securities agreed upon which comprise the whole unit, of which whole the sub-unit is a small but definite part. Dividends are paid to those who hold sub-units out of the amounts received from the various holdings which together comprise the unit.

The growth of public interest in Fixed Trusts was stimulated by intense advertising, and so keen was the competition to attract the investor to them that all forms of diversely constructed portfolios were put forward by the promoters, while novel and intriguing titles were also employed to further their recommendation. A marked feature as the movement developed has been for managers to depart from fixed portfolios, and in many cases powers are now taken to change investments, thus constituting what are termed "Flexible" as against "Fixed" Trusts. We may mention that where this "flexible" principle is recognised, with the exception of such important matters as voting and other such rights, little separates them from what have been honoured and in existence for many years, namely "Management" or "Investment" Trusts.

Approaching so closely as the Unit Trust movement does upon Stock Exchange business, it was inevitable that its growth should be watched with interest. It should be understood that, while the underlying securities which comprise Fixed Trust Units are usually purchased in the first instance through Stock Exchange agency, and that presumably they would or could be sold through this agency if it was decided to dissolve the Trust, for years it has not been possible to deal in the units on the floor of the Stock Exchange. This and the many problems connected with the subject led to the appointment of a special Sub-Committee of the Stock Exchange to examine the movement in all its aspects. This

Sub-Committee, whose labours occupied two years, published an interim report dated 12th December, 1935, in which extensive proposals were put forward having as their object the setting up of definite standards designed to safeguard the public from exploitation. This report was approved by the then Stock Exchange Committee for General Purposes, and copies were forwarded to the Treasury and the Board of Trade.

The principles set out in the Stock Exchange Report were recognised as sound by all concerned, and an early development was the decision of the principal Fixed Trusts to form themselves into an Association. This Association of Fixed Trusts, recognising the need for the protection of the Fixed Trust movement against abuse in the hands of undesirable promoters, decided to co-operate with their respective Trustees in approaching the Board of Trade for the setting up of legislation to control the development of the whole Fixed Trust movement. This development was a direct result of the recommendations of the Stock Exchange Sub-Committee.

One of the recommendations of the Stock Exchange Sub-Committee was that "the protection of the public" could only be secured by "legislation which could be universally enforced." Thus responsibility was passed to the Government, who in February, 1936, announced the appointment of the Anderson Committee to consider the subject of Unit Trusts "in all its aspects." To this Committee, Sir Robert Wilkinson, then Deputy-Chairman of the Stock Exchange and Chairman of the Sub-Committee on Fixed Trusts, was appointed. The result of their labours and also those of the Bodkin Committee who had the evils of sharepushing before them, is shown by the far-reaching attack upon fraudulent activities of all kinds connected with share dealings, finance, commodity pools, and property societies, embodied in a measure now on the Statute book under the name of the Prevention of Fraud (Investments) Act. In this Act Unit Trusts are defined, and an important clause gives power to the Board of Trade to approve Trustees to such Unit Trusts. These Trustees must be corporations incorporated in the United Kingdom, empowered by their constitutions to undertake the business of Trustees, and

must have an issued capital of not less than £500,000 of which £250,000 has been paid up in cash. Reference to the Prevention of Fraud (Investments) Act is made in Chapter IX.

Fixed or Unit Trust sub-units can be bought or sold through Stockbrokers or Bankers. With such orders it has hitherto been necessary for, say, the Stockbroker to go direct to the Managers of the Unit Trust concerned, the function of such Managers being equivalent to that of the Stock Exchange Jobber. The recognition of Authorised Unit Trust Schemes under Section 16 of the Prevention of Fraud (Investments) Act, 1939, has led to long deliberations by the Council of the Stock Exchange on the subject of the practicability of admitting such Unit Trusts to Quotation and permitting free dealings on the Stock Exchange, if desired by Unit Trust managements. Stock Exchange Jobbers have not hitherto dealt in Fixed Trust Sub-Units, but authority to do so has now been granted, and alterations to Rules 92, 159 (2) and others made necessary by this decision are referred to later under the heading of Appendix 35. The requirements of this new Appendix in the matter of Quotation are strict, and considerable time may elapse before all of the best-known Unit Trusts conform to the standard set by the Council, and make application. Greater confidence, however, may be felt by members of the public where such Quotation is sought, not only because the strict requirements of the Stock Exchange have been complied with, but because a freer and closer market may exist in which they can deal in their Sub-Units, and that markings of business done will be recorded as with other Stocks and Shares.

Issuing Houses

Issuing houses are important firms of their kind, but a little difficult to describe. They are not of necessity banks, nor are they financial trusts, although both of these organisations sometimes exercise the functions of an issuing house. They are certainly not Stockbrokers, although well-known Stock Exchange firms frequently act as Brokers to important Stock issues, without any assistance whatever from the issuing houses we have in mind. Occasionally, however, Members of the Stock Exchange, finding its Rules irksome and as they think restrictive in their incidence, have resigned their membership in order

to set up businesses of the sort we are describing. Actually these issuing houses are composed of financial experts who specialise in the raising of fresh capital. For this type of business they act in a consultative capacity. They usually have large funds behind them, and often a list of clients to whom financial propositions of an approved kind would be welcome. Frequently they combine the businesses of fiscal agents to various Governments, financial advisers or representatives of industrial undertakings, and registered offices for companies operating at home or abroad.

The most important of the issuing houses are the large private banking companies whose names are household words where financial matters are under consideration. The presence of one or more of these names on a prospectus means that the hall-mark of respectability is stamped on an issue. It follows that before a prospectus or offer for sale bearing their name is made public, every effort has been made to ensure the accuracy of the statements contained in the offer. Reputations built up through the successful handling of established enterprises are not likely to be frittered away by the sponsoring of dubious or ill-constructed propositions, and, that being so, a first-class issuing house would certainly not entertain offers of a doubtful character. Many people are of opinion that banks should have exercised greater care in allowing their names to figure on prospectuses in cases where issues have not proved to be of the highest repute. Point is given to this criticism by the number of doubtful issuing houses which spring into existence like mushrooms the moment new flotation business is brisk. In years past many of these so-called trust companies had never been heard of previously. They bore unfamiliar names, and were often relegated to an obscurity from which they should never have emerged. It must not be overlooked, however, that, while banks are particular regarding those for whom they act, primarily their concern is the care of the cash, and not necessarily the character of the undertaking. The presence of the name of an accepted bank on a prospectus is not in itself a guarantee for future success, nor is it to be inferred that the bank has even been consulted as to the wisdom of an appeal to the public for funds, or the composition of the board of the company concerned or its capital. These matters more closely

concern an issuing house, and we should feel that the latter, in making the issue, has shouldered a much greater responsibility than the bank that is willing to act in that capacity.

The presence of a good name on a prospectus is a factor of the highest possible value. Knowing little or nothing about an enterprise, investors will be willing to subscribe if an issue comes from what is known as the right "stable." This is a valuable following to possess, and an appropriate fee has accordingly to be paid to whatever house undertakes the issue. In the case of a company approaching such an issuing house in order to enlist its services, the business would be subjected to a vigorous and complete overhaul. The form of capital in mind might not be approved, the wisdom of the particular issue might be challenged, or suggestions for complete reorganisation or amalgamation might follow. If the company had a sound or distinguished record the capital required might be forthcoming without a public appeal.

A frequent method adopted by issuing houses is to purchase outright the whole of the capital issue a company is desirous of placing. It is then offered to the public, but on different terms. The difference is the consideration which the issuing houses charge for their services. In this case it is of no consequence to the company whether the public issue is a success or a failure, as the company has secured the cash it requires. If the public appeal is a failure, then the issuing house only is affected. The difference between the purchase and sale price by the issuing house may appear large, but the security and general conditions have to be considered. Out of this difference the issuing house bears all expenses, including a fee for the Brokers who act for the company, the costs of advertising the issue, the promotion charges, including "brokerage" and legal expenses, together with the costs of

Underwriting

An extensive business is transacted in this form of insurance, for, in brief, that is what underwriting is. Few issuing houses making an appeal for capital care to proceed without the precaution of ensuring its success by this method. Even Governments find it desirable when raising Loans to adopt the same safeguard. For this protection a consideration has to be given.

The practice of underwriting is well known in other spheres, particularly in shipping and insurance circles, and the method of spreading the risk is there similarly adopted. There are firms whose sole business is that of underwriting, but in the Stock Exchange it is an auxiliary line of business.

Good underwriting is difficult to obtain, bad and indifferent underwriting difficult to "place" or distribute. In this respect underwriting follows a natural law. A good thing sells itself. By good underwriting we mean issues such as those of the British Government, or a Public Authority, Loans from the Crown Agents for the Colonies, Dominion or Colonial issues. First-class Industrial emissions would also come under this heading. Good underwriting is the kind an underwriter does not mind being "left with," which means having to take up part, or all, of the Stock underwritten.

What transpires, as a rule, with underwriting is that the issuing house distributes it through its appointed Brokers to other firms of Brokers and Jobbers. If the issuing house has previously taken the whole of the issue for a consideration, or underwritten the whole of the issue, it may endeavour to sub-underwrite the whole. The Brokers who take the sub-underwriting may pass it on again to further sub-underwriters, retaining a small amount of the underwriting commission. By this means a large responsibility is divided up into proportions which can be regarded without anxiety. With large shipping insurances the risks are shouldered by underwriters whose commitments are represented by minute fractions, and Stock or Share underwriting may change hands again and again before being finally adopted by an ultimate underwriter. It is the ultimate underwriter, however, who must take the Stock if it is not subscribed by the public.

Underwriting letters are legal contracts signed over a 1s. stamp. They are by no means uniform. They contain, however, an undertaking to subscribe at the issue price for so much of the issue as is underwritten, in the event of its not being applied for by, or allotted to, the public. The commission paid for undertaking this risk is determined by the nature of the issue. For good underwriting, such as we describe, which is keenly sought for, the usual commission is about 1 per cent. That is to say, a Broker accepting an underwriting participation of £10,000

in a Debenture issue would receive a cheque for £100 in the event of the issue being a success. If he had passed it on to a client at, say, three-quarters of 1 per cent or to a Country Broker at seven-eighths of 1 per cent he would retain £25 or £12 10s. respectively. If the issue were not a success and 50 per cent were left with the underwriters, the result would possibly not be so remunerative. The underwriter or his sub-underwriter, while he would still receive his underwriting commission, would be called upon to take up his quota, the price of which may "open" at a discount when the time comes for dealings to commence. It is easy to see that anything less than 2 per cent discount on the issue price will be profit for the underwriter in the case we have quoted, and a larger discount will naturally involve him in proportionate loss.

The word "over-subscribed" is a welcome one to underwriters, as intimating that they are relieved of responsibility. The words "fully subscribed" should bear a similar interpretation. Frequently, however, the words "fully subscribed" disguise the fact that only a part of the issue has been taken by the public, and underwriters then are asked to take up the balance. The early closing of the "lists"—that is, the lists of subscriptions to the issue—is usually a good sign, but cases have been known where the lists have peremptorily closed, in order to prevent the withdrawal of applications already received. So long as the lists remain open, an applicant can usually recover his cheque without difficulty, should he alter his decision. When the lists are closed it is not so straightforward, as once the directors have proceeded to allotment and the allotment letters have been posted, it is too late to secure the withdrawal of applications. Lists are sometimes "closed" to town applicants while remaining open for those from the country. This is a concession to those who complain that country applications receive scant consideration, and sometimes the announcement contains a hint that further applications would be welcomed.

Underwriting risks vary in an unexplainable manner. When the public are "on the feed" indifferent underwriting can be accepted, with little chance of the underwriters being asked to take up an allotment. Good underwriting, on the other hand,

sometimes involves participants in being asked to shoulder the bulk of the issue. Underwriters of a Central Electricity 5 per cent Stock were called upon to take up between 80 and 90 per cent of the whole issue. This Stock, quoted at 3 discount at the opening of the market, went, through improved sentiment, straight to 9 premium. But here, as in other directions, worth counts in the end. Underwriting can usually be judged by the type of the issuing house apart from the terms of the issue. In the case of British Government Stocks and other similar issues, these are usually issued by firms of Stockbrokers who have justified their selection over many years by the successful handling of State and Colonial requirements. Sub-underwriters who are "on the lists" of these firms and who receive underwriting offers as occasion arises usually accept what is sent, irrespective of the price, date, or terms of the issue. Such sub-underwriters are content to follow the judgment of the firms who make the issue, knowing that the best financial counsel is usually consulted. If the issue is a failure and underwriters are "landed," consolation is found in the reflection that one must take the "good" with the "bad," or *vice versa*.

One other point in connection with underwriting remains to be mentioned. Opportunity is sometimes offered to underwriters to take or apply for Stock or Shares "firm." In some cases, the underwriters actually want an allotment. Firm underwriting is a subtle quantity, and great care must be exercised as to the exact conditions that apply in such cases. Points to be observed are the price at which the firm Stock is to be allotted, and also whether an allotment of the whole can be regarded as certain. There is also the position to be defined as to whether in the event of the issue being unsuccessful an underwriter's "firm" application is to be supplied in full, and in addition he is to be allotted his quota as an underwriter.

It will be seen that underwriting is a remunerative and interesting part of Stock Exchange practice. At times it is safe, at others risky, but it adds to the general flow of business to the "floor" of the "House," and has entrenched itself as a wise provision against uncertainty in the cases of Governments and companies desiring the safe handling of their financial requirements.

Public Issues

Strict Treasury supervision was kept during War years on appeals for capital, and applications in practically all cases had to go before a Capital Issues Committee set up by the Government. This subordination of effort to National needs directed vast sums into tap loans offered by the Government and business under the above heading during the War practically ceased. While relaxation is now seen, the introduction of the Borrowing (Control and Guarantees) Act, 1946, indicated the Government's intention to continue control of fresh appeals for capital and direct the flow of investment into channels considered to be in the national interest. The Government Bill perpetuates Treasury control, and gives permanence to the Capital Issues Committee. Owing to paper shortage and public security no notices relating to company capital were allowed in the Press during the War, but particulars relating to fresh issues are once again found in the financial columns of the daily newspapers.

It is the practice of Governments when floating a loan, and of companies when making an appeal for capital, to publish particulars in the form of a prospectus. British Government prospectuses are of an exemplary kind, with full details given of the authority under which the money is to be raised, the purpose for which it is to be used, and the revenues on which the issue is secured. Public Authority prospectuses are similar, and contain particulars relating to the services provided for inhabitants, together with all other necessary details.

The Companies Act now requires that all appeals for capital must be accompanied by particulars full, frank, and unambiguous. Just as no wise person would purchase a car, house, or horse without examining it, so should an investor not blindly purchase securities on a prospectus unless a very good reason exists for his action. That action may be, as we have pointed out, implicit faith in the board or issuing house; but even when this is the reason, a careful reading of all the facts disclosed is desirable. Many a pocket has been picked through the medium of a prospectus. Details respecting underwriting agreements are usually given in prospectuses, and however small the print may be, the necessity of knowing the details is as large as ever. Occasionally, issues are made without being

underwritten, and in cases of this kind the fact is usually laid out at the head of the prospectus in words such as—

No part of this issue has been or will be underwritten.

These words sometimes mean that it is not necessary to underwrite the issue. They may mean that it would be impossible to get underwriting done!

The Company Prospectus

Among important points to be looked for in this document is the statement that a copy has been delivered for registration to the Registrar of Joint Stock Companies. It is also important to see if application has been made, or will be made, for permission to deal in London or on an authorised Stock Exchange. This permission to deal has a twofold advantage. It ensures strict investigation of documentary evidence as to title, etc. It also means that later a market will be allowed in the security, when, if desired, it can be sold. The composition of the board of directors is of paramount importance, and the inclusion of men owning titles, but with no experience of the business, is not a good recommendation. Pedigree on a board may be an impediment to prosperity. The auspices under which an issue is made, while not an infallible guide, give a good indication of a company's worth. The record of earnings over a given period is of extreme importance, as is also the relation of these earnings to the capital. Airy prognostications as to future earnings should be treated as such. Results count.

On the face of all prospectuses will be found the terms. They include the form of the security, the issue price, the date of the various instalments, and their amount. Few Governments or companies require payment in full at once. The average number of instalments is about four, spread over a period of from one to six months. Payment in full can sometimes be made under discount. Unless particular reasons exist for paying up in full, it is not wise to do so. Interest allowed is usually very small, and Stocks or Shares paid up in advance of due date become less marketable, if a sale should be necessary before they are officially fully paid. Interest dates are also given on a prospectus in the case of fixed interest-bearing securities.

The prospectus will also state whether provisional scrip will be given pending the issue of the security in its final form.

Inside a prospectus will be found what is possibly the most important document of all, namely, the form of application. On this document will be found the name of the bank or other agent authorised to receive applications, together with particulars regarding the date the subscription list will be opened, and the date on or before which it will be closed. The form of application is usually addressed to the bank or issuing house, and reads—

Having paid to you or your Bankers the sum of £..... being .....due on application, I/We hereby apply for and request you to allot me/us .... Shares or Stock, or any smaller amount in respect of which this application may be accepted, in accordance with the terms of the Prospectus, and I/We agree to accept such amount, and to pay the further instalments as provided in the said prospectus.

An investor making such application is usually asked to fill in the surname in *block letters*, followed by his or her Christian name (stating whether the applicant is Mr., Mrs., or Miss), address, date, and his or her signature. A cheque must accompany the form for the amount due on application. Often applications will not be accepted unless they are in multiples of £50 or £100, and application for Ordinary Shares is sometimes conditional on Preference Shares being taken as well. Separate cheques, as a rule, must accompany each application form, and these cheques must usually be to bearer. Special forms of application are frequently given to Shareholders, or preferential allotment offered to those registered with this or an allied company.

At the foot of most prospectuses is also entered the statement that—

A commission will be paid at the rate of.....per £100 Stock or .....per Share on all acceptances or allotments bearing the stamp of recognised Stockbrokers or Bankers.

With Government issues this commission is usually 5s. per £100. The commission on new Share issues differs, but 3d. for a £1 Share is quite a usual payment. This remuneration is an additional reason for looking into the merits of a new Stock or Share issue, and constitutes over a period an important supplementary source of revenue for Stockbrokers.

While this method of acquiring a Stock- or Shareholding gives a commission to the Broker whose stamp appears on the

application form, it is not without advantages to the applicant. There is first the opportunity to become a Stockholder at the issue price. This is valuable in cases where companies later prove to be successful, but not if the reverse proves to be the case. Secondly, there is the saving of Government stamp, registration fee, and commission. Securities applied for, when allotted, are registered direct in the holders' names without charge, and the payment of commission in these cases is undertaken by the company, bank, or issuing house sponsoring the issue. There is the third advantage that payment for the participation in a new issue is spread over an extended period, which concession is often of great convenience.

Tenders

Tenders constitute another method adopted by established authorities in order to obtain capital. In these cases, which are not so common as the ordinary appeals we have mentioned, the public are asked to say at what price they will take the security offered. Usually a minimum price is fixed below which offers will not be considered. The Government or company then has the right to accept whichever tenders are most suitable. This method is regularly employed by the Bank of England with its sales of Treasury Bills,[1] and is popular with gas and water supply undertakings. It is frequently adopted, also, by authorities when Stock or Debentures are being redeemed. In cases of this kind holders are asked to signify at what price they will release their holdings in exchange for cash.

Other Sources

Among other sources which contribute to the flow of business to the Stock Exchange should be mentioned the large friendly societies and building societies. There are also the contributions of solicitors and the Public Trustee. Many firms of solicitors refuse to make any request to Stockbrokers for a return of commission, holding the opinion that they receive their remuneration from the clients or the estate for whom they are acting. Despite this fact, many firms are registered for the purpose of receiving a share of commission on business which passes through them to the Stock Exchange. Commission

[1] See Glossary, page 438.

is claimed by the Public Trustee, whose importance in administering wills, trusts, settlements, etc., has grown enormously since the inception of his office. Brokerage upon valuations for probate and other purposes is provided for by several Provincial Exchanges in their Rules of Commission, but charges made by London are usually "at discretion." Some firms make no charge for valuations if ultimately the sales are made through them. Transfers of securities where no sale has taken place are subject to an optional fee. Syndicates and pools formed from time to time to float, support, or dispose of Stocks and Shares all supplement the flow of business, assuming, of course, that the securities in question are those for which permission has been given to deal.

All of these sources make their contribution to the life of the Stock Exchange. We have given them in some detail, stating how the business arises and whence it comes. The work each single transaction involves is another matter, and, having explored the source of the stream, we will proceed to follow its course, and in subsequent chapters apply ourselves to examine how Stock Exchange business is recorded and each transaction carried through to a satisfactory conclusion.

CHAPTER XI

THE MACHINERY OF THE SETTLEMENT

THE Account Day—Centralised Delivery—The Settling Room—Checking the Bargains—Passing of Names or Tickets—The Trace—Splitting the Ticket—Selling-out Department—Liability Times—The Settlement Department—Clearing Sheets.

AT this stage we definitely leave the theoretical side of Stock Exchange practice in order to take up the practical question as to how transactions are handled, recorded, and finally settled. Possibly this department of Stock Exchange activity will not be found quite so interesting. There can be no question as to its being of equal importance. However successful a business may be, its maintenance as such depends as much upon the accuracy on the accountancy side as brilliance on the executive. Business can be lost through carelessness, and the work of years undone through lack of thoroughness and applied method. Rightly understood, the floor of the office is as important as the floor of the "House," and in the successful co-operation of the two departments the soundest businesses are conducted. Just as individuality plays its part in the higher departments connected with the actual dealing transactions, so it is of importance in the office. The human factor counts, and however simple or however comprehensive the system of books employed, if interest and individuality are lacking, mistakes will creep in and mar a firm's reputation for accuracy and reliability. Successful business heads endeavour to instil into their employees a personal pride in their work rather than its execution from a standpoint of duty. Recognition of this principle by even the humblest member of a staff shows him to be equipped for taking up duties that carry greater responsibility.

The whole of the mechanism we have examined, designed for fostering business, large or small, is but the commencement of a long series of entries before each original transaction is finally disposed of. It is calculated that every single bargain requires over fifty recording entries before it disappears, its place to be taken by another. As hundreds of bargains are

recorded in the course of an Account—in busy times hundreds may be entered into in one day—the mass of detail which has to be attended to in the office can be appreciated. The system is complicated, and hardly a settlement takes place without some fresh point arising which calls for adjudication. That is why firms, having built up a reliable staff, are reluctant to lose any one of their number, retaining services even when there is little to do.

We pointed out in Chapter VII the arrangements made by the Stock Exchange Council for the settlement of all transactions. In America settlements take place from day to day. Similar arrangements were in force in this country during the War. All transactions then were for cash, and the system survived for some time. When normal times returned, London reverted to its old system, and with the exception of dealings in British Funds and Dominion, Provincial, and Colonial Government securities, unless a special transaction is entered into, all dealings are for

The Account Day

It is this date that figures at the bottom of most of the contracts entered into by Brokers, and is the date that is regarded as of most importance in Stock Exchange routine. On this day staffs are required at full strength. Cheques have to be collected for all differences due as shown in Clients' and Jobbers' Ledgers. Differences have also to be paid away where the balance is found to be in the Client's or Jobber's favour. It is on this day that Stocks and Shares, the transactions in respect of which have been entered into for that Account, change hands for the first time. Transfer deeds for registered Stocks and Shares sold are prepared for clients' signature prior to the Account and held, together with their certificates of title, to be delivered to the buyers for payment. Bonds to bearer, and forms of security other than those passing by transfer or registered deed, have to be withdrawn from the strong room or collected from the customer's bank, to enable completion to be effected. While this stream of securities proceeds outwardly from individual offices, an incoming tide is flowing in the opposite direction. All buying transactions are, or should be, on the way, and when delivery is effected payment is automatically made.

It is of importance that clients' cash should be received on or before Account Day, in payment for purchases made during the Account. For this purpose statements are prepared and forwarded to the clients as soon as dealings for the Account close; and contangoes (if any) are entered up. Stocks presented by sellers on the Account Day have to be paid for by the purchasers' Brokers, whether payment has been made by the clients or not. While Stockbrokers often have a large balance of private cash available, it must be remembered that they are not money-lenders, and the absence of large remittances due from clients on the day the amounts fall due for settlement may easily become a matter of inconvenience or embarrassment. Some clients prefer to instruct their banks to pay against delivery of documents, in which case it is necessary for the Broker to confirm with the bank that such instructions are in being and are subject to no restrictions. Clients who give their Brokers country cheques should remember to send them before the Account Day as country cheques take three days to clear. Ordinarily speaking, the cheque book is more in evidence on Account Day than on any other. Harder worked even than the cheque book is the Cash Book, as not only payments "out" but payments "in" have to be entered. Banks in the vicinity of Throgmorton Street feel the extra strain put upon them on Account Day, and calendars circulating within a moderate radius of the Stock Exchange either print the date in red or, by encircling it, draw attention to its importance. In busy periods there is no time for lunch on Account Day, but time was when this sacrifice was compensated by the timely visit of a waiter from an adjoining ham and beef shop, bearing on his head a tray of victuals both dry and moist.

A Stockbroker's office on an Account Day is a hive of industry. The delivery of securities commences at 10 o'clock in the morning, and about this hour crowds of clerks and messengers can be seen armed with lists of differences and wads of valuable Bonds and transfers, together with certificates, on their way to various offices. It was no unusual sight to see half a dozen clerks waiting their turn in an individual office, where their clamorous requests for cheques were treated in order of arrival. Difference cheques are now more expeditiously passed in the Settling Room, and in busy times cheques are drawn

overnight and collated ready for the morning. If the amount claimed is disagreed a cheque on account is given pending the particular firm's ledger being brought along for checking purposes.

All cheques passing between Members of the Stock Exchange must be drawn on a Town clearing bank or the Bank of England, Threadneedle Street, and presented for payment through the Clearing House. They must be crossed, marked "Not negotiable," and be payable to "Bearer." This is a Stock Exchange Rule, but it does not apply to cheques drawn in satisfaction of dividend claims, which may be drawn to "Order." A Member may demand bank-notes in payment for securities sold without having made such stipulation at the time of entering into the bargain, but he must give notice to his buyer to that effect before 11.30 a.m. on the day of delivery. A Member cannot demand bank-notes in payment of differences.

Bonds to Bearer, Bearer Scrip and Share Warrants to Bearer, together with securities deliverable by deed of transfer, are all likely to be passing both in and out on Account Day. Care is necessary to see that not only the Bonds, Stocks, or Shares paid for are those purchased, but that they are "good delivery" in all respects. Coupons on Bonds must be examined, also the endorsements on American Share Certificates. The names in which American certificates are registered must be scrutinised with care. Transfer deeds also must be examined with meticulous care, as many companies refuse to register in the new name if any alteration appears on the deed, and such alteration is not initialled by all parties. The question of dividend arises here also, as a buyer frequently purchases securities "cum," or with the dividend, to find that, owing to the date the transfer is delivered, he is not able to register in time to receive it direct from the company.

Centralised Delivery

A far-reaching reform in the matter of centralised delivery and payment for registered securities follows an official announcement by the Council. A new Department has been opened which, now experience has been gained, will prove of great value to the House. Briefly, to obviate the interminable journeying backwards and forwards to offices far removed for

transfer and cheque, the Council have arranged for a self-contained portion of the Settling Room to be used for this purpose. Here it is possible to deliver or receive however few or many registered securities are involved, and to make or receive payment for such securities. The scheme is optional, and it is important to note that it is not possible at present to deal with Bearer (including renounced Allotment Letters) or "American" form securities.

Details of the scheme are as follows—

1. A number has been allotted to each firm corresponding to that on the compartments allocated for Transfers and cheques in the room. A list of these numbers is enclosed and further copies for desk reference may be obtained on application.

2. Tickets for Registered Securities must, in every case, bear a number immediately following the issuer's name. Split Tickets must bear this number in the same manner.

3. A deliverer must stamp the Ticket across the face with his name and number. In order to ensure uniformity of design of rubber stamps these will be supplied by a manufacturer and distributed (two for each firm) by the Council.

4. Tickets must be attached to the foot of transfers and *firmly secured.*

5. Deliverers must arrange transfers in the numerical order of paying members' numbers and hand them so arranged to the clerks at the receiving counter. (Note: the counter is divided into eight sections, each clearly designated 101 to 199, 201 to 299, etc., and messengers must hand in transfers at the appropriate sections.)

The Department will be opened at 9.45 a.m. and transfers should be sent to the room as early and as frequently as possible. Members are particularly requested to avoid leaving deliveries till the last minute as this would lead to serious delays in sorting.

The latest time for receiving Transfers will be 12.45 p.m., but Transfers may be delivered in offices up to 1.15 p.m.

6. The counter for collecting transfers is also designated as above and messengers should inquire at the appropriate section containing the firm's number. Transfers should be collected at regular intervals from the opening of the Department but not later than 1.15 p.m. To avoid unnecessary calls a notice will

be displayed as soon after 12.45 p.m. as possible announcing that all Transfers have been sorted. Firms will not be permitted to telephone the Department for information as to whether Transfers have been deposited.

7. Cheques sent to the Department must bear the number of the payee clearly written following the payee's name.

Firms are urged to draw a separate cheque in respect of each security where a dividend is deducted and particulars of such deduction should be noted on the cheque.

Cheques drawn in payment should be sorted in order of payee's numbers and sent to the room at regular intervals, but the final delivery of cheques must be made to the Department not later than 1.50 p.m. All cheques not sent to the Department must be sent to deliverers' offices by 2.30 p.m.

Cheques should be collected from the appropriate section of the counter.

The Department closes at 3.0 p.m.

The times stated will be subject to alteration by the Council in the light of experience.

Attention is drawn to the following Regulations—

(*a*) Members issuing Tickets for Registered Securities will be deemed to agree to accept delivery through the Department and either to send cheques in payment to the room or to the deliverers' offices by the times stipulated on the day the Transfers are delivered. A paying member must either send a cheque to the room not later than 1.50 p.m. or direct to the deliverer's office by 2.30 p.m.

(*b*) Where a deliverer elects to deliver direct to the payer's office, the Ticket should be plainly marked "office" by the deliverer and the number struck out. In this case the deliverer must collect the cheque from the buyer who will not be under any obligation to send a cheque either to the room or to the deliverer's office.

(*c*) Mistakes in Transfers or any irregularity must be reported to the deliverer direct, with as little delay as possible and he will collect the Transfer from the payer's office.

Any mistake in sorting by the Department must be reported to the Manager of the Department at once.

(*d*) Admission to the Department will be restricted to

(1) Members and authorised clerks.

(2) Unauthorised, Settling Room and "Differences" clerks who must wear their badges.

(3) Messengers carrying written authority by firms (a messenger can act for more than one firm if he or she carries the necessary authorisation).

(*e*) Neither the Council nor the Trustees and Managers can accept any responsibility for loss due to mistakes or delay.

Centralised delivery charges are £4 4s. payable by all Members in active business except Associated Members. It follows that all securities passing out from the office have to be properly recorded. Payment having been received, the proceeds have to be remitted to the seller or otherwise dealt with. All incoming securities, after examination, are paid for, and these too are properly recorded in appropriate books. In the case of many Bonds to Bearer the preservation of distinctive numbers and series is a source of considerable trouble. So wasteful of valuable time is the constant recording of interminable numbers from Share transfers that many of the large industrial companies have abandoned the use of numbers by taking powers to convert Shares to Stock. Shares by this method are termed "Stock units." So far, this interesting method has worked successfully, the fear that companies would be exposed to the risk of duplication being without justification.[1]

A student watching the smooth progress of the work in a Broker's or Jobber's office on an Account Day would be conscious that careful preparation for it had been made prior to that date. Actually, as Stock Exchange Rules provide, the Settlement consists of more than one day. The Account Day but registers the culmination of several days of preparation. We have examined in an earlier chapter the arrangements made for the Settlement. It will help us if we take note of what goes on during the Settlement, with special reference to the Ticket Day, the second of the Settlement Days mentioned in the Rules.

Beneath the Stock Exchange, in an area rather more restricted than the "House" itself, is

The Settling Room

The Stock Exchange being on the ground floor, it follows

[1] See pages 109–110.

that the Settling Room is under the street level. It is low-domed in comparison with the main building and is artificially lighted. It can be entered from several doors, but not from Capel Court, the original entrance to the Stock Exchange. On entering, the first thing that meets the eye is the large number of long, narrow, wooden tables which stretch all over the floor. Each table has a number. On these tables in the centre at intervals of a foot are slotted boxes shaped like "Noah's Arks," the sloping roof of each box bearing the name of the firm to whom it belongs. Plain, wooden benches lie beside the tables. On the surrounding walls as far as the eye can see are boxes ranged on shelves like caskets at a mausoleum. These also bear the names of the firms to whom they belong. All Members of the Stock Exchange engaged in active business are required to have a "seat" or a "box" in the Settling Room, but the Jobbers in the Consol market appear to be excepted, probably because they use a seat on the floor of the "House" above. Charts displayed in prominent places in the Settling Room indicate the table number if a seat is held. The wall boxes are arranged alphabetically.

Entrance to the Settling Room is open to Members, also to authorised, unauthorised, and Settling-room clerks. Clerks in the last two categories are required to wear a blue and a red badge respectively when exercising the privilege of entering. Here, for about one hectic hour each morning, the youth of the profession foregather in hundreds not for the purpose, as might be imagined by a visitor, of attending lung-power tests, but for that of verifying bargains done on the previous day by the firms they represent.

Checking the Bargains

This valuable practice, which may bring to light some mistake in the dealings, or the recording of the dealings, of the previous day, strangely enough is not authorised in Stock Exchange Rules. Clerks or those attending the Settling Room to check bargains must be there by 10.15 a.m.; otherwise they have the mortification of seeing the doors closed and waiters stationed there to prevent entry. This entails a trudge around the City to various offices to carry out, over an extended period, the checking of individual bargains, which could have

been accomplished in a few minutes. The checking of bargains by telephone is discouraged.

The book used in the checking of bargains is actually an enlarged edition of a Jobbing Book. Ruled up thus, the left side meaning purchases and the right side sales, it would read—

JOBBER	AMOUNT	STOCK	PRICE	INITIALS	JOBBER	AMOUNT	STOCK	PRICE	INITIALS
Smythe	500	Courtaulds	32/6		Blythe	1/-	Canadian Pacific Preference	78¾	

The Broker's representative seeking out the Jobber would, in this instance, simply say "Smythe, I buy 500 Courtaulds of you at $\frac{5}{8}$," to which Smythe would reply "Sell you 500 at $\frac{5}{8}$," that is, assuming that there was no query and that he recognised that the Broker was the one to whom he had the bargain booked. Both clerks would then initial their own books in the last column. Jobbers usually keep to their seat or "pitch" in checking, and so our Broker will move on till he finds Blythe, with whom, we will assume, he is equally successful. "Blythe, I sell you one Canpac Pf at $8\frac{3}{4}$" says the Broker, to which Blythe replies "Buy one Canpac Pf at $8\frac{3}{4}$." Two points may be noticed here in addition to the fact that Smythe's and Blythe's bargains are the opposite to the Broker's. The first is the use of the word "one" instead of "one thousand," usually written as 1s. and, secondly the dropping of the "big figure." Both of these contractions are used by experienced clerks and also by dealers. The "big figure" is usually taken for granted. It will be noticed that Smythe's bargain in Courtaulds was checked at $\frac{5}{8}$ or 12s. 6d., not at 32s. 6d. or $1\frac{5}{8}$. "One" in Courtaulds at this time is the acknowledged "big figure," as is the "seventy" in Canpac Pf, and both are usually dropped when checking is in progress. Naturally, they reappear and are emphasised if the "big figure" should change, say, in the course of a day, and, of course, in all the accounting books of the respective firms the full prices are entered! One thousand pounds Stock is always referred to as "one" both in dealing and checking, and this applies practically in all multiples of a thousand. A Broker on the floor of the "House," asking a price in, say, "fifteen" Conversion $3\frac{1}{2}$ per cent Stock, would immediately be understood to refer to "fifteen thousand pounds" Stock. A "pony" is the professional name for £25,000 Stock, while a "monkey"

represents £50,000 Stock. A dealer, Broker or Jobber, trading in a hundred pounds Stock, will usually mention the word "pounds," as dealing in a "hundred" might in the Gilt-edged market mean one hundred thousand pounds Stock. The errors that arise are comparatively few when it is remembered how many bargains are carried through. When a mistake is discovered in checking a bargain, it must be brought at once to the attention of the dealers concerned. This permits of any dispute being easily settled while the circumstances of the deal are fresh in the memory, and before any large difference develops in the price of the Stock.

Some dealers prefer a Jobbing Book ruled up as follows, in which are entered the two bargains given previously. It will be seen that two columns take the place of the one where the amount was previously entered. Here the left-hand column means a purchase and the right-hand column a sale.

JOBBER	B.	S.	STOCK	PRICE	JOBBER	B.	S.	STOCK	PRICE
Smythe	500		Courtaulds	32/6					
Blythe		1/-	Canadian Pacific Preference	78¾					

The above ruling is economical, as with the other system more purchases than sales or *vice versa* on any day will result in the corresponding space on the other side being wasted, in order that the dates may correspond. The above ruling also allows a Jobber who keeps special books for particular Stocks more quickly to add up his commitments for the purpose of his "bull" and "bear" position.

With two important exceptions, to which we will now refer, the Settling Room lies vacant and unattended for the major part of the Account. The purpose of the organisation of the seats and boxes we mentioned earlier is the distribution, collection, and general

Passing of Names or Tickets

As these "Names" play an important part in the settlement of Stock Exchange transactions, we will examine them in detail, quoting the Rule which brings them into being:

The Buyer, who takes up Securities deliverable by deed of transfer, shall issue a Ticket, with his name as payer of the purchase-money, which Ticket shall contain the amount and denomination of the Security to be transferred; the name, address, and description

No.....2277....

....500 ...Shs. @ .....32/6.....

..... Courtaulds .....

Consideration £812....10 ...0.....

Stamp.....17....0....0.....

To ....John Student .....

Of .....Hollywood House.....

.....Leytonstone, E.11....

Given to.....Smythe .....

.....194 .

ALL DIVIDENDS AND OTHER RIGHTS ARE HEREBY CLAIMED.

No... 2277... { If this Ticket be divided, insert its Number and the Name of party dividing it, or the new Ticket will not be paid for. } Consideration £812 10

Stamp 17 0

M/U price

.....500 Courtaulds .. ..@ 32/6.....

To.....John Student.. ....

Of..... ....

....Fillebrook Road, Leytonstone, E.11. Actuary.....

Given to.....Smythe .. ..

EXCHEQUER & Co. Pay 462

(GROUND FLOOR)

100 THROGMORTON STREET, E.C.2.

.....194 .

Ten days after date please communicate, otherwise this stock will be bought in.

of the transferee in full; the price, the date, and the name of the Member to whom the Ticket is issued. Each intermediate Seller, in succession, to whom such Ticket shall be passed, shall endorse thereon the name of the Member to whom he passes it. (Rule 122 (1).)

On p. 223 is a specimen Name or Ticket containing the above particulars. In size and shape it is very similar to a cheque.

The specimen Name we have given is in respect of the 500 Courtaulds bargain which we checked with Smythe earlier in the chapter. Courtaulds are Shares which "clear,"[1] but, in order that we may see what happens to a Name in the ordinary course, we will arrange for this particular bargain to be left out of the "Clearing." On the Ticket Day we, as the buying Brokers, issue this "Name" before 3 o'clock. With a number of other Names we attend the Settling Room to distribute them to the various Jobbers with whom we have done business during the past Account, but we will follow the Courtauld Name particularly because it has a lot to teach us. We slip it in Smythe's box. Smythe at once gets busy. Promptly at 3 o'clock he clears his box, knowing that any Names put in *after* that time that are original Names (not those on trace) at once incur a liability. Next time he clears his box the time will be noted on the back of original Tickets. Smythe if he has a large number of Tickets will probably sort them into the various Shares or Stock. He will then proceed to mark them off in a book he has for the purpose, noting the price of each Ticket, from whom it arrives, and its destination. If our 500 Courtaulds was the only transaction recorded in those Shares, and Smythe was the holder and could deliver, all that remains is for him to prepare a transfer deed out of his own name ready for delivery, and be grateful that there are not half a dozen Names which would give him additional work. What, however, is almost certainly the case, Smythe purchased those Shares from another Jobber whom we will call "Smooth" at 32s. 3d. Smythe in relation to Smooth is in exactly the same position as we are to Smythe, namely, he owes him a Name for 500 Courtaulds, and, therefore, backing our Ticket with Smooth's name, he drops it into his box. Smooth in turn had also bought them from another Jobber named Stiff, who bought them from Stark, who had bought them from a Broker named

[1] See Settlement Department, page 235.

Dennis, all at varying prices. Each in turn passes the Ticket on to the man from whom he bought the Shares. Dennis holds it to deliver. The front of our Ticket we have seen; turn it over and this is how it will appear—

Smooth
Stiff
Stark
Dennis

This is what is called

The Trace

In this instance the trace is a short one. If Smythe had received the Ticket from us after 3 o'clock he would have made a note of the time on the Ticket, before passing it on to Smooth. If we were wise in this case we should go to Smythe and ask him to give us a trace in order that we could pursue the chain until we found the person who delivered, the reason being that should it become necessary, owing to its late arrival, for Dennis to "sell out"[1] for a Name, the loss incurred would probably be fixed upon us for placing it late in circulation. Dennis, the ultimate seller, however, receives his Name we will assume in good time, has his transfer deed prepared, and on Account Day delivers his Shares direct to us,[2] the ultimate buyers, ignoring the trace, and receives his cash from us.

This then is a specimen Ticket, following a perfectly normal course. Similar Tickets are issued by buying Brokers for all of their clients' registered Stock and Share purchases, providing the purchases are not sold or contangoed later. Similar Tickets are used by Jobbers if they have to pay for registered securities they have bought. For the sake of simplicity, we have shown a 500 Courtaulds Ticket which remained intact all the way through the trace. This, of course, may not always be the case. When we purchased the 500 Courtaulds at 32s. 6d. from Smythe it may well have happened that he could buy them back only in broken amounts. To illustrate, we will assume that he purchased them as under—

100 from Stiff
175 from Reubens
125 from Jacks
50 from Moore
50 from Baines.

The prices we are not concerned with; these will be adjusted

[1] See Selling-out Department, page 229.
[2] Now through Centralised Delivery. See page 216.

in the accounts of the various firms. What we are concerned with is the Ticket which we have passed on to Smythe—what does he do with it? Smythe gets over this difficulty by

Splitting the Ticket

Placing our 500 Courtaulds Ticket in front of him, Smythe proceeds to write out carefully all the particulars on a "Name Pad" which is headed

"Split by Smythe & Co."

into the required denominations—Stiff 100, Reubens 175, Jacks 125, Moore 50, Baines 50 Shares. This task *carefully* completed (we emphasise "carefully" as a mistake here will mean a transfer deed being wrongly prepared), the original Ticket is retained by Smythe and the five "splits," together representing the 500 Shares for which they are just a substitute, again proceed on their journey until they ultimately find a deliverer. It may transpire that a "split" Ticket may even have to be split again, but the process goes on, the little bits into which the large original Ticket has been broken eventually finding their way to a deliverer who, in due course, presents them to us for payment, we being the original buyers and issuers of the Ticket.

While on the subject of "splits," we may point out that splitting a Ticket usually means a loss in respect of stamps and fees. The Government stamp on a transfer representing 500 Shares at 32s. 6d., the consideration money on which is £812 10s., comes to £17 (see pages 93 and 260), and the addition of the registration fee of 2s. 6d. increases this amount to £17 2s. 6d. This is the amount we have charged the client on the contract issued, and is all for which he or she is liable.

Notice, then, what happens when the Ticket is split as in the illustration. We work them all out at precisely the same price as the original Ticket; yet observe the extra expense incurred in fees and the difference in the stamp duty.

	£	s.	d.		£	s.	d.
100 at 32s. 6d.	162	10	–	Government Stamp	3	10	–
175 at 32s. 6d.	284	7	6	,, ,,	6	–	–
125 at 32s. 6d.	203	2	6	,, ,,	4	10	–
50 at 32s. 6d.	81	5	–	,, ,,	2	–	–
50 at 32s 6d.	81	5	–	,, ,,	2	–	–
	£812	10	–	Total	£18	–	–

Here we get a total of £18 against a sum of £17 for Government stamps. To this loss of 20s. have to be added four additional registration fees of 2s. 6d., as five transfers have to be registered with the company instead of one. This total loss of 30s. on "splits" is recoverable. The procedure necessary to obtain this sum is simply for the buyer to assemble the various split Tickets, attach a claim for the amount lost, and forward it to Smythe who split the original Ticket. Smythe in due course will honour the claim.

If payment for a transfer deed is withheld because of an error on the transfer, and that error is due to a mistake in splitting a Ticket, then the delivering Member may look for payment to the person incorrectly splitting the Ticket.

Definite Rules (122 and 123) are laid down governing the issue and splitting of Tickets, and, as we have indicated, liabilities exist if these Rules are not complied with.

In this connection, however, the Temporary Regulations, which have an over-riding effect as they differ somewhat from existing Rules, provide as follows—

3. (iii) The buyer of Registered Securities shall issue his Ticket by Three o'clock on the Ticket Day.

(iv) Tickets may be passed daily in the Settling Room up to half-past Three o'clock with the exception of the Ticket Day and the First Intermediate Day when they may be passed up to half-past Four o'clock.

(v) Tickets shall be passed through the accounts at the price on the Ticket, except Tickets representing Securities which at the time are subject to arrangement by the Settlement Department, which shall be passed through the accounts at the Making-up price and the Securities paid for at that price; but the consideration money in the deed must be at the price on the Ticket.

The actual passing of Tickets according to Rule 122 (4) shall commence at Ten o'clock, but Clause (5) of the same Rule provides that they may be issued and left at the Office of the Seller on the Contango Day (subject to Rule 149), and up to Three o'clock on the Ticket Day. After this hour all Tickets must be passed in the Settling Room. Rule 123 deals with the matter of splitting the Ticket as follows—

(1) A Member splitting a Ticket shall retain the original Ticket, and, should he fail to do so, he will be required to trace it in case of Selling-out.

(2) Split Tickets must bear the name of the issuer of the original Ticket and must state by whom the Ticket is split.

(3) A Member splitting a Ticket shall pay any increased expense caused by such splitting.

(4) A claim for loss on a Split Ticket shall not be valid unless made by the original Claimant within Three Months after the date of the Ticket, but the Member splitting the Ticket shall be liable to intermediate Claimants for a period of Four Months.

(5) The liability of Members to the Settlement Department for losses on Split Tickets collected by the Department shall extend for a period of Six Months from the date of the Ticket.

What, it may be asked, are all of these solemn Rules laid down for in connection with the passing of Names or Tickets? What also are the liabilities for non-compliance? How are they enforced, and when?

The answer to the first question is important, and is that the whole process for the prompt and proper transfer of title of registered securities from seller to buyer depends upon this Ticket or Name. No transfer deed can be properly made out for the signature of the seller until the details contained on the Ticket are in the selling Broker's possession. A little later on we will more closely examine a transfer deed—it falls more naturally under the work of the office than that of the Settling Room—but the point that affects us here is that this transfer deed has to be drawn up by the selling Broker to enable him to obtain his client's signature. In order that it may be properly prepared, it is essential that full particulars of the buyer, his name, address, and description should be obtained from the buying Broker. These particulars are given on the Ticket. This Ticket is, in effect, a promise to pay by the Broker whose name is at the foot, and when the signed transfer is presented to the buyer by the seller's Broker, such transfer having been made out in accordance with the particulars given on the Ticket, and accompanied by a certificate or other evidence of title, then payment is made at once. It follows, therefore, that any delay in the issue of these Tickets with their particulars, or any obstruction while they pass from Member to Member, automatically prevents or hinders the seller from obtaining payment for his security on the proper date. That is why Rules governing the issue of Names or Tickets are strict, and liabilities may be incurred if the Rules are not observed.

What then are the liabilities for non-compliance with the Rules and how are they enforced?

A seller failing to receive a Name to enable him to prepare his transfer deed is entitled to take action under Rule 155 (1), which says—

The deliverer of Securities deliverable by deed of Transfer who shall not receive a Ticket by Half-past Two o'clock on the Intermediate Day, may sell out such Securities up to Three o'clock, or Twelve o'clock on Saturday, on that day or any subsequent day.

And while the wording of Temporary Regulations dealing with the subject is altered (see page 232) the right of a deliverer to take action remains.

This is known as resorting to the

Selling-out Department

This department is under official Stock Exchange management, its full title being the "Buying-in and Selling-out Department." The officials of this organisation are appointed by the Council, and when the Selling-out Department's services are invoked the actual transactions are carried out by it, and a commission is charged in accordance with the Rules laid down in the Authorised Scale. Rules 144 and 145 which refer to this department read thus—

Buying-in or Selling-out must be effected publicly by the officials of the Buying-in and Selling-out Department appointed by the Council, who shall trace the transaction to the responsible Member and claim any difference thereon.

The charges for Buying-in and Selling-out shall be those authorised by Appendix 39. Full commission to be charged on the first attempt and half commission on every subsequent attempt.

The last-mentioned Rule relating to half-commission is mainly applicable to "Buying-in," which we will examine later. It is unusual for an abortive attempt to be made where "Selling-out" is concerned. What happens in practice is that a selling Broker, finding himself short of a much-needed Name, and unable to get, or unwilling to ask for, an explanation from his buyer, fills up a form of instruction to the Buying-in and Selling-out Department. A reproduction of this form is given on page 230.

This order to sell out, signed by a principal or authorised clerk, is sent to the Buying-in and Selling-out Department. For the convenience of Members this department's officials are housed on the floor of the Stock Exchange in an enclosure closely resembling, in size and shape, the box in which a

ORDER FORM

Please Write Plainly

N.B.—One Hour's Written Notice Must be Given to the Settlement Department Previous to Selling Out Stocks Undertaken by that Department.

From

.....

.....

To the Manager,
Buying-in and Selling-out Department,
The Stock Exchange,

.....19.....

Please SELL OUT *for names for*

To be left Blank.

..... *against* .....

..... ,, ...

..... ,, ...

..... ,, ...

..... ,, ...

This form must be signed by a Principal or an Authorised Clerk.

common jury are empanelled. With an order in his possession the official of the Buying-in and Selling-out Department proceeds to the market in which the Shares or Stocks involved are dealt in, and publicly offers the amount in question for sale. A condition of this sale—and any firm dealing with the Selling-out official knows that it is a condition—is that an immediate Name is to be forthcoming. For this reason, apart from the expense of stamps and the fact that a forced sale is in progress, a price below the prevailing market price is usually given by buyers. This probably involves a loss, increased by the charges made by the official department, and this loss has to be shouldered by the person whose liability is established as soon as the trace reveals responsibility.

It is customary, but not obligatory, for firms to notify those immediately concerned that they are going to sell out. The first result of selling-out is that the original seller obtains his Ticket.

The Selling-out Department at once starts to trace through for the Name which has failed to reach the seller. On reaching the Name, the selling-out contract is pinned to it, and if the Ticket or Name has been regularly issued, then the holder of the Ticket at liability time is saddled with the contract and the Name, thus becoming a "bear" at the net price of the contract, and he has to buy the Shares in the market for cash and pass on the Ticket. If the Ticket has *not* been regularly, that is, properly issued, then the issuer of the Ticket is responsible for the selling-out and becomes a "bear," and if he, the original buyer, wants the securities, it is necessary for him to buy them again in order to make himself even.

The whole operation to the outsider seems involved, but, as a rule, selling-out for a Name or Ticket involves the person on whom the liability falls with a loss, such loss being the difference between the net price of the contract and the price at which he buys the securities back.

At times when the securities fall in price after the selling-out has taken place, the person responsible for the selling-out secures a profit. It is seldom, indeed, that this latter contingency occurs, and for this reason excited energies are expended as liability time approaches. The speeding up during the closing minutes before the bell rings produces records for

crossing the floor which would make 100-metre Olympic contestants envious. During hectic Settlements clerks can be seen careering frantically across the Settling Room as the hands of the clock approach liability time. The stalwart buttresses conceal the fact that other clerks, equally anxious to escape being "landed," are on their way in the opposite direction, and the result has frequently been one or more bodies stretched out full length on the floor with the fatal Names, the cause of the trouble, still tightly clenched in respective hands, but still undelivered as the bell ruthlessly establishes responsibility.

The deliverer of registered securities, as we have observed, can sell out for a Ticket after half-past two o'clock on the First Intermediate Day. The liability, if this is done, is fixed by Rule 155, Clauses (4) and (5):

If a Ticket shall not have been regularly issued before Three o'clock on the Ticket Day, the issuer thereof shall be responsible for any loss occasioned by Selling-out.

The responsibility attaching to original issuers of Tickets is further emphasised by Temporary Regulation 3 (vi) which states—

(*a*) A Member receiving a Ticket from the issuer after Three o'clock on the Ticket Day shall note the fact on the back of the Ticket.

(*b*) For Securities which are subject to arrangement by the Settlement Department, a Member receiving a Ticket after Eleven o'clock on the Second Intermediate Day, or at any time on any subsequent day, shall mark the date and exact time at which such Ticket is received.

(*c*) For Securities which are not subject to arrangement by the Settlement Department, a Member receiving a Ticket after Eleven o'clock on the First Intermediate Day, or at any time on any subsequent day, shall mark the date and exact time at which such Ticket is received.

(*d*) Members omitting to note the times thus fixed may become liable for losses occasioned by Selling-out.

Actual times for Selling-out, with special provision for Clearing securities, are given in Temporary Regulation 3 (vii):

Selling-out may take place between half-past Two o'clock and Three o'clock on the First Intermediate Day or between Eleven o'clock and Three o'clock on any subsequent day. If the security be one of those undertaken by the Settlement Department written notice stating from whom a Ticket is required must be given to the Department at least one hour before Selling-out and in no case shall such Securities be sold out before Twelve o'clock on the Second Intermediate Day.

While Clause (viii) of the same Temporary Regulation summarises Selling-out liability times as follows—

The following liability times will be applicable unless undue delay in the passing of the Ticket can be proved.

For Tickets regularly issued before Three o'clock on Ticket Day.

Selling Out On	Non-Clearing Stocks Holder of Ticket at	Clearing Stocks Holder of Ticket at
First Intermediate Day	Two o'clock on First Intermediate Day	———
Second Intermediate Day	Twelve o'clock on First Intermediate Day	Twelve o'clock on Second Intermediate Day or if in Settlement Department at that time Two o'clock on the Second Intermediate Day
Account Day and Subsequent Days	Three o'clock on Day previous to Selling-out	Three o'clock on Day previous to Selling-out

Liability Times

Summed up in brief, under Temporary Regulations the times which Members or their Name clerks have constantly in mind are as follows—

Ticket Day	3 o'clock	(for issue and receipt of names first hand, including scrip.)
	3 o'clock	(for timing names not conforming to above.)
	4.30 o'clock	(latest time for passing tickets in Name Room.)
First Intermediate Day	11 o'clock	(for timing names not dealt with by Settling Department.)
	12 o'clock	(liability for selling out on Second Intermediate Day. Not Settlement Department Securities.)
	2 o'clock	(liability for selling out on First Intermediate Day.)
	4.30 o'clock	(latest time for passing tickets in Name Room.)
Second Intermediate Day	11 o'clock	(for timing names for securities subject to arrangement by Settlement Department.)
	12 o'clock	(liability for selling out Settlement Department Securities.)
	2 o'clock	(liability as above if ticket is in Settlement Department at 12 o'clock.)
	3.30 o'clock	(latest time for passing tickets in Name Room.)
Account Day and subsequently	3 o'clock	(liability for any outstanding names sold out on day following.)
	3.30 o'clock	(latest time for passing tickets in Name Room.)

These liability times are productive of a sense of responsibility to all concerned who handle these important dockets, and the continuous flow goes on during the days set aside for

the Settlement until all parties, buyers and sellers, are satisfied. Special instructions exist relating to selling-out for Bearer Securities [1] and Inscribed Stocks,[2] and the Rules dealing with these are given later. The regulations affecting Settlement Department Stocks, bargains done for a specified date, Names sold out but not forthcoming, and finally the release of intermediaries are important, and the following Rules will show how these are dealt with.

As mentioned, it is not necessary for a seller to give notice to his buyer if he resorts to selling-out, in order to obtain his Ticket. Notice, however, *is* required in the case of Stocks and Shares dealt with by the Settlement Department, as will be seen from Rule 155 (3) which is incorporated in Temporary Regulation 3 Clause (vii) quoted on page 232.

Bargains done for a specified date, and selling-out Names not forthcoming, are dealt with by the following Rules—

In the case of a Bargain for a specified date, the deliverer who shall not receive a Ticket by Half-past Two o'clock (or Half-past Eleven o'clock on Saturdays) on the day before such specified date may sell out the Securities up to Three o'clock (or Twelve o'clock on Saturdays) on that day or any subsequent day. (Rule 155 (2).)

When Securities are sold out, if a Ticket be not given within half an hour after the time of sale, the transfer may be made into the name of the Buyer. (Rule 157.)

It is a common practice, however, for a Member who has bought Stock offered by the Selling-out Department, to hand out at once to the official who conducts the sale, a Ticket with the name or names into which the buyer wants the security transferred.

Instructions which are extremely important to intermediaries in the case of the declaration of any Member as a defaulter are laid down in Rule 156, and confirmed by Temporary Rule 3 (ix):

Should the deliverer of Securities deliverable by Deed of Transfer allow Two business days from Three o'clock on the Second Intermediate-day to elapse without availing himself of his right to sell out, his Buyer shall be relieved from all loss in cases where the Ticket has not been passed in consequence of the declaration of any Member as a Defaulter. If a Seller does not deliver Securities within Two business days, Saturday excepted, from the Buying-in day, the intermediate Buyer from whom he received the Ticket shall be released, and the issuer thereof shall alone remain responsible for the payment of the purchase-money.

[1] See page 290. [2] See page 297.

The Settlement Department

So many references have been made to this department that it is necessary here to examine its activities. It is an official organisation under the control of a manager, who is responsible to, and appointed by, the Stock Exchange Council. The wording of the Rule which defines its existence and membership is peculiar, and reads thus—

> A Firm or Member dealing either as a Broker or Jobber in Securities of which the Settlement Department undertakes the Settlement shall be a Member of that Department. (Rule 98.)

That is to say, while membership is not compulsory, any Member who has transactions in any Stock or Share that department adopts, automatically becomes a Member of the Settlement Department, and is subject to its regulations. Also as the list of securities which this department "settles" is constantly changing, one can never be certain, if outside its membership, whether the following Account will not witness one's membership of this organisation established. As this department is self-supporting, it follows that membership is on a contributory basis. The amount charged to Members is a fluctuating one, the assessment made being proportionate to the extent the organisation is used. A firm of Jobbers, therefore, having fifty bargains in Courtaulds in the course of an Account would be called upon to pay fifty times more than a Broker whose transaction in this security was limited to one bargain as the charges are assessed at so much per bargain. A system of fines for non-compliance with Rules is designed for the efficient working of the Department, but these are not often imposed. A charge at cost price is made to Members for the Clearing Sheets required.

The Settlement Department is commonly known as the "Clearing House" or the "Clearing," and these words briefly explain its object. It exists in order to expedite and assist in each succeeding Settlement. Strictly speaking, its work is not carried out in the Settling Room under the Stock Exchange, although the later stages of its activities are conducted there. The initial work is undertaken in a number of offices above the Exchange. What the "Clearing" actually undertakes to do is to eliminate as far as possible all intermediaries in the thousands of transactions which take place during an Account, and bring

together ultimate buyers and sellers. For this purpose a staff of 150 to 250 clerks is employed, a small section of whom belong to the permanent staff. The remainder are temporarily engaged during the period of the Settlement. Great strain is thrown on this department during boom times, when it is necessary to increase the number of clerks employed. The work of the department commences in the evening when nominally the work of the average office is finished, and the department labours take a large number of its workers on all through the night. For this reason the department have a small canteen and careful attention is given to victualling the staff during the night hours.

What strikes the onlooker who surveys the stupendous task of the Settlement Department at "full throttle" is the efficient organisation at work, and the complete absence of any mechanical assistance. No typewriting machines tap out their printed particulars, no comptometers lend their mysterious aid. The whole of the work is done by hand. From out of a maze of figures and totals deft fingers produce, from the apparently hopeless chaos of the evening, smooth working order and efficiency by morning. An idea of the figures involved can be seen from the fact that, in one Stock Exchange Account and in 51 registered securities alone, the department settled—

23 securities ranging from 1 to 5 million shares in each
10 " " " 5 to 10 " " "
5 " " " 10 to 20 " " "
13 " over 20 million shares in each.

A further indication of the volume of business which this department is called upon to deal with is seen from the amount of "splits," which in one year reached a total sum of £50,000! It is fair to say the average Member or office manager handing in his Clearing Sheets to the department has little idea of the complicated machinery which awaits them, and the dislocation that is caused if they are overdue, or if the items entered up are inaccurate.

The "Clearing" or Settlement Department is primarily concerned with securities which are active. For each Account a sheet is published giving a list of the Stocks of which the department undertakes the settlement. The passport to inclusion on this list is activity. Working on the principle of taking the strain where it is most felt, Stocks and Shares are usually

included directly public interest is focused on them and active dealings develop. A Share high in public favour, even though its elevation to favour is temporary, is accorded a welcome by the department that feeds on that Share's popularity. A Stock similarly exalted by the flattering attention of investors immediately becomes a candidate for inclusion in the select category. If either or both fall from grace, and through public neglect dealings become few and far between, then, so soon are these securities liable to be removed from the list, to make way for other and more active counters on which public fancy may fall. At times it has been Rubber Shares that have imposed the greatest strain on the department, at others Home Railway Stocks, Textile or Gold-mining Securities. Foreign Government Stocks are often included, but the department does not undertake the settlement of British Government Stocks for the reason that all dealings in them are for cash.

Clearing Sheets

The system on which the Settlement Department works is the handling of balances, and the basis of that system is the Settlement Department List—or, as it is better known, the Clearing Sheet—which shows those balances. These Clearing Sheets (see pages 238–9) must be made out by every Member who has had any transaction in securities dealt with by the department. The Settlement Department is not concerned with the cash involved, and does not require to know the prices at which various bargains have been transacted. The department does want a complete record of every bargain, large or small, and these must be faithfully recorded on the Clearing Sheet, which must be rendered to the department by 3.30 p.m. on the Making-up Day. Clearing Sheets are made out for each individual Stock, and on every Clearing Sheet provision is made on the one side for purchases or Stock to take, and, on the other, sales or Stock to deliver. If a single transaction in Courtaulds has been entered into during an Account, then the Member's Clearing Sheet must record that transaction, showing whether he stands to take or deliver that particular number. If two hundred bargains have been transacted in Courtaulds, then every single item must be returned on that Member's Courtaulds' Clearing Sheet, showing at the end the *number on*

Date..... **SETTLEMENT DEPARTMENT LIST** |_____

Name of Stock .... *Name of Member*..... .....

Index Number of Stock

TICKETS REQUIRED FOR DELIVERY:		Surnames first in Alphabetical Order	To be left Blank	Surnames first in Alphabetical Order	WE ARE PASSING TICKETS FOR:	
To be left Blank	AMOUNTS	To TAKE Stock of		To DELIVER Stock to	AMOUNTS	To be left blank
			1			
			2			
			3			
			4			
			5			
			6			
			7			
			8			
			9			
			10			
			11			
			12			
			13			
			14			
			15			
			16			
			17			
			18			

| | | |

balance the Member has to take or deliver. The words printed in italics reveal at once the enormous saving in detail ensured to a busy firm of Jobbers. At one stroke are eliminated by the Clearing Department all the multitudinous details connected with the settlement of each and every transaction. All the numerous bargains shown on a Jobber's Clearing Sheet are, in effect, offset one against the other, the only thing remaining for them to do being either to take or to deliver Stock or Shares on balance. If, for instance, the balance of a Jobber's Sheet shows him to have sold 100 Shares more than he has purchased, then a Ticket or Name will be due to him as a deliverer from the "Clearing." Should he, on the other hand, have purchased on balance 200 Shares more than he has sold, then the Jobber issues his Name for that number to the "Clearing."

To facilitate the work of the Department, Jobbers are supplied with special Clearing Sheets. These are identical with those issued to Brokers, and the wording is the same except that the final column headed "We are passing Tickets for" is worded "Jobbers must indicate the amount of each Ticket they intend to pass," while space is left to show where the 10s. "Nominal" Stamp and Full Stamp apply.

What transpires when all Clearing Sheets are sent in to the Settlement Department is that they are immediately sorted into the various Stocks. Then from the hundreds of Sheets relating to each security an intensive process of agreeing each individual entry proceeds. It is clear that without agreement of all entries no possible settlement could be brought about. As is stated on the instructions at the foot of the Clearing Sheet, it is the practice of the department to alter items that disagree by adopting the entry for the smaller amount and by striking out items that have no contra. Notices of alterations and omissions are placed in Members' boxes in the Settling Room. All items on the Clearing Sheets relating to a particular Stock having been agreed by the Settlement Department, the next step is the preparation of a list of takers' balances, and a list of deliverers' balances, this process bringing appreciably nearer the object the department has in view, namely, the introduction of the ultimate buyer to the actual deliverer.

The ideal Settlement would be for every item on every Sheet to agree and for all deliverers' balances when extracted automatically to fit in with all the takers' balances. What, however, complicates the task is that, whereas Jobbers are usually content either to pass or to receive a single Ticket for the balance shown on their Sheet, Brokers on their part are asked to state the amounts of the Tickets they intend to issue, as well as the amounts required for delivery. It will be seen at once that to Brokers this is a vital matter. As a result of an Account's trading, a Broker may have to pay for 1,500 Shares which have been purchased for ten different clients. These Shares must be registered in the clients' individual names, and the Broker desires to pass his Tickets in this manner. Possibly, his Clearing Sheet would show him delivering on balance 2,400 Shares, which actually come out of the names of twelve different clients. Appropriate Tickets are here required. This is the Settlement Department's work and here arises the most intricate task of all, making a trace of dealing between the taker and deliverer to ensure that should a "failure" occur, the firm next on the trace to the defaulter shall be liable for the bargain. The necessity of making this trace between buyers and sellers entails much time and labour. There follows the various requirements of Brokers, the fitting in of amounts large and small, the adjustment of errors, the provision for the Jobber's 10s. stamp, and the splitting of Tickets where necessary, and these matters transform the Settlement Department's work into one of great complexity and skill. The saving of labour to Members, however, is unquestionable, and the smooth working of the department makes one wonder why such efficiency cannot be extended to include the payment of differences and Stock deliveries on and after Account Day, particularly as the organisation exists for such an extension of the Settlement Department's activity.

The student who doubtless agrees with the utility of a central clearing organisation as outlined above will be more concerned to know, if he is called upon to make out the Sheets for his firm, just how to proceed.

First, a record of all transactions entered under the heading of Stocks is required; next a supply of Clearing Sheets, which is obtained from the Settlement Department. At the foot of

these Sheets, as will be seen by reference to the illustration, are carefully worded instructions, the opening paragraph, after a request to "Please write plainly and in ink," being—

"All Stocks and Shares entered on the printed List of Subscribers, as those which the Department settles, must be returned. On the Lists the names must be placed alphabetically and surnames before initials. The Lists must be cast up, and the totals clearly stated."

The List of Subscribers is the Settlement Department's news-sheet published every Account. Nobody can accuse the department of printing its instructions indistinctly. The sheet measures 20 in. by 15 in., and on it are given the names of all firms who are subscribers. On the reverse in type which is unmistakable is given a list arranged alphabetically of all securities settled by the department. Additions to this list which are made for the first time are printed in type half an inch high. This list must be in front of every clerk who has to make Clearing Sheet returns, as accuracy is imperative and fines for omissions and mistakes are heavy. Here is the list of fines to which, by resolution of the sub-committee, subscribers to the department are subject—

For Lists not sent in by 3·30 p.m. . .	10s.	per list
,, omitted to be sent in, not less than	£1	,,
,, on which the sides are reversed .	10s.	,,
,, without any alphabetical order .	5s.	,,
,, not headed with Name of Stock or Member	2s. 6d.	,,

With these three—the list of alphabetically arranged Stocks, the List of Subscribers, and the Clearing Sheets—the task is straightforward if careful attention is paid to the printed instructions. Where the Stock that is "cleared" is a *registered* one, all amounts and any number of Shares must be entered. Where the Stock is to *bearer*, that is, in the form of Bonds or Certificates, great care must be exercised to see that the amounts entered are in multiples indicated on the List of Securities. Bearer Shares range from 5 in the case of Rio Tintos, and many others, to 100 in the case of British American Tobacco. Bearer Stocks can be "cleared" in any amounts with few exceptions of which Peru Corporation 6 per cent Debentures in multiples of £100 is an example. What happens in the case of a subscriber having dealt in a number of Shares or amounts of Stock outside the multiples laid down is to

"clear" as near as possible to the total, leaving the balance to pass by ordinary delivery.

Apart from the fines mentioned, the Settlement Department draw special attention in their instructions to the following points, observance of which is necessary to the smooth working of their arrangements:

1. All Lists must be sent in before 3.30 p.m. on the Making-up or Contango Day, that is, the first day of the Settlement period.
2. In order to facilitate the work of the Department Members are asked to write the Index Number of the Security in the space provided on the Clearing List and to sort Lists in Numerical Order. The Index Number of each Security is given on the instruction sheet.
3. Brokers and Jobbers must state on their Clearing List the amount of each Ticket they intend to issue as well as the amounts required for delivery.
4. Brokers are particularly requested to schedule every Buying and Selling Bargain separately; and
5. Jobbers are requested to enter on their Clearing Lists the Totals of both their Bought and Sold Bargains with other Jobbers instead of the Balance of such Bargains.

Experienced clerks soon memorise which are the established Clearing Stocks, but it is always necessary to have the official Settlement Department list to work by. The Department particularly asks that in order to facilitate the Settlement all lists should be sent in as early as possible, and that in cases where a number of lists are to be returned, the largest list should be sent in first. It may happen that a buyer of securities particularly desires to pass his Ticket to the firm with whom he dealt. This can be done if it is signified on the buyer's Clearing Sheet. A seller anxious to settle with his immediate buyer only, and not through the Settlement Department, can also do so by arrangement.

Before leaving the Settlement Department we draw attention to Temporary Regulation 3 (ii) which affects the whole of the Securities handled by that Department. Taking precedence of Rule 122 (3) which hitherto gave direction in the matter of Making-up prices, the Temporary Regulation proceeds—

Making-up prices will be fixed only for those Securities which are subject to arrangement by the Settlement Department. These prices will be available at 10.30 a.m. on the Making-up Day and will be based on the prices ruling at the close of dealings on the previous business day.

As the practice of paying for securities at the Making-up price as set down in Rule 122 (3) is still observed, these directions are of importance to clerks dealing with securities in a Broker's or Jobber's office, and should be remembered when studying what is set out in the following chapter under the headings "Preparation of Transfers" and "Paying for Transfers."

CHAPTER XII

HOW TITLE IS TRANSFERRED

REGISTERED Title—Deed of Transfer—Exchange Control Act, 1947 (Transfers)—Consideration Money—Nominal Consideration—Certification—Preparation of Transfers—Government Stamp Duty—Stamp Requisition Forms—Paying for Transfers—Registration—Blank Transfers.

ONE of the features of Stock Exchange procedure is the rapidity with which it is possible for title to change hands. Largely for this purpose the Stock Exchange exists, and the ease with which all dealings are completed despite the complications of dividends, rights, calls, discounts, liabilities, and other difficulties is alone a justification for its existence. Actually, the change of ownership in respect of a transaction takes place from the time the Broker says "I buy five hundred of you," and the Jobber says "I sell you five hundred," or the reverse, according to which way the undertaking is entered into. Jobbers can, and often do, deal with Jobbers—dealings between Brokers are much less frequent—but whatever the security or the amount, from the actual moment when two Members or their authorised clerks signify by the use of the words mentioned or by the exclamation "Yes," or by any other sign that they have dealt, *from that moment* ownership changes. Stock bought may be resold within the space of seconds or it may be retained for years; but from the precise juncture when the Stock changes hands on the floor of the "House," in the "Street," or over the telephone, all rights, dividends, and other advantages pass to the buyer, together with liabilities for future price movements consequent upon calls, bad news, or other unfavourable developments.

What follows for the Broker where a purchase has been made is the routine of issuing a contract, and later the establishment of title for his client in the shape of documentary proof. The fact, however, that this proof is not in his client's possession in no wise affects ownership. It is not unusual for long delay to be met before such proof can be obtained. Some companies are notoriously slow in the preparation of certificates. In some cases Stock will be sold by a Jobber only on condition that no pressure is used to obtain delivery. The Stock or Shares in

question may be difficult to obtain, and while a Jobber may be willing to oblige an insistent buyer with the protection afforded to the former of "Not to press," months may pass before the Jobber is in a position to complete delivery. Such delay is unusual, and it should be mentioned that the Stock Exchange Council do not recognise bargains with this provision attached, as it automatically negatives the means provided by the Council for obtaining delivery. The point we desire to emphasise is that, however long completion may take, from the date and actual time of the bargain all advantages or disadvantages accrue to the buyer.

It will be easy for the student to see that on no other lines could Stock Exchange business be conducted. An examination of contango business will show that persons could buy, and thus enter into ownership of securities for which, apart from a contract note, no evidence of title was held. Yet all the privileges and responsibilities of ownership devolved upon the buyers in precisely the same way as would be the case if they had held the Bonds or registered securities in their possession. A buyer, under such circumstances, may have been the owner for three months of a security which he then sells. During the whole time he had never seen his Stock, and when it was sold it never passed through his hands. If the buyer decided to "take it up," that is, pay for his purchase, then immediately began the task of his Broker, namely, the production of final proof of Stock- or Share-holding in the shape of an official document which could be put away in the safe or handed to a bank for custody.

This introduces an elementary point perhaps, but one which students will want explained. In what form do securities pass in order that clients may know what they possess? How do they pass through the office, and how can they be recognised and identified?

In brief, securities are of three kinds—

Registered,
Bearer, and
Inscribed.

The organisation of the Settlement Department and the arrangements in the Settling Room which we examined in the last chapter are designed to assist the speedy transfer, from the seller to the buyer, of registered title.

Registered Title

By far the largest number of Stocks and Shares which change hands in this country are in registered form—that is, the owner is registered with the company as the proprietor, and a certificate exists with his or her name written in as the proprietor. On a change of ownership, what is necessary is the cancellation of the existing certificate and the preparation of a fresh one in the new proprietor's name or that of a "Nominee." In few instances, unless special reasons are present, will buyers allow Shares or Stock to remain in another person's name, as in such cases the security is out of immediate control. The establishment of title in the form of a certificate registered in the new buyer's name is obviously a matter requiring time, and the method of bringing this about we will now examine.

Before a company whose capital is in registered form will make any alteration in its records relating to the ownership of Stock or Shares there must be deposited at its office a properly executed

Deed of Transfer

This transfer deed is a legal instrument in common use for the purpose of conveying property which, in our case, is in the form of Stock or Shares. It provides for particulars of the seller, the consideration received for relinquishing his property, the name of the purchaser, and a description of the property, together with a solemn declaration which has to be attested by both the seller and the buyer. This deed must be stamped with the Government *ad valorem* duty as laid down on page 93, and must be signed by both parties to the transaction. If there is one seller only, then he or she must sign the transfer deed and the signature be properly witnessed. If several are joint holders, then all must sign, and each signature be duly witnessed. The various descriptions of the sellers must agree with those registered with the company, and the particulars contained in the body of the transfer relating to the property must be identical in all respects with those on the certificate which accompanies the transfer deed. Beneath the place for the seller's signature is space for that of the buyer, who also must sign the transfer deed accepting the sale to him. If several buyers are to be the registered holders, then all must sign, each of the signatures being also duly witnessed. With this transfer

deed and the certificate or its equivalent in front of them, on payment of the registration fee (usually 2s. 6d. per deed), a company will proceed to register the security into the name or names of the new proprietors. The executants of a transfer deed are usually referred to as the transferor and the transferee. The seller is the transferor and the buyer the transferee.

There are important points in connection with transfer deeds which we should know, as they are familiar in all Stock Exchange offices.

We give a reproduction of a common form of transfer on page 251.

Exchange Control Act, 1947 (Transfers)

On the reverse of the transfer form will be found important declarations which replace the well-known Enemy Declaration Forms D.1., 2 and 2.A brought into existence by the War. Authority for these new declarations is the Exchange Control Act, 1947, and the undertaking called for on behalf of the Transferor(s) is to the effect that "the holder(s) of the within-mentioned security is not resident outside the Scheduled Territories [see below] and . . . is not to the best of our belief holding the security as the nominee(s) of any person(s) resident outside those Territories." No transfer deed is good delivery unless this declaration is signed on behalf of the seller, and before registration can be effected into the new buyer's name a similar undertaking must be signed on his, her or their behalf. These declarations (1) and (2), which must be carefully and conscientiously completed, must bear the stamp and signature of an Authorised Depositary [see below] or a Temporary Recipient [see below], and if the undertaking above cannot be made, then Declaration 1A, requiring a Licence issued by the Bank of England, falls to be completed on behalf of the transferor, and 2A on behalf of the transferee.

The following definitions were given by the Bank of England in their instructions E.C. (Securities) 1, when the Exchange Control Act, 1947, came into force on the 1st October, 1947:

(1) *Scheduled Territories* . . . "the British Empire (excepting Canada and Newfoundland), British Mandated Territories, British Protectorates and Protected States, Iraq, Transjordan, Iceland and the Faroe Islands."

(2) *Authorised Depositary* . . . "persons appointed by order of

H.M. Treasury to receive securities into deposit in accordance with the terms of the Act. Authorised Depositaries may also in certain circumstances approve forms and give declarations relating to and otherwise deal in or with securities." These Authorised Depositaries comprise in addition to the Bank of England and the Share and Loan Department of the Stock Exchange London, offices in the United Kingdom of practically the whole of the names familiar to the Banking world.

(3) *Temporary Recipients* . . . "Persons, firms, corporations, etc., in the United Kingdom who are holders of Principal's Licences or are exempted . . . under the Protection of Fraud (Investments) Act, 1939." These Temporary Recipients comprise all recognised Stock Exchanges, firms of Solicitors in the United Kingdom, the Public Trustee and the Accountant General of the Supreme Court.

It should be noted that there are certain securities passing by deed of transfer which require the completion of Form BA and BUK referred to later under Bearer securities. Such securities are those "transferable in a Register outside the Scheduled Territories or in a Subsidiary Register within those Territories." Such transactions require Form BA. Form BUK is used exclusively for Prescribed Securities, and a definition of a Prescribed Security is given on page 285.

Consideration Money

This is the first point to be noticed on a transfer deed, and immediately follows the space for the seller's name. Here we light upon a constantly recurring source of difficulty, which is, that this amount very seldom represents the sum of money which the seller will receive. Why is this? The simple explanation is that the buyer, to whom the seller is introduced through the medium of the Ticket, is not necessarily the person to whom the Stock or Shares are sold. In the case of a house it is probable that the seller will, through an agent, sell direct to the buyer. In the case of securities it is extremely improbable. Within the fourteen-day Account in which a particular sale takes place the Shares or Stock in question may have changed hands a dozen times. The consideration on the transfer deed is made out from the details on the Ticket, and the particulars relate to a buyer who may bear no relation whatever to the seller who ultimately receives the Ticket. During the Settlement a Ticket, or more than one, is matched up most conveniently with a view to dispatch, as we have seen in the case of the Settlement Department. The Ticket for a hundred

Shares purchased on the last day of the Account may find its way to a seller who dealt on the first day when dealings for that period commenced, or a Ticket for £500 Stock bought on the opening day may be traced through or passed to the Broker of a client who sold just before the close of that Account. If the selling client who is asked to sign the transfer deed, and who is perplexed by the strange anomaly between the consideration money entered on the deed and the amount he is to receive, were to see the Ticket which his Broker holds, he would probably find on the reverse side a whole string of names of buyers and sub-buyers, removing the seller not once or twice but possibly two dozen times from the buyer who ultimately will take his Stock, and whose purchase price is that which will appear on the transfer deed. Whatever sum is entered as the consideration money on a transfer deed—it may be more or it may be less—it in no way affects the sum the seller is to receive in accordance with the bargain price and the contract which has been rendered.

So disturbing to the seller is this matter of the consideration money that an explanatory note dealing with the point will be found at the foot of most transfer deeds. This extract from the Stamp Act but adds to the difficulties of some clients, who see in the explanation of the stamp impressed at the top left-hand corner of the transfer an added legality given to the sum in question. Actually, where the amount of the consideration is smaller than the amount to be received by the seller it need not cause him any concern. When the amount is more, the client who has sold must console himself that there was a time when the buyer, who has given this enhanced price, could have obtained the Stock more cheaply!

It should be mentioned here that frequently the amount that follows the words "In consideration of the sum of" is five shillings or ten shillings. This is what is known as a

Nominal Consideration

Nominal stamp is permitted by Sect. 42 of the Finance Act, 1920, and is applicable to Stock or Shares taken up by Jobbers in their ordinary course of business. This concession by the Inland Revenue authorities is explained on page 93. Nominal consideration is also allowed under the provisions of

Certificate for £ Stock forwarded to the Company's Office by
Shares

I/We

in consideration of the sum of [See note at foot]

paid by

hereinafter called the said Transferee

Do hereby bargain, sell, assign and transfer to the said Transferee

( ) and in the undertaking called the

To HOLD unto the said Transferee , Executors, Administrators, and Assigns, subject to the several conditions on which held the same immediately before the execution hereof; and the said Transferee , do hereby agree to accept and take the said subject to the conditions aforesaid.

As WITNESS our Hands and Seals this day of in the year of our Lord One thousand nine hundred and

Signed, sealed, and delivered, by the above-named.
in the presence of
[1] Witness to sign here — Signature[1] _____ Address _____ Occupation _____ SEAL

Signed, sealed, and delivered, by the above-named
in the presence of
[1] Witness to sign here — Signature[1] _____ Address _____ Occupation _____ SEAL

Signed, sealed, and delivered, by the above-named.
in the presence of
[1] Witness to sign here — Signature[1] _____ Address _____ Occupation _____ SEAL

Signed, sealed, and delivered, by the above-named
in the presence of
[1] Witness to sign here — Signature[1] _____ Address _____ Occupation _____ SEAL

NOTE. The Consideration-money set forth in a Transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer. The Stamp Act requires that in such cases the Consideration-money paid by the Sub-Purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question:

"Where a person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other person and the Property is in consequence conveyed immediately to the Sub-Purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-Purchaser."—(54 and 55 Vic. cap. 39 (1891), Section 58, Sub-section 1).

INSTRUCTIONS FOR EXECUTING TRANSFERS

[1] When a Transfer is executed out of Great Britain it is recommended that the Signatures be attested by H.M Consul or Vice-Consul, a Clerk [illegible] or by some other Person holding a public position [illegible] Companies refuse to recognise Signatures not so attested. When a Witness [illegible] Wife, or Widow, and if a Wife she must give her Husband's Name and Address and Quality, Profession, or Occupation. The Date must be inserted in Words and not in Figures.

A wife may not witness the signature of her husband and *vice versa*.

Sect. 74 of the Finance (1909–10) Act, 1910, in respect of transfers which come under the following headings—

1. On the appointment of a new trustee of a pre-existing trust, or on the retirement of a trustee.

2. To a mere nominee of the transferor where no beneficial interest in the property passes.

3. As security for a loan, or a retransfer to the original transferor on repayment of a loan.

4. To a residuary legatee; Stock, etc., which forms part of the residue divisible under a Will.

5. To a beneficiary under a Will who is entitled to the Shares as a specific legacy.

6. To transfer to the party or parties entitled, Shares, etc., forming part of the property of a person dying intestate.

7. To a beneficiary under a Settlement on distribution of the trust funds, of Shares, etc., forming the share, or part of the share, of those funds to which the beneficiary is entitled in accordance with the terms of the Settlement.

In the above list it is understood that Stock is included as well as Shares. Other circumstances may arise which warrant a transfer being negotiated on the nominal stamp of 10s. If such transfer does not fall clearly within any of the above categories, the circumstances giving rise to the transfer should be stated to the Inland Revenue, and an explanation of the facts given. For instance, a transaction in partly-paid Stock or Shares, where the seller gives a consideration to the buyer to take the security, is allowed to pass on a 10s. stamp. In any case application has to be made to the Marking Officer, to whom must be presented an undertaking signed by either—

(*a*) Both transferor and transferee, or

(*b*) A Member of a Stock Exchange or a solicitor acting for one of the parties, or

(*c*) An accredited representative of a bank,[1]

before the form is duly signed by the Inland Revenue Marking Officer. This form is necessary for production to the registration officers of companies as authority to register the transfer which is stamped with a nominal duty of 10s.

So close is the distinction at times between transfers which

[1] *Note.* When the bank or its official nominee is a party to the transfer, the certificate to be given may be to the effect that "the transfer is excepted from the provisions of Section 74 of the Finance (1909–10) Act, 1910."

may and may not be negotiated on a 10s. nominal stamp that it may assist to state the conditions under which such concession is *not permissible*, and where the full *ad valorem* duty is payable.

Such cases which must bear full stamp duty are—

1. On sale.
2. In full or part satisfaction of a pecuniary bequest.
3. In liquidation of a debt.
4. In exchange for other securities.
5. By way of gift.
6. A transfer from a vendor made by direction of a purchaser to a person who is to hold the Shares as security for a loan made to a purchaser.

Here, again, Shares embrace Stock, and sale, of necessity, includes purchases. The distinction is a fine one between 6 above and 3 where the 10s. stamp *is* allowed, but the regulations are designed to prevent the purchase of securities by means of raising a loan, and of thus avoiding the legal stamp duty.

A transfer deed, although properly executed, will not be paid for by a buyer without production of evidence of title. This may take the form of a company's certificate, or some form of provisional scrip. The place of these evidences of title is often taken by what is known as

Certification

This is a stamped or signed undertaking that evidence of title has been produced to the authority giving the certification. The utility of and need for this arrangement will be obvious when it is seen that a Broker selling 500 Courtaulds may receive five Tickets of 100 Shares. In due course five transfer deeds are signed by the client, which deeds have to be delivered. In the selling client's possession is one certificate for 500 Shares. For such a case the procedure would be for the seller's Broker to produce to the company the certificate for the 500 Shares, together with the five transfer deeds for certification. The company then would certify on each transfer that a "Certificate representing the within-mentioned 100 Shares has been deposited at this Office" pending production of the transfer deed for registration into the buyer's name. The company would then retain the certificate, and each transfer deed

bearing on its face the company's official declaration that they held the appropriate certificate of title would then be good delivery, and would be paid for by the purchaser subject to its being otherwise in order.

Provision is made for this arrangement by the Stock Exchange Rule 129, Clause 1, which reads—

> The Buyer of Securities may refuse to pay for a transfer deed unaccompanied by the Certificate, unless it be officially certified thereon that the Certificate is at the office of the company. But if the transfer deed be perfect in all other respects, the Securities must not be bought in until reasonable time has been allowed to the Seller to obtain the certification required.

Of recent years an important extension has been given to the facilities for obtaining official certification:

> If the Seller (goes on Rule 129) have a larger Certificate than the amount of Stock conveyed, or only one Certificate representing Stock conveyed by two or more transfer deeds, the Certificate may be deposited with the Secretary of the Share and Loan Department of The Stock Exchange, or an official of that Department to be appointed for the purpose, who shall forward it to the office of the Company, and certify to that effect on the transfer deeds, which shall then be a good delivery. No person is to look to the Council of The Stock Exchange as being liable for the due or accurate performance of those duties, the Council holding themselves, and being held, entirely irresponsible in respect of the execution, or of any mis-execution, or non-execution, of the duties in question.
>
> The foregoing provisions shall apply to any transfer of any Shares which the Department may at any time certify.

The method adopted by authorities who certify transfer deeds is clearly explained in this Rule. It is simply that the company or an accredited authority will appropriate a single certificate in exchange for two or more signed statements that the company hold the equivalent title. These brief statements are termed "certifications." In any event, on a change of ownership, the original certificate would have to be forwarded to the company. What happens in the case of certification is that the authority giving such certification forwards the actual certificate to the company concerned, where the certificate is cancelled, or awaits the relative transfers which are in course of signature, and which will reach the company in due course, for registration into the buyer's name.

A fee of 1s. is payable each time the Stock Exchange facilities for certification are used. Books of twenty lodgment forms are obtainable from the Share and Loan Department, for which

books 20s. each is charged. Separate books are used for Stock and for Shares. Two distinct copies of each instruction must be lodged, the original being in ink. The carbon duplicate must be legible. These forms must be furnished with full particulars relating to the company, the Stock, the transferor and transferee, and the manner in which the amount represented by the certificate is to be disposed of. In the case of Shares the distinctive numbers on the certificates must be given; also the distinctive numbers which are being transferred. If all the title represented by the certificate is not dealt with, provision is made for the balance. Should the holder have sold part only of what is represented by the certificate and a balance certificate is required, an instruction can be given for the latter to be sent either to the Stockholder or to his representative. Other contingencies are provided for by the wording on the form as follows—

If the balance is to be retained by the Department, strike out the words "Certificate for Balance to be sent to" and add "Name Shortly." If the balance is to be retained by the company to meet transfers not certified by the Department, add instructions to that effect and furnish the name and address of the party by whom the transfers will be presented to the company for registration.

In cases where a balance of Stock or Shares is retained by the department, the Stock Exchange Council have ordered that, unless appropriated within ten days after the first Account Day following the date of deposit, the company must be instructed to forward a certificate for such unappropriated Stock or Shares to the depositor.

This arrangement for certification is extremely useful. It eliminates the risk, time, trouble, and expense of forwarding signed transfer deeds to companies' offices which often are in remote parts of the country. The further problem of whose signature is a valid and acceptable one when it appears as having certified a transfer deed has been practically solved by the following extract which forms Clause (3) of Rule 129 we have previously quoted:

A transfer deed shall be deemed to be officially certified if it is certified (*a*) by or on behalf of the Company concerned, (*b*) by an official of the Share and Loan Department as provided in Clause (2), or (*c*) by an authorised official of any Stock Exchange affiliated to the Council of Associated Stock Exchanges, provided that the Council has by Resolution agreed to recognise such certification.

Such Resolution was confirmed on the 19th October, 1931, as follows—

That under Clause (3) of Rule 129 the Committee for General Purposes agree to recognise certification of transfer deeds by the authorised officials of the following Stock Exchanges affiliated to the Council of Associated Stock Exchanges.

Aberdeen	Dundee	Liverpool
Belfast	Edinburgh	Manchester
Birmingham	Glasgow	Newcastle-upon-Tyne
Bradford	Greenock	Newport (Mon.)
Bristol	Halifax	Nottingham
Cardiff	Huddersfield	Sheffield
Cork	Leeds	Swansea
Dublin		

An important extension to the facilities for Stock Exchange certification, hitherto only available for securities quoted in the *Official List*, was later inaugurated. In 1938 the Secretary of the Share and Loan Department announced that authority had been given by the Committee to certify certain unquoted fully-paid Shares and Stocks. While these comprised active and well-known securities, the importance of this announcement will be seen from the following words: "Members are invited to name other like securities which they desire should be added to this list." This was a welcome and much-needed addition to Stock Exchange service for the public.

Space for certification will be found on the left-hand side of the top half of the transfer deed. In our illustration of the transfer deed the words appear—

Certificate for £ Stock forwarded to the Company's Office by

but alternative wordings such as—

Certificate for the within-mentioned Stock or Shares deposited with

are sometimes used. It follows that no authority would certify a transfer deed without the production of a certificate, as this would mean placing additional Stock or Shares in circulation. No certification would be given unless the Stock certificate and the transfers agreed in every respect. In the case of Shares, the numbers on the transfers must be identical with those embodied in the certificate, and any balances left over must be identified by actual numbers. Realisation of the seriousness of duplication or mistake has probably led the Stock Exchange

Council to the categorical disclaimer of responsibility which is noticeable in Clause (2) of Rule 129 which sanctions official certification.

Preparation of Transfers

In order that transfer deeds may be more fully understood, we will place ourselves in the position of—

1. The person who prepares one.
2. The person who pays for one.

Transfer deeds are made out by the selling Brokers or Jobbers. They are actually prepared in the office, the Tickets being brought from the Name Room for this purpose. Quantities of blank transfers are kept by all offices, or in blank form they can be obtained from the Inland Revenue Office already stamped. The question of the Government stamp on transfer deeds, however, is usually dealt with later. With the certificate before him, the transfer clerk proceeds to copy the exact particulars relating to the seller at the top of the transfer form. The consideration money is next written in in words, the amount having been previously worked out and checked on the Ticket. Next follow the particulars of the purchaser, which are also copied carefully from the Ticket. These details of the purchaser's name follow the words "paid by." Following the words "Do hereby bargain, sell, assign, and transfer to the said transferee" is given the full description of the class of the security to be transferred. These particulars must be copied faithfully from the certificate, and, if these are not available, the full description must be obtained from an official reference book. Such a description might read as follows: "Five per cent Perpetual Consolidated Debenture Stock." In the case of Shares these would appear as, for example, "(500) Five hundred Ordinary Shares of £1 each fully paid and numbered 252,501 to 253,000."

In the event of more than one transfer being required for the sale of the 500 Shares, the several Tickets would be pinned to the transfers, and Share numbers appropriated from the certificate and entered up in pencil. On being checked they could be filled in in ink. The full title of the company will then be entered following the words "Of and in the undertaking called the." Details can also be completed regarding the transferee, "His," "Her," or "Their" being entered before

the words "Executors, Administrators, and Assigns," and "I" or "We" being used when reference is made to the conditions on which the security was previously held. In the space that follows after the words "As witness our Hands and Seals" the date should be inserted in words and not figures, but these particulars are often left till completion of the deed. All that now remains to be done is to enter up in full the name of the transferor above the space reserved for the first witness's signature following the words "Signed, sealed, and delivered by the above-named." Should there be more than one transferor, then each name should be entered, as each in turn has to sign the transfer against the seal, and each signature must be witnessed.

The transfer deed is then ready for dispatch to the seller or sellers, who should be requested to sign their names against the seals, have their signatures witnessed, and see that the deed is returned as early as possible for delivery. It may be that the complete number of transfers relating to a sale are not ready owing to delay in receiving a Name. That is why the provision is made for "selling out" which we examined in the last chapter. The transfers that are ready, however, can be sent to the seller, and, if returned promptly, may be delivered to the buyers through the facilities afforded for certification. If the certificate exactly represents the amount sold and there is one transfer deed only, no certification is necessary.

In the preparation of transfers for signature, clear, legible writing is of great importance. There is no reason why transfers should not be typewritten. If they are badly written, mistakes may arise. Should an error appear on a transfer, it is better to prepare a fresh one before the transfer is signed. If the transfer is stamped before signature, the difficulty may be overcome by getting the signatories to initial the error, as most companies insist on all errors, alterations, or erasures being so dealt with. Many Brokers find it of assistance to clients who are not used to executing transfer deeds to indicate what is required by little adhesive tabs, "Please sign here" or "Please initial here." Alternatively, either of these instructions may be indicated by marking with a cross just where signature or initials should be appended.

The witnessing of a signature to a transfer deed carries no

liability, but should only be done by those who see the deed executed. Address and full description of a witness must be given. Usual signatures are required, but not necessarily full Christian names. Instructions regarding the execution of transfers out of Great Britain will be found at the foot of the deed, where it is recommended that such signatures be attested by H.M. Consul or other public officials. It is also shown that a wife may not witness her husband's signature, or *vice versa*.

Sellers do not always forward certificates to Brokers in good time. In such cases the transfer deed may be prepared, and the space for the particulars of the transferor left blank. The covering letter which accompanies the deed for signature would then request the return of the signed deed together with the necessary certificate to meet the sale. When both are returned, the particulars regarding the transferor can then be inserted on the deed. If these particulars are omitted, delivery of the executed transfer cannot be made. It is important in the case of sales to have deeds executed and, where possible, ready for delivery by the Account Day, as otherwise payment cannot be promptly obtained. The necessity for this can be seen where large sales have been effected, and the money reinvested. If the securities sold are not delivered, the cash may not be available on the Account Day to pay for the new investments which are due for payment on that or any following day. It frequently happens that Brokers are called upon to finance such exchanges, as the required formalities make it difficult to negotiate a loan at a bank against such contingency.

The transfer clerk, having prepared the deeds and obtained their return, properly and duly executed, is in a position to obtain payment after the deeds are stamped.

Government Stamp Duty

The amount of this duty is laid down in Chapter V, page 93, and is determined by the consideration on the transfer deed. This consideration in turn is dependent on the price of the Ticket. It is immaterial to the Broker who prepares the transfer deed, and who purchases the Government stamp, what is the amount of the duty. Stamp duty is claimed by the seller's Broker, and is payable by the buyer. We observed in Chapter V how this amount was charged to the client on his contract

note. Transfer deeds can, as stated, be purchased from the offices of the Inland Revenue adjacent to the Stock Exchange, with the Government stamp duty embossed, but this method suffers from the defect that mistakes in preparation of the

STAMPS required from Stock Exchange Stamp Office by

Date .... 19..

Consideration not exceeding	No.	Amount	Total. £	s.	d
£		£ s. d.			
5		0 2 0			
10		0 4 0			
15		0 6 0			
20		0 8 0			
25		0 10 0			
50		1 0 0			
75		1 10 0			
100		2 0 0			
125		2 10 0			
150		3 0 0			
175		3 10 0			
200		4 0 0			
225		4 10 0			
250		5 0 0			
275		5 10 0			
300		6 0 0			
350		7 0 0			
400		8 0 0			
450		9 0 0			
500		10 0 0			
550		11 0 0			
600		12 0 0			
650		13 0 0			
700		14 0 0			
750		15 0 0			
800		16 0 0			
850		17 0 0			
900		18 0 0			
950		19 0 0			
1000		20 0 0			
1050		21 0 0			
1100		22 0 0			
1150		23 0 0			
1200		24 0 0			
1250		25 0 0			
1300		26 0 0			
1350		27 0 0			
1400		28 0 0			
1450		29 0 0			
1500		30 0 0			
1550		31 0 0			
1600		32 0 0			
1650		33 0 0			
1700		34 0 0			
1750		35 0 0			
1800		36 0 0			
1850		37 0 0			
1900		38 0 0			
1950		39 0 0			
	TOTAL .	£			

STAMPS required from Stock Exchange Stamp Office by

Date . 19

No.	Amount	Total. £	s.	d
	£ s. d.			
	0 2 0			
	0 4 0			
	0 6 0			
	0 8 0			
	0 10 0			
	1 0 0			
	1 10 0			
	2 0 0			
	2 10 0			
	3 0 0			
	3 10 0			
	4 0 0			
	4 10 0			
	5 0 0			
	5 10 0			
	6 0 0			
	7 0 0			
	8 0 0			
	9 0 0			
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	26 0 0			
	27 0 0			
	28 0 0			
	29 0 0			
	30 0 0			
	31 0 0			
	32 0 0			
	33 0 0			
	34 0 0			
	35 0 0			
	36 0 0			
	37 0 0			
	38 0 0			
	39 0 0			
TOTAL .	£			

Total in words . *Pounds*

shillings

pence.

Signature . .

Signature ... .

deeds may make it necessary to procure fresh ones, when the amounts paid away for the spoiled transfers must be reclaimed from the Inland Revenue. There is also the risk of the deeds being lost in transit, in which event, while fresh documents can be prepared, the amount paid away for stamp duty would be irrecoverable. It is the common practice to prepare unstamped deeds, and present them when ready for delivery for the stamp duty to be affixed. This is done by means of

Stamp Requisition Forms

These are supplied in books by the Inland Revenue Stamp Office officials on presentation of an order form signed by a firm or its representative. These requisitions are in the simple form illustrated on page 260.

Transfer deeds presented to the Stamp Office officials with the requisition forms filled up will at once be stamped by machinery. If the stamps requisitioned are not correct according to the consideration on the transfers, the deed will be rejected by the Inland Revenue officials.

An account is usually kept by the Inland Revenue to avoid the necessity of constant cheque payments. Periodical settlements with the authorities are made by both Brokers and Jobbers.

On the Account Day, or as soon after as possible, the transfer deed is ready for delivery. Signed by the seller or sellers, properly witnessed, accompanied by the certificate or duly certified, and franked with the Government stamp, the transfer is taken to the buyer for payment. Naturally, before the deed is delivered, all particulars are recorded in books kept for the purpose. The destination of the deed is determined by the Broker's or Jobber's name at the foot of the Ticket which is pinned to the transfer. Assuming that all details have been properly carried out, payment will then be made by the buyer, and the first stage of the progress of a transfer deed will be complete. Transfers must be delivered by 1.15 p.m. (Temporary Regulations 3 (1).)

Paying for Transfers

Now we have examined the details necessary in preparing a transfer for the seller's signature, the task of reviewing the position of a clerk called on to pay for a transfer is more simple. A

transfer clerk's duty primarily is to see that the security delivered is the security which has been purchased, that the deed is in order, and that the title is complete. The Ticket or Name pinned to the deed was originally issued by his firm, and is possibly in the clerk's own handwriting. Delivery of this Stock or these particular Shares had been expected by the buyers, and if they had not been delivered it was their concern to obtain delivery. Possibly part only of the full amount purchased is represented by the transfer delivered. The Ticket at the foot of the deed may be a "split" Ticket, representing not the whole, but only a part of the full amount.

Tickets can be identified, not only by the details on them, which are readily recognisable, but by the number of the Ticket, which permits easy reference to the Ticket Book. The security that is tendered for payment being identified as the whole or part of Stock which has been purchased, an examination of all details follows. Does the certificate represent the security entered on the deed? Is the transfer on the proper form, and is it correctly stamped? Are the signatures properly attested? Are there alterations or erasures which require the initials of the seller? Is the consideration money worked out in accordance with the price of the Ticket, and is the deliverer's claim a correct one? Is this a Clearing Stock to be paid for at the making-up price? Are there any mistakes in the body of the deed? A single letter omitted or misplaced is sufficient justification for refusing to pay for Stock. It must be remembered that particulars relating to the seller are in the company's possession and that ultimately the details regarding the buyer will be given permanence in the records of the company concerned. A further important point in connection with transfers tendered for payment is whether the question of dividend arises. This matter of the dividend we must examine more fully, but, briefly, if the buyer is entitled to a dividend which, owing to the date of delivery, he is unable to obtain from the company, it is, under certain conditions, in order for the buyer to deduct the amount from the seller's claim.

Transfer deeds are now left by Sellers and collected by Buyers under the Centralised Delivery scheme. Following an examination of the deeds, cheques in payment are taken to the Department for distribution. If a transfer deed is not

in order, a telephone message to the deliverer is followed by a slip which is handed to the Department in place of a cheque. A seller may, if he wishes, deliver Stock and receive payment at the Buyer's Office, and this practice is followed where Gilt-edged Stocks are concerned. It is now the business of the Broker or Jobber to continue and complete the second stage of a transfer's journey on behalf of the purchaser. Whoever the purchaser, a record is made by the buying Broker that the Stock is "in," that is, delivered. Should the transfer be for the account of a client, it is prepared for his signature. If it is part only of a large transaction, dispatch of the transfer may be deferred until delivery of the whole amount has been obtained. The deed is then sent away for the purchaser's signature with a request that it be returned as early as possible for

Registration

Just as in the case of the seller, the buyer's signature must be properly witnessed. If more persons than one appear as buyers, then all must sign, and their signatures be properly attested. Here it may be observed that the average transfer deed is frequently inadequate to take the numerous signatures which are required. It is an accepted practice for the various signatories to continue on the back of the transfer deed the work which, owing to lack of space, it is not practicable to complete on the front. Cases are sometimes seen where more signatures appear on the back of a deed than on the front, owing to the fact of Stock coming out of the names of, say, four trustees and going into the names of five others. The irritation to all concerned caused by mistakes in such a case, where the signatories reside in different parts of the country, and their initials are required, can be understood and excused.

The transfer deed, we will assume, has been properly executed by sellers and buyers alike, and is now in the buying Broker's possession. The last stage of its history is its dispatch to the company concerned, together with the registration fee and the certificate, unless it is a certified transfer. A practical hint may be intruded here. Let all transfer clerks be slow to send off for registration, deeds in the names of clients who have not paid for their Stock. Strictly speaking, the process of transferring title has gone much too far already when a deed is

signed by a buyer who is unwilling or unable to pay for the Stock, but cases do arise when it is necessary for a Broker to ask a client to return a transfer together with payment. If, in a case like this, the deed is returned without payment, and it escapes the vigilance of the transfer clerk and is sent for registration, the position is more complicated, as the Stock in question has definitely passed out of control. Cases of this kind should always be brought to the notice of the manager or a principal of the firm.

Where possible, transfer deeds and certificates are taken by hand to company offices for registration. The practice of companies is to issue a transfer receipt for the documents and the fee, with brief particulars of the security and the name of the transferee. On this receipt is entered the approximate date when a certificate will be ready for collection in the name of the new Stock- or Shareholder in exchange for the receipt held by the Broker. The time between lodgment of the deed and collection of the new certificate varies, and is designed to give due time for the alteration of records, and opportunity for the meeting of boards of directors, and for affixing the company's official seal to the new certificate. Many companies automatically communicate with registered holders, notifying them that transfers purporting to be signed by them out of their names have been deposited for registration. This is a precautionary measure, and if no reply is received from the Stockholder it is assumed that the deeds are properly presented, and registration into the new name proceeds. At the due date the new certificate is sent for by the Broker, and, when received, it is sent off at once to the buyer or otherwise dealt with in accordance with instructions. Thus a new registered Stockholder makes appearance, and the part played by the transfer deed comes to an end, having appeared on the Stock Exchange stage in the role of mediator between buyer and seller, enjoyed a brief but important life, and being finally relegated to obscurity among the records of an ordinary company office.

The student, who we trust has now a clear idea of the functions of an ordinary transfer deed, may have in mind several questions he would like to raise. For instance, is the person who prepares the transfer for the seller's signature bound to accept the Name which is tendered? Also, how is the person

who pays for the transfer to know that the Stock is genuine? It should be made plain that the short history we have set out of the transfer of title, and the life and function of a transfer deed, is simply that of a straightforward case, shorn of all complications. It is sometimes urged that Stock Exchange Rules are often overridden when tested in the Law Courts of the country. While this may be true in some instances, a study of legal decisions affecting the Stock Exchange will show that many have been favourable to that institution. Some adverse judgments have been given, while others stand corrected by equally learned or even superior judicial authorities. What is stressed here is the great respect with which the law regards the customs, usages, and practice of the Stock Exchange. The laws, rules, and regulations under which transactions are carried through on an enormous scale and over many years are seldom challenged on legal grounds, and, when they are, they are generally upheld.

Much, however, is taken for granted by Members who deal and by clerks who carry through Stock Exchange transactions. A clerk, for instance, who receives a Ticket has no knowledge of the buyer whose name appears on it, whether that purchaser is competent to pay or even to buy! There is always the possibility that the name before the clerk may be that of an undischarged bankrupt. The transferee may even be a minor or a lunatic! The contingency is always present—though little heed is given to it—that the buyer may not register his security, or that the company may not accept the name or names when the deed is presented to them for registration. The regularity or otherwise of a company's acquiring Stock or Shares which may be set out in that company's Articles of Association may be unknown to the person accepting a Name. There is also the question of the validity of companies buying their own Shares. Furthermore, the clerk who pays for a transfer assumes at once that the signatures are genuine and not forged. He has no knowledge of whether the Stock tendered for payment is mortgaged Stock, or if the certification on the deed is irregular. These possibilities are present, and at once open up legal issues which it is not our purpose here to discuss. Our aim is to indicate the smooth working of the system which very seldom is called upon to deal with such contingencies.

A seller could, no doubt, ask for, and would probably receive, a different Name if such were required, and good reason existed for the request. Apart from the merits of the case, a Jobber would rather substitute his own name and pay the nominal stamp than incur his seller's disapproval. Regarding the question of paying for Stock which may be proved irregular, the following Rule, which opens the section in the Regulations dealing with securities deliverable by deed of transfer, is explicit. The Rule referred to—No. 120, Clause (1)—reads thus—

> The Seller of Securities is responsible for the genuineness and regularity of all documents delivered.

and, brief though the wording is, the wide application to the problems we have touched upon will at once be seen.

While sellers must adopt responsibility under Rule 120, they enjoy an important right under Rule 106, which reads—

> A Seller has the right to demand payment for Securities from the Member who passed him the Ticket; and in case the Seller apply to the issuer of the Ticket, and fail to obtain payment, or receive a cheque which is dishonoured, the Member from whom he received the Ticket shall make immediate payment.

Circumstances occasionally arise which are met by the use of

Blank Transfers

The signing of documents in blank has obvious objections and normally is frowned upon. In some cases the reason for using a blank transfer is simple. A Shareholder is going abroad, and either has sold or contemplates selling his holding or part of it. If he is travelling about, it will be difficult to obtain his signature. If his destination is far away, the time required will be more than is allowed by Stock Exchange Rules for the delivery of transfers. The difficulty is overcome by the Shareholder signing transfers in blank. These transfers, left with his Broker or his agent, together with the Certificate, can be utilised when in due course the Names come in and it is necessary for deeds to be prepared.

Frequently a Ticket will be received from a buyer made out to "Blank if possible," or ————————. Then follows the name of a person or institution acting as a nominee. Cases of this kind are usual where the purchase has been made on cable advice, and the full details required for registration are not

yet to hand. It is not compulsory for a seller to sign transfers in blank and the practice is officially discouraged, as can be seen by Rule 121, which reads—

> The Council will not, except under special circumstances, interfere in any question arising from the delivery of Securities by transfer in blank.

It is unusual, however, for sellers to refuse in this matter, despite the risk of forfeiting official Stock Exchange protection in the case of any query arising. Companies, too, will sometimes certify blank transfers.

Transfers signed in blank are frequently given by borrowers as security against a loan. So long as payment of principal and interest is duly met, it is not necessary to invoke the protection afforded by the signed transfer. Holding such transfer of title signed by a borrower and accompanied by a certificate, a lender has no difficulty in obtaining redress if the need arises, provided always that the security is ample and that it is negotiable. If the need does not arise, the signed blank transfer can be returned at the termination of the loan, the actual transfer and registration never having become necessary. In a case of this nature even the nominal stamp of 10s. on a blank transfer could be saved. During such time as a lender may hold such security the dividends, if any, would still belong to the borrower; they would in fact be forwarded to him as the registered holder. The lender holds the documents purely as security, and only in the event of a breach of the borrower's contract would they actually be used. In such event the lender could sell the Stock or the Shares, using the transfer, already signed, on which the buyer's name would be entered in the usual place. The lender, in order to recompense himself, might choose to transfer the security into his own name. In this case, as it is in liquidation of a loan, the transfer must bear the full stamp duty. If the Stock or Shares were sold, and more than one Name was received, the single signed transfer would obviously be inadequate. The difficulty in this case could be overcome by transferring the security into the lender's name, and the lender then could sign any number of transfers required. This temporary transference into the lender's name would call only for a nominal consideration and the nominal 10s. stamp duty.

A buyer of Stock who will be away when delivery takes place will sometimes sign a transfer in blank, leaving space for the seller's signature. In cases of this kind, the signed transfer is usually pinned to the Ticket when it is issued, with a request that the seller will use the accompanying transfer. There is no reason why this should not be done, and an explanation of the circumstances will usually satisfy the sellers. A possible difficulty would arise if the seller's Stock came from two or more sources, but this disability might be overcome by preliminary inquiry, when sufficient transfers could be signed by the buyer to meet the circumstances.

The transfer form is not the only means of obtaining and establishing title. In the following chapter we will examine several remaining points touching the ordinary transfer, before passing on to examine Inscribed and Bearer Stocks, both of which are important mediums to this end.

CHAPTER XIII

HOW TITLE IS TRANSFERRED *(continued)*

SPECIAL Transfer Forms—Power of Attorney—Buying-in Department—Letters of Indemnity—Times for Delivery—Bearer Bonds—Exchange Control Act, 1947 (Bearer)—Stamp Duty on Bearer Securities—Scrip Tickets—Letters of Renunciation—Drawn Bonds

So important is the transfer form as a vehicle for transmitting title from seller to buyer that further information regarding it is necessary. For instance, some companies require

Special Transfer Forms

The common form of transfer will not be accepted by a number of institutions, notably many banking, insurance and shipping concerns, by whom special forms are provided. Firms who are delivering the securities of such concerns, and to whom falls the task of preparing the deeds, should make application for the requisite form to the bank or company concerned. Firms who pay for such securities should see that the latter are on the required deeds. The particulars to be entered on these special forms follow very closely those required on the transfers we have previously outlined, but particular care must be paid to individual bank or company requirements. In some instances it is necessary to furnish the bank, whose Shares are to be transferred, with particulars of the buyer, etc., *before* the transfer will be sanctioned. In this connection it must be remembered that companies have the right to refuse to register new holders, if a liability exists for payment of further calls on the Shares in question. Inquiries are often instituted by banks and insurance companies regarding a transferee's financial worthiness, but this point does not arise where on a security no further call can be made.

The information given in the *Stock Exchange Official Year Book* on the subject of companies who require special forms is valuable. In this publication it is pointed out that a number of old undertakings are compelled under their Deeds of Settlement, Acts of Parliament, Articles of Association, etc., to use a special form. These undertakings can be classed into (1) those who give out the necessary forms, and (2) those who

require preliminary notice of intention to transfer Shares, and who permit deeds to be prepared by their own officials only. Prominent among those who fall under the first category is the oldest known company whose Shares are dealt in on the Stock Exchange—Hudsons Bay, or, to give the correct official title, "The Governor and Company of Adventurers of England trading into Hudson's Bay." The Manchester Ship Canal Company also require a special form for Mortgage Debentures. Practically all Colonial and Dominion Corporations figure under this heading, together with the Standard Bank of South Africa. The various Annuities which are negotiated in the Indian Railway group are similarly treated.

The following companies quoted in the *Official List* come under the heading of those who prepare their own deeds—

Name of company	Is common transfer accepted?	Is assent of directors required to transfer?	How long must notice be left?	Must share certificates be surrendered	Fees for registration of transfer
Bank of Australasia	No	Yes	1 day	—	2s. 6d. per deed
Bank of Scotland	No	Yes	2 p.m. (after Directors approval Tues. Frid.)	—	2s. 6d. per deed
Caledonian Insurance Co.	No	No, but subject to Directors' approval	Generally dealt with same day	Yes	2s. 6d. per deed
Chartered Bank of India, Australia, and China	No	Yes	1 p.m. Tues. Wed. Frid.	Yes	2s. 6d. per deed
District Bank, Ltd.	Only in special circumstances	Yes	After 1 day	Yes	2s. 6d. per deed
Hong Kong and Shanghai Banking Corporation	No	Yes	1 clear day	Yes	2s. 6d. per deed
National Bank of Scotland	No	Yes	1 or 2 days	—	2s. 6d. 100 5s. above
National Bank of New Zealand	No	Yes	1 clear day	Yes	2s. 6d. per deed
Provincial Bank of Ireland	No	Yes	1 clear day	Yes	2s. 6d. 100 5s. per deed above
Royal Bank of Scotland	No	Yes	3 clear days	—	Under £50, 2s. 6d. ,, £100, 5s. £100 or more, 10s.
Scottish Union and National Insurance Company	Only in special circumstances	Yes	Generally same day	Yes	2s. 6d. per deed
South Australian Co.	No	Yes	3 clear days	Yes	1 or 2 shares, 2s. 6d. 3 or more, 1s. share maximum, 20s.
Stock Exchange (The)	No	Yes	Usually same day if received before noon	Yes	None
Union Bank of Australia Ltd.	No	Yes	1 clear day	Yes	2s. 6d. per deed

In some cases both stamp duty and fee are payable on deposit of the requisition, but in others the companies do not undertake the stamping of their deeds.

Occasions arise when a signature other than that of the principal concerned is seen upon a transfer deed. This is when authority is given under a

Power of Attorney

A Power of Attorney is an instrument which provides legally for one person to act for another. Powers are many and varied, and, according to the authority bestowed, stamp duty is payable on the following scale. Where the instrument or authority is—

(1) For the receipt of the dividends or interest of any Stock where made for the receipt of one payment only . . . . . 1s.[1]
In any other case . . . . . 5s.[1]
(2) For General Power . . . . . 10s.[1]

There are exemptions from this stamp duty, the most important being—

(*a*) Letter or Power of Attorney for the sale, transfer or acceptance of any of the Government or Parliamentary Stocks or Funds.
(*b*) Letter or Power of Attorney for the receipt of dividends from Government or Parliamentary Stocks or Funds producing a yearly dividend of less than £3.

Requests from the proprietor of any Stock to any company, or to any banker, to pay the dividends or interest arising from the Stock to any person named therein can also be made without charge.

Proxy forms, which give authority for one person to vote at any one meeting, whether the number of persons named in the instrument be one or more, have for years borne a stamp duty of 1d.[1]

While delegation of authority by Power of Attorney is quite common, care should be taken by persons who grant it. A General Power of Attorney bestows practically unlimited authority, and is usually granted only when a person is leaving the country or is unable personally to attend to his business transactions. Forms of Attorney applicable to Stock Exchange transactions can be obtained from ordinary stationers. Where such Power of Attorney is to be used, a transfer is prepared in the ordinary way, but in place of the signature of the transferor or the transferee the principal's name is

[1] Subject to amendment by the Budget of 1949.

written in, followed by the words "By his Attorney" and the Attorney's signature. Where such Power is exercised in connection with a company's capital it is necessary to present the original Power of Attorney to the company, when it will be registered upon payment of a fee, usually 2s. 6d. Some companies also require a copy of such Power certified by a responsible authority, which copy is kept for reference. The original Power is thereupon stamped by the company to show that it has been exhibited, and the signature of the Attorney is then recognised by such company as being properly constituted authority. A firm paying for a transfer deed thus signed would be entitled to ask for evidence that the Power of Attorney had been properly registered, and it would be of little use tendering a transfer signed under Power of Attorney for registration to a company, unless registration of the Attorney had been completed.

Powers of Attorney were once in common use in connection with Inscribed Stocks. To consideration of this practice we shall shortly turn. A General Power of Attorney is all-embracing, and can be made out to take in practically every form of activity and administration. A common form of General Power obtained from a well-known stationer's and here reproduced will give the student an idea of such a comprehensive document.

KNOW ALL MEN *by these Presents, that I*

of

DO HEREBY *appoint*

of

to be my true and lawful Attorney, for me, and in my name, to ask, demand, recover, and receive, and if need be sue for the yearly or other dividends, interest, and produce of all moneys in the funds or on securities of any kind whatsoever and all other the real and personal property and effects of me the said
and all other my yearly income from whatever source the same may be derived, and to call in any sum or sums of money invested in securities, and to get in and receive all other moneys due or owing to me the said
and to sell and dispose of or convert into money all or any part of my real and personal property, stocks, shares, chattels, and effects. And also to deposit in any Bank or lay out and invest any moneys which shall come to the hands of my said Attorney by any of the means aforesaid in the Public Stocks or funds, or other Government Securities or such other Securities, and to alter, vary and transpose as well such stocks, funds or securities as any stocks, funds, and securities now belonging to me the said

as he shall think necessary or expedient. And also to adjust and settle all accounts and reckonings whatsoever subsisting unsettled between me the said and any person or persons, Trustee or Trustees, Executor or Executors, or Administrators whomsoever. And also to commence and prosecute any actions, suits, or other proceedings at Law or in Equity against any person or persons in respect of any of the matters or things aforesaid. And to oppose and defend any actions, suits, or other proceedings commenced or to be commenced against me the said and to proceed to judgment and execution, or to become non-suit in any such actions, suits, or other proceedings or to submit the same to arbitration, or to compromise the same as shall seem most expedient. And also for me and in my name to sign cheques and to sign and give effectual receipts, leases, acquittances and discharges for all property or moneys to be received in manner aforesaid. And on the settlement of any such accounts, or reckonings as aforesaid, to sign, seal, execute and deliver all such acts, deeds, and assurances in the law whatsoever as may be requisite or proper for effectualing any of the purposes hereinbefore expressed. AND GENERALLY *to act in the entire arrangement and superintendence of all the property, affairs and business of me the said and to use all such means, and make, do, and execute, all such matters and things as may be requisite for that purpose as fully and effectually to all intents and purposes as I could do if personally present and acting herein. And also to substitute or appoint any person or persons to act under or in the place of my said Attorney in all or any of the matters aforesaid.*

I HEREBY *ratifying, and confirming, and agreeing to ratify and confirm all that my said Attorney or his substitute or substitutes shall lawfully do or cause to be done in all or any of the matters aforesaid.*

IN WITNESS *whereof I have hereunto set my hand and seal this day of One thousand nine hundred and*

Signed, sealed and delivered by the said

in the presence of

The life of such Power of Attorney is frequently mentioned in the document, and is terminable at the will of the grantor. According to the wording of the Power, authority can be restricted or unrestricted. General Powers in connection with registered Stocks were once less common than with Government Stocks. Nevertheless, registered Stocks are dealt with by Power, and a firm receiving a transfer thus signed will be required to pay for the deed, providing the Power of Attorney and the rest of the deed are in order.

Similar registration is required in the event of a Stock- or Shareholder's death. In such cases the practice of companies is to write on certificates the names of the executors or administrators of the deceased. If a sale of securities then takes place, the transfers are made out from the names of the executors,

who are described as "Executor or Executors to, or of————, deceased." If one of several Shareholders dies, or one of several executors, the description should read "Survivor or Survivors in a Joint Account with————, deceased," adding "Executors to, or of———, deceased" if such be the case. Death must be proved in each case, which means that evidence must be produced to all companies concerned. The strange information is sometimes forthcoming from a bank or company that a death has "not been fully proved," which means that the documents relating to the deceased have not been allowed to lie with such bank or company for a sufficient period. Minors, i.e. persons under 21 years of age, cannot be registered as Stockholders unless registration is bracketed with a guardian or adult in joint account.

Two points, which may be dealt with here, may occur to students in connection with transfers. What is done in order that documentary title may be established if registered Stock is not delivered to a purchaser, and what happens in the event of a transfer being mislaid, lost, or destroyed? The answer to the first question is Stock Exchange Rule No. 149 (1):

If Securities deliverable by Deed of Transfer or Inscribed Stock subject to an *ad valorem* Stamp Duty are not delivered within Ten days, the issuer of the Ticket may buy-in the same against the Seller on the Tenth day after the Account day, or on any subsequent day, Saturday excepted.

This is known as resorting to the

Buying-in Department

In describing Stock Exchange procedure we have separated this office from the Selling-out Department, but the two departments exist as one unit. The order of explanation is a natural one, as a Ticket or Name precedes a transfer. Actually, the department is known as the "Buying-in and Selling-out Department," and the same officials can carry out the duties whether they be for selling-out or buying-in. As explained in Chapter XI, charges are identical with those made by Brokers as laid down in Appendix 39. A buyer of securities which are undelivered on the tenth day following the Account day can take action to obtain delivery by filling up a form, similar to that used in the case of selling-out, as will be seen in the illustration given on page 276.

Rule 149 which governs buying-in is confirmed by Temporary Regulation 3, which in Clause (x) states—

> Securities undelivered may be bought in as follows . . .
> Registered Securities: on or after the Tenth Day after the Account Day,

and proceeds to set out again in Clause (xi) the precise time laid down in Rule 149 (4) as follows—

> Buying-in shall take place between Half-past One and Three o'clock.

That proper notice is given to overdue deliverers is seen by Clause (3) of Rule 149, which provides—

> Twenty-four hours' public notice of such Buying-in must be posted in the Stock Exchange; the notice to be posted not later than Half-past Twelve o'clock.

It is usual, but not obligatory, to give notice to one's immediate seller that securities are to be bought-in, and as seen by reference to the illustration, the Buying-in form must be signed by a Principal or Authorised Clerk and be issued to the Department before 12.30 p.m.

As in the case of selling-out, the Buying-in Department Official, with the instructions in his possession, proceeds to the respective markets and mounts the nearest seat. His presence is announced by a junior in official uniform who rings a bell to focus attention. The Stock or Shares are then publicly bought-in for immediate delivery, the Official declaiming somewhat as follows—

"I want to buy fifty Courtaulds"

or

"Buy two hundred pounds Cunard Steamship Ordinary."

Sometimes the official procedure is effective—often it is not. It is not unusual for the formula of buying-in to be gone through day after day in a futile effort to find somebody who will supply the Stock required. It is in cases such as this latter that Rule 145, relating to half-commission charges for subsequent attempts, applies.[1]

It may be a little difficult for students to understand why this official procedure is set in motion when, as is often the case, it is ineffective in obtaining the Stock required, but it will be seen that heavy charges can be incurred by constant buying-in, which charges, to a firm who will be held responsible

[1] See p. 229.

This Form must be signed by a Principal or an Authorised Clerk.

ORDER FORM

Please Write Plainly

From

.....

.....

To the Manager,
Buying-in and Selling-out Department,
The Stock Exchange,

.....19

Please send orders by 12 o'clock, but all orders must be received BEFORE 12.30 P.M.

Please BUY IN *the following :—*

.....	.....	*against*	.....
.....	.....	,,	.....
.....	.....	,,	.....
.....	.....	,,	.....
.....	.....	,,	.....
.....	.....	,,	.....

or the delay, are a very effective incentive to hurrying delivery. The reluctance of Members to supply the Buying-in Department Official with the Stock he bids for is probably explained by a dislike of contributing to the loss or discomfiture of an unfortunate seller, who, possibly through no fault of his own, is unable to complete. There is also the very good reason that, although dealings and markings in the securities take place every day, the Jobbers cannot supply the department for "immediate delivery," as often they have no Stock or Shares standing in their name. The attitude of sympathy towards sellers, however, overlooks the position of an equally unfortunate buying Broker, who may be exposed to the criticisms and complaints of a client who is anxious for delivery of his Stock. The buying-in officials, it should be explained, do not attempt to fix the price at which the Stock or Shares should be offered to them. When an offer is forthcoming it may be tendered at considerably above the existing price level. Buyers anxious for delivery will sometimes instruct the officials to "bid up" for the outstanding Stock, and if it is supplied, notwithstanding the price, the difference will fall to be made good by those held responsible for the delay, in accordance with Rule 149, Clause (6), which reads—

> The loss occasioned by such Buying-in shall be borne by the ultimate Seller, unless he can prove that there has been undue delay in the passing of the Ticket on the part of any Member, who shall in that case be liable.

The threat of buying-in will usually cause deliverers to take all possible action to hasten delivery, and various expedients are invoked to stave off the actual proceeding. Rule 153, Clause (2), provides that—

> A holder of a Ticket shall before Eleven o'clock on the buying-in day, notify the payer that he holds it,

and the practice is to dispatch a notice or card which briefly runs as follows—

> We hold your Ticket No..... for (say) 50 Chartereds
>
> which are in course of delivery. Please communicate with us before buying-in.

A buyer receiving such a card will usually communicate, as requested. If the seller's explanation of the delay is

satisfactory, such as the difficulty in obtaining a large number of signatures, or illness or death of signatories, it is probable that the buyer will be reasonable. If the buyer still insists on buying-in, an effort may be made to "borrow" the Stock. This expedient depends for success upon—

1. Finding somebody who has the security which can be loaned for the purpose.
2. Obtaining without delay a signature to the transfer.

If a deliverer in difficulty is successful in borrowing the required Stock, it becomes necessary for him to replace it as early as possible, but, having avoided the penalties of buying-in, the stamp and fee involved in restoring the Stock to the obliging lender are borne without demur.

If Stock is obtained when it is bought-in, the buyer, of course, will not pay the original seller if later he tenders his Stock. The buyer has in fact since been supplied by the new seller to the Buying-in Department. The original seller, on his part, finds himself landed with his Stock, which it is necessary for him to sell again if he desires to dispose of it.

Boards are displayed in the "House," showing the Stocks which are to be bought-in. Members responsible for delivery, finding themselves thus posted, make strenuous efforts to get those instrumental in "putting the notice up" to "take it down." This can be done on verbal instructions to the Buying-in Department before 1.30 p.m.

Extra grace is allowed to a seller in the event of a company preparing its own deed, as will be seen in Clause 2 of Rule 149—

In the case of Companies which prepare their own transfers, Securities may be bought-in on the Eleventh day after the earliest date on which a transfer can be procured, or on any subsequent day, Saturday excepted.

And Rule 147 provides that—

Securities shall not be bought-in while they are known to be out of the control of the Seller for the payment of calls, or the receipt of interest, dividends or bonus.

So that there shall be no abuse of the process, and to provide for possible contingencies, Rule 146 provides—

The Council may suspend the Buying-in of Securities, when circumstances appear to them to make such suspension desirable in the general interest. The liability of intermediaries shall continue during such suspension, unless otherwise determined by the Council.

Different Rules relate to buying-in Inscribed and Bearer Stocks, which we will refer to under their appropriate headings, but other points to which attention should be drawn in regard to Stocks deliverable on transfer are as follows—

Rule 149, Clause 5—

The name into which the Securities are to be transferred must be stated in the order to buy-in if required by the Manager of the Buying-in and Selling-out Department.

Clauses 7 and 8 of Rule 149 deal with Stocks bought for a specific date, and the contingency of delay in the delivery of Stock actually bought-in—

Securities bought for any day except the Account Day and not delivered by a Quarter before Two o'clock, Saturday excepted, may be bought-in on the following or any subsequent day, Saturday excepted, without notice, and any loss occasioned by such buying-in shall be borne by the Seller.

Securities bought-in and not delivered by One o'clock on the following day, Saturday excepted, may be again bought-in for immediate delivery, Saturday excepted, without further notice, and any loss shall be paid by the Member causing such further Buying-in.

The release of intermediaries is provided for under certain circumstances by Rule 150, Clauses (1), (2) and (3) and confirmed by Temporary Regulation 3 (xii), Clauses (1) (2) and (3). They read—

The issuer of a Ticket who shall allow Two business days from the Buying-in day to elapse without Buying-in or attempting to buy-in the Securities, shall release his Seller from all liability in respect of the non-delivery of the Securities, unless he shall have waived his right to buy-in at the request, or with the consent of his Seller; and the holder of the Ticket shall alone remain responsible to such issuer for the delivery of the Securities.

In the case of Companies which prepare their own transfers the intermediate Seller shall be released Thirteen clear days after the earliest day on which a transfer can be procured.

The liability of issuers and holders of Tickets is not affected by the fact that intermediaries have been released by lapse of time.

Finally, it will be seen that action has to be taken by those who are liable when once a notice to buy-in has been posted, or serious loss may be occasioned, as Rule 153, Clause (1), lays down—

In case the Official shall not succeed in executing an order to buy-in, the notice of such Buying-in shall remain on the General Notice Board and the Official shall, as long as the order remains in force daily renew the attempt to buy-in (Saturday excepted), and when so instructed shall bid for the stock.

The problem that arises in the event of a transfer deed being mislaid, lost, or destroyed depends upon the stage at which it is found to be missing. If it is simply a deed which has been sent for a seller's signature, a fresh deed can be prepared. If signatures have been obtained, it is usually possible to get fresh deeds executed, on issuing to the principal concerned a

Letter of Indemnity

Letters of Indemnity are frequently called into use in respect of lost documents of value. What such indemnity is designed to do is to give protection to a person or persons in consideration for his or their agreeing to sign a fresh deed or issue fresh evidence of title. It is conceivable that harm or loss might easily be incurred, for instance, by a company who issued a fresh certificate for Shares which were represented as lost should the old certificate have found its way into unauthorised hands. Against such risk a company would require to be indemnified. Of such importance is this protection that many companies will only accept a Letter of Indemnity if it is signed jointly by a bank. Letters of Indemnity bear a 6d. stamp.[1] The common form suggested in the *Official Year Book* for lost certificates, which it is recommended should be accompanied by a declaration, is as follows—

INDEMNITY

6d. stamp.

Whereas the ..... Co. have delivered to A B of ..... hereinafter called the applicant..... (certificate) for £..... Stock or Shares (give numbers) of which he is the proprietor, and the applicant has represented to the Co. and he hereby declares that the said (certificate) has been mislaid, lost, or destroyed, and has applied to the Co. to give him another (certificate) which the Co. have consented to do upon having the indemnity hereinafter contained in which C D of ..... has agreed to join: NOW, THEREFORE, the said A B and C D do hereby jointly and severally agree to save harmless and keep indemnified the Co. from and against all claims and demands in respect of the said original (certificate): and from and against all losses, damages, costs, charges, and expenses which the Co. may sustain, incur, or be liable to, for or in consequence of any such claims or demands, or of their having given to the said A B the second (certificate) as aforesaid.

In witness whereof the said A B and C D have hereunto subscribed their names, the.....day of.....One thousand nine hundred and.....

[1] Subject to alteration by the Budget of 1949.

The accompanying declaration, which must bear a 2s. 6d. stamp, is as follows—

Lost or Destroyed Certificate
DECLARATION

I.....do solemnly and sincerely declare that I am the registered Proprietor of.....(in the case of Shares give distinctive numbers and particulars) in the ..... Co.: that the Certificate of the said (Stock or Shares) has been mislaid, lost or destroyed: and that I have made, and caused to be made diligent search, but have been unable to find the same: and I further declare that I have not sold, pledged, or in any other way disposed of the said (Stock or Shares): and I hereby request the said Co. to issue to me a duplicate certificate to replace the same.

And I make this solemn Declaration, conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1835.

Declared at this day of 19

Before me

Times for Delivery

The general time for the delivery of transfer and all other Stocks is fixed by Temporary Regulation 3, Clause (1) as follows—

The latest time for delivery (with the exception of delivery on the trace) of all securities is a Quarter-past One o'clock. If a deliverer elects to settle with his immediate Buyer under the provisions of Rule 106, he shall deliver his securities before Twelve o'clock, but intermediaries on the trace are bound to pay their Sellers up to Half-past Twelve o'clock.

Rule 106 mentioned above contains a provision which in view of its importance we quote in full—

A Seller has the right to demand payment for Securities from the Member who passed him the Ticket; and in case the Seller apply to the issuer of the Ticket, and fail to obtain payment, or receive a cheque which is dishonoured, the Member from whom he received the Ticket shall make immediate payment.

Resort to this Rule would constitute delivery on the trace.

Next in order of importance as a means for the conveyance of title come

Bearer Bonds

Under this heading we include all forms of Bonds, registered or unregistered, Scrip, provisional or permanent, Debentures, Certificates, Bills, Receipts, Notes, Loans, Rentes, Allotment

Letters, Shares, and all forms of bearer security for which no transfers are required. It is probable that, in point of importance abroad, this form of security displaces the position we have given to transfer Stocks and Shares. The majority of American securities are in bearer form, as are the Government Loans of most foreign countries whose securities are dealt in in London. With such bearer securities, with few exceptions, where title changes hands no signature is required. The possessor be he or she the rightful holder is the owner.

It will be seen that certain advantages attach to this form of security—

(1) Bearer Bonds are easily negotiable.

(2) Bearer Bonds are less expensive to acquire.

(3) Bearer Bonds are convenient for foreign holders from the standpoint of tax-free dividend collection.

The delay which may accompany a sale or purchase of a security deliverable by transfer is absent with bearer Stock which passes from hand to hand. The Bond or document is in itself a negotiable instrument, bearing on its face the title it purports to represent. Unlike registered transfers which must be stamped every time they are used for the conveyance of title, bearer Bonds, once stamped, require no further stamp duty unless the rate laid down by law is altered or the form of the security is changed. In the case of most Bonds, interest coupons are attached. When these coupons are due for payment they are detached and presented to a bank or other accredited agent, through whom the owner is duly paid.

While bearer securities enjoy greater freedom for the purpose of negotiation, they carry additional risk and responsibility. Such a holding is obviously unsuited to a person who cannot put the Bonds in a safe place. Loss of such title means complete forfeiture of capital and income. Duplication and forgery, though happily rare, are risks which are also present in the case of bearer securities.

An additional disqualification when holding such Bonds is that not being a registered Stock- or Shareholder no notice is received of meetings, circulars, reports, or distributions which such company may issue. In many cases coupons must be detached when interest is paid, whereas in the case of

registered Securities such notices or distributions are made direct to the holder by the Government, corporation, or company concerned.

Some companies have both registered and bearer forms for the same class of security. This is so in the case of Stock or Shares of companies of international interest, such as British American Tobacco, Shell Transport and Trading, New Modderfontein Gold-mining, and many others equally well known in Paris, New York, Johannesburg, and London.

Handling of bearer securities in war-time presented unique problems which called for special technique. Foremost was the fact that bearer securities constituted the most popular type circulating on the continent; and therefore most likely to be a weapon in the hands of an enemy. Immediate steps were taken by the authorities to locate, register, restrict and if necessary prohibit all transfers. Following in importance was Britain's exchange problem, and the fact that practically all American and Canadian securities are in bearer form; and that while legitimate sales abroad could assist Britain's exchange position, purchases would have an adverse effect. A further important factor was the vulnerability of bearer securities to attack from an enemy, and in this matter efforts were directed by the Bank of England to reducing the volume of bearer securities in favour of registered. In addition when in 1940 invasion was possible all securities of certain class—chiefly American and Canadian—had at very short notice to be handed over to the Government for shipment to the Security Deposit, Montreal. This procedure led to the creation of "Call Tickets" issued to depositors, replaced later by "Security Deposit Receipts." As repatriation of these securities has now been effected it is not necessary to set out particulars of this vast transfer, but Forms BS.1. (A), S.1. (B) and S.2 made necessary by the machinery set up under Defence (Finance) Regulations are now replaced by Forms BUK and BA required by the

Exchange Control Act, 1947 (Bearer)

As the requirements of the Exchange Control Act, 1947, affecting bearer bonds are of importance, a short résumé of its general provisions is necessary. Under the Act all bearer bonds

and kindred securities have in the first instance to be lodged with an Authorised Depositary which as set out on page 248 is a Banking Institution or the Share and Loan Department of the Stock Exchange. This depositing of bearer securities is compulsory and the necessity for action to be promptly taken under the Act was seen by a notice issued by the Council of the Stock Exchange reminding Members that on the coming into force of the Exchange Control Act on the 1st October, 1947, "it will be an offence for any depositable security which has not been deposited to be bought, sold, transferred or otherwise dealt with."

The securities involved are—

(*a*) Bearer securities, whether payable in sterling, or other currency, except the securities detailed in Appendix IV to the Notice.

(*b*) Securities whether payable in sterling or other currency, on which interest or dividends are payable by coupon.

(*c*) Registered Certificates issued by a Registrar outside the Scheduled Territories.

(*d*) Registered Certificates issued by a Registrar within the Scheduled Territories in respect of securities which, without the consent of that Registrar, can be transferred to or in a Register outside the Scheduled Territories. For instance, certificates for shares in the Electrolux Corporation or the Mozambique Company must be deposited even if on the London Register: so also must Certificates for shares in the Celanese Corporation of America unless they have been placed at the disposal of H.M. Treasury under the Financial Powers (U.S.A. Securities) Act, 1941. In the case of certificates issued by a United Kingdom Registrar in respect of Canadian Securities only the following need be deposited, Canadian Celanese, Ltd., International Nickel and Monterey Railway Light and Power, and Certificates in respect of all issues of these companies are affected.

Securities exempted from compulsory deposit and referred to in (*a*) above are set out in Appendix IV of E.C. (Securities) 1 and are—

(1) Bonds issued prior to 1917 by the Governments of the Austro-Hungarian Monarchy, Germany and Russia, or by any

Provincial, Municipal or other Public Authority, or by any company incorporated therein by these Governments. Also certain Bonds and issues by China, Greece, Italy, Mexico, the Ottoman Empire and Yugoslavia.

(2) Any other Bonds, Notes or Debentures in respect of which payment of interest and redemption has been in default for not less than 30 years.

(3) Letters of Allotment, Letters of Rights and Scrip Certificates in respect of securities which are to be registered in a Register in the United Kingdom which is not a Subsidiary Register.

The depositing of bearer securities as set out above brings into existence Forms BA or BUK, which have to be completed, and until such time as these arrangements are amended or rescinded the appropriate form, duly authorised, must accompany the security when it passes from seller to buyer. In their content the forms contain a declaration similar in wording to those referred to with transfer deeds, Form BA setting forth that in the case of the Transferor, "The holder(s) of the above-mentioned security is/are not resident outside the Scheduled Territories and from facts known to us or from inquiries we have made is/are not to the best of our belief holding the security as the nominee(s) of any person(s) resident outside those Territories." This is the wording of Declaration 1. If Declara-1 cannot be made then Declaration 1A must be completed, the wording here being more simple. "Delivery of the security is required for" . . . and as with transfer securities a Licence must be obtained from the Bank of England following an examination of the particular circumstances present. Similar Declarations are required on behalf of the Transferee when either Declaration 2 or 2A must be completed before the security is re-deposited. The wording on Form BUK is identical with Form BA, but it is important to note that BUK Forms are for use only in the case of a "Prescribed Security." Prescribed Securities are defined in the official instructions E.C. (Securities) 1 issued by the Bank of England as "Securities on which capital moneys, dividends or interest are payable in Canadian dollars, Newfoundland dollars, Swedish Kroner, Swiss Francs or U.S. dollars, or in respect of which the holder has an option to require payment of any capital moneys, dividend or interest

in any of those currencies." A "Subsidiary Register" referred to in Clause (3) dealing with exempted securities is defined also by the instructions as "a Register in the Scheduled Territories the securities in which can, without the consent of the Registrar, be transferred to or in a Register outside those Territories."

The forms mentioned and referred to in previous pages are those most likely to be in general use. They must be carefully and conscientiously signed, as with transfer deeds, by an Authorised Depositary, or a Temporary Recipient, who are defined on pages 248–9. The forms will become familiar to those handling them in office or institution. It must be understood the information given is not exhaustive. Many other forms, L., M., S.14, S.15, S.16, S.17, K., C., and X, are designed to meet varying contingencies and fuller guidance in matters of doubt can be obtained without delay by reference to the official and additional notices issued by the Bank of England, personal application there or consultation with a Bank or Stock Exchange firm familiar with the Act's requirements.

A clerk engaged in a department dealing with bearer securities will wisely recognise his responsibility. All stages relating to the transit of such securities should be conducted with care. Loss of documents may be irreparable. Bonds should be carefully examined to see that they are the issue required, that the numbers are dealt in, and that the Bonds are of the correct denomination. These particulars can be obtained from the *Stock Exchange Official List* or the *Stock Exchange Weekly Official Intelligence.* Coupons on bearer Bonds should be scrutinised and checked with the particulars given in the same sources. The stamps on all bearer securities should be checked, as should all signatures where such appear. Careful note of all distinguishing numbers and denominations of bearer securities should be kept in a firm's records with clear particulars as to the deliverer, date of delivery, and destination of the security. When Bonds or other documents of value to bearer are dispatched by post it is an invariable practice to cover the risk of loss in transit by insurance.

Important alterations governing delivery of dollar securities came into effect from 1st September, 1942, when Temporary Regulation 8 (2) provided that . . . "subject to Rules 134 and 135, Shares in the name of a private individual will only be a

good delivery if the private individual is at the date of the bargain the actual seller of the Shares" . . . Introduction of this Regulation made essential that American and Canadian shares should be in the name of the individual beneficial owner or in recognised "marking names" and is referred to in Clause 3 dealing with the payment of dividends. A list of "good marking" names recognised by the American market has been compiled, comprising well-known Banking and Financial Houses together with Stock Exchange Firms whose interests are identified with American and Canadian securities. A full list of "good marking names" will be found in the opening pages of the *Stock Exchange Year Book*; and a difference in price quotation exists of approximately 50 cents to $1 in favour of recognised "marking names."

Stamp Duty on Bearer Securities

The stamp duty for bearer securities which generally circulate in this country is laid down in the following regulations—

(1) Bearer Bonds (other than Colonial Government and Municipal Securities) signed on or before 6th August, 1885 . .	Not exceeding £10 . 2s. 0d. Exceeding £10 and ,, ,, £25 . 5s. 4d. ,, £25 ,, ,, ,, £50 . 10s. 0d. ,, £50 ,, ,, ,, £100 . 20s. 0d. ,, £100 ,, ,, ,, £150 . 30s. 0d. ,, £150 ,, ,, ,, £200 . £2 0s. 0d. ,, £200 ,, ,, ,, £250 . £2 10s. 0d. ,, £250 ,, ,, ,, £300 . £3 0s. 0d. 20s. for further £100 or part thereof.
(2) Bearer Bonds (other than Colonial Government and Municipal Securities) signed after 6th August, 1885	8s. for every £10 or fraction of £10.
(3) Colonial Government Securities . . .	One-half rates set out (1) above.
(4) Colonial Municipal Securities bearing date after 3rd June, 1862	4s. for every £10 or fraction of £10.
(5) Share Warrants and Stock Certificates to Bearer of any Company or body of persons formed or established out of the United Kingdom	8s. for every £10 or fraction of £10 of the nominal value of the Share or Stock.
(6) American and Foreign Share Certificates .	6d. for every £25 or fraction of £25 of the nominal value of the Share or Stock.

Short-term bearer securities are subject to reduced rates.

There are various other contingencies relating to stamp duties on negotiable bearer securities, but the majority of those which pass through the Stock Exchange are embodied in the above list. For fuller particulars reference should be made to

H.M. Stamp Office near the Stock Exchange, or to the section dealing fully with the subject in the *Stock Exchange Official Year Book.*

The following Rule is of importance in connection with bearer securities.

Rule 134 (1)—

The Seller is responsible for the genuineness of the Securities delivered.

(2) (*a*) Bonds to Bearer, Bearer Scrip, and Share Warrants to Bearer are recognised as being negotiable instruments.

(*b*) Securities passing by delivery include the foregoing, and include also, for the purpose of this Rule, Shares in "American" form endorsed and passed in blank, Letters of Rights, Provisional Allotment Letters, and Allotment Letters renounced in blank.

Scrip Tickets

Tickets can be issued for scrip in a way similar to that adopted with Tickets for registered securities. Where the Clearing Department undertakes the settlement of bearer Stocks or Shares, the practice is for the department to pass either a white Ticket on which sellers can deliver their security, or a blue form advising buyers from whom they are to receive their bearer purchases.

The question of what is or is not good delivery where bearer securities are concerned is made clear by the following Rules.

Rule 135 (1) lays down that—

A Bond or Certificate is to be considered perfect, unless it be much torn or damaged, or a material part of the wording be obliterated. The Committee will not take cognisance of any complaint in respect of a Bond or Certificate alleged to have been delivered in a damaged condition, or deficient in or with irregular Coupons, should such Bond or Certificate be detained by the Buyer more than Eight days after the delivery, unless it can be proved that the Member passing it was aware of its being imperfect.

(2) A Member shall not be required to accept delivery of Shares in American form or Registered Bonds in names requiring legal or other documents to be attached in order to effect transfer.

(3) The signature to the assignment of a Share Certificate in American form in the name of a private individual shall be guaranteed by a Member or Members of the Stock Exchange.

(4) The Committee will not take cognisance of any complaint in respect of the irregularity in the endorsement of a Share Certificate in American form, should such Certificate be detained by the Buyer more than Three months after delivery unless it can be proved that the Member passing it was aware of the irregularity.

(136) (1) Unless the Council otherwise determine a Member shall not be required to accept the delivery of a Certificate of American Shares representing a larger number than—

100 Shares up to and including $5 each
50 ,, ,, ,, $25 ,,
20 ,, ,, ,, $50 ,,
10 ,, of any other denomination, or Shares of no par value,

nor an American Bond of a larger amount than $1,000.

(2) Smaller Certificates or Bonds must be of such denomination as to be deliverable in the above amounts.

The Rules governing the passing of Scrip Tickets are similar to those applicable to Registered Tickets only in the matter of the time for their issue and the question of endorsement. Where dissimilarity exists can be seen by a perusal of the Rules that follow—

137 (1) On the Ticket Day between One and Five o'clock, Scrip Tickets shall be passed at the Making-up price of the Contango Day.

(2) Scrip Tickets shall not be issued later than Three o'clock on the Ticket Day.

(3) Scrip Tickets must bear distinctive numbers and be for the following amounts, viz.—

£1,000 Stock, or multiples of £1,000, up to £5,000, or the equivalent in Foreign Currency.
5 Shares, or multiples thereof, up to 100.

Tickets for £500 Stock may be passed for bargains or balances of that amount. Smaller amounts must be settled without Tickets.

(4) Scrip Tickets shall not be split, except in the Settlement Department.

(5) A Member is required to endorse on the Scrip Ticket the name of the Member to whom it is passed.

(6) Sellers shall accept Scrip Tickets, but if a deliverer elect to settle with his immediate Buyer, under the provisions of Rule 106, he shall deliver his Securities before Half-past Twelve o'clock. Intermediaries on the trace are bound to pay their Sellers up to One o'clock.

Additional instructions are laid down in Temporary Regulation (3) which, during their continuance, must be complied with. Among others are the following which deal with securities not subject to arrangement by the Settlement Department:

(XIV) (*a*) For securities which are not subject to arrangement by the Settlement Department, the buyer of Securities passing by delivery shall issue a Scrip Ticket not later than Three o'clock on Ticket Day.

(*b*) A Member is required to endorse on the Scrip Ticket the name of the Member to whom it is passed.

(*c*) Unless otherwise arranged Scrip Tickets must be issued in conformity with bargains; they should be issued at the price of the bargain.

(*d*) Scrip Tickets must be numbered.

(*e*) Scrip Tickets may be split, but such split Tickets must bear the name of the issuer of the original Ticket and state by whom the Ticket is split.

The time for delivery of bearer securities and the Rule dealing with selling-out are laid down as follows—

Rule 143 (1)—

A Member shall not be required to pay for Securities presented after a Quarter before Two o'clock. On the Account day the holder of a Scrip Ticket must deliver before One o'clock.

(2) The Buyer shall pay for such portion of Securities as may be delivered within the prescribed time.

Bearer securities do not require the days of grace allowed for delivery in the case of registered securities. They may be bought-in on the following day, or, in some cases, on the same day if undelivered, under Rules—

151 (1) Securities passing by delivery which have been bought for the Account day and are not delivered by a Quarter before Two o'clock may be bought-in on the following or any subsequent day, Saturday excepted, and any loss occasioned by such Buying-in shall be borne by the Seller.

(2) One hour's public notice of such Buying-in must be posted in The Stock Exchange: the notice to be posted not later than Half-past Twelve o'clock.

(3) If such Securities are bought for any day except the Account day and not delivered by a Quarter before Two o'clock, they may be bought-in on the same or any subsequent day, Saturday excepted, without notice, and any loss occasioned by such Buying-in shall be borne by the Seller.

(4) Buying-in shall take place between Half-past One and Three o'clock.

(5) The loss occasioned by such Buying-in shall be borne by the Member who shall not have delivered the Securities by a Quarter before Two o'clock on the previous day, Saturday excepted.

(6) Securities bought-in and not delivered by one o'clock on the following day, Saturday excepted, may again be bought-in for immediate delivery, Saturday excepted, without further notice, and any loss shall be paid by the Member causing such further Buying-in.

As is the case with registered Stocks, intermediaries are released from liability under Rule—

152 (1) The issuer of a Scrip Ticket who shall allow Two business days, Saturday excepted, to elapse without buying-in or attempting to buy-in Securities passing by delivery shall release his Seller from all liability in respect of the non-delivery of the Securities, unless he shall have waived his right to buy-in at the request or with the

consent of his Seller: and the holder of the Ticket shall alone remain responsible to such issuer for the delivery of the Securities.

(2) The liability of issuers and holders of Scrip Tickets is not affected by the fact that intermediaries have been released by lapse of time.

Temporary Regulation 3 (XVI) (b) slightly alters the wording of Rule 152 (1) quoted, and gives in addition the following—

(XVI) (*a*) The holder of a Scrip Ticket who shall allow two business days from the Buying-in Day for securities passing by delivery to elapse without delivering the securities shall release his Buyer from any loss in consequence of the declaration of any Member as a Defaulter.

In the case of securities not subject to arrangement by the Settlement Department the Deliverer of securities passing by delivery who fails to receive a Scrip Ticket by Twelve o'clock on the First Intermediate Day, should report the matter in writing to the Manager of the Buying-In and Selling-Out Department, who will inquire into the reason of the delay and report to two Members of the Council (XVII).

Points to be observed before leaving the subject of bearer securities relate to the settlement of partly-paid Scrip, such as an Allotment Letter, Letters of Renunciation, and the question of Drawn Bonds. Rule 100 lays down—

In case the payment of an instalment on Scrip dealt in for the Account falls on an Account day, the settlement of such Scrip shall take place on the previous day.

Letters of Renunciation

These are forms of provisional registered Scrip which provide facilities for early transfer to another while they are in scrip form. Companies issue these letters to Stock- or Shareholders or to original applicants, and often, without any sum having been paid, the letters are of value. Such a Stockholder, not being desirous of taking up the security—that is, paying it up in full—can often sell his holding, and bring about its transfer to the buyer by signing away or, as it is known, renouncing his title. This renouncing, where the nominal amount is £5 or over, is done over a 1s. stamp.[1] The buyer thereupon fills in fresh registration particulars in the appropriate space, and the Renunciation Letter, when presented at the company's office, is accepted in the manner of an ordinary transfer. A time limit exists for the use of a Renunciation Letter, and the ordinary

[1] Subject to amendment by the Budget of 1949.

short life of the document brings the following New Rule into existence—

114a (1) Where a renounceable right to apply for new Securities is issued to holders all dealings shall be for cash and shall be for Letters of Rights (subject to Rule 159) until the business day preceding the last day fixed for the receipt of applications in the London Postal Area (or 24 hours earlier if elsewhere).

Bargains shall if possible be settled by delivery of Letters of Rights duly renounced, subject to Clauses (2) and (3) hereof.

Rule 159 mentioned here refers to the necessity for "permission to deal" being granted except in cases of Government and certain other securities.

The time for delivery of renunciation letters is fixed by Clauses (2) and (3) of Rule 114A as follows—

(2) The buyer shall not be required to accept Letters of Rights delivered after a quarter before 2 o'clock on the latest day fixed for the receipt of applications in the London Postal Area (or 24 hours earlier if elsewhere), and thereafter the bargain must be settled in the new Securities provided the notice mentioned in Clause (3) hereof has not been given.

Clause (3), it will be seen, contains the important right to cancel a claim for new securities—

The buyer, if he has not received delivery by 12.30 p.m. on the business day preceding the latest date fixed for the receipt of applications in the London Postal Area (or 24 hours earlier if elsewhere), may inform the seller in writing not later than 11 a.m. on the following business day that he does not wish to take up the new Securities and the seller shall then not be entitled to deliver new Securities in place of a Letter of Rights.

Clause (4), however, makes provision for the contingency against cancellation where, say, a premium on a new issue should run off. The Buyer, states this Clause, shall pay to the Seller on the business day following that on which the said notice was given, any premium which he may have engaged to pay for such Letters. Finally, Clause (5) gives the important ruling that "Letters of Rights may not be bought-in," and continues

For the purposes of the above Rule, where the last day for receipt of applications is a Saturday, this Rule shall apply as if the last day for receipt of applications were a Friday.

Drawn Bonds

The question of drawn Bonds is dealt with by Rule 113 (1)

which also embraces all forms of securities if the point arises. The opening words of the Rule are important—

Bargains must be settled in Securities which have not been drawn.

The meaning of drawn securities is that in accordance with their rights Governments or companies may have "drawn" or "withdrawn" certain Stocks for repayment. The methods employed in drawing securities may differ, but the principle adopted by all authorities is that of complete impartiality. Such securities when drawn automatically become "bad delivery" so far as Stock Exchange procedure is concerned. Despite this fact drawn securities often pass as good delivery. This is owing to the element of surprise which is sometimes present in the matter of drawn securities. It is a simple matter, for instance, for a Bondholder to miss from a long and closely printed column in the Press the number of one out of the twenty Bonds which he may hold of the Government in question. What usually brings to the surface the fact that a Bond has been "drawn" is that when the coupon next due is presented at a bank or agency for payment the holder is notified that no interest is forthcoming for the reason given, namely, that the Bond has been paid off.

The drawing of a Bond may occur whether the market price stands below or above par. If redemption price is 100, and a Bond which has been sold at 105 is found to be one drawn for repayment, there is a consequent loss involved. Should the Bond have been sold at 75 it is obvious there is a useful profit to the purchaser. Whether a loss or a profit is involved, it is the Stock Exchange practice, when a Bond has been found to be "drawn," to "read" or "trace" back to the owner, who should have known of its withdrawal as "good delivery." It is not an uncommon experience for a client to be informed that Bonds sold for him at well below redemption price have proved to be "drawn" Bonds. This happening is in the nature of a windfall, and the client is able to cash his redeemed security at the higher price and buy back at the market price the amount he has sold, to enable him to complete his sale.

Buyers have certain rights in such circumstances, as will be seen by Rule 113, Clauses (2), (3), and (4)—

(2) In case of the erroneous delivery of any Drawn Securities, the Buyer, on receipt of Undrawn Securities, and on allowance being

made for any drawing or dividend of which he may have lost the benefit, shall deliver such Securities back to the person who held them at the time of the drawing, or shall pay to him any proceeds received from such drawing, provided the said Securities or the proceeds thereof be traced to, and remain in the possession and under the control of such Buyer, all intermediate Members being released from liability.

(3) No claim by the Seller in respect of the erroneous delivery of Drawn Securities will be entertained by the Committee unless made within Nine calendar months from the day of delivery.

(4) In the case of Securities bought before but delivered on or after the date of the drawing the seller shall pay to the buyer the market value of the drawing. The Secretary of the Share and Loan Department will, on application being made, fix the market value of the drawing which may be deducted by the buyer from the purchase money.

Clause (4) just quoted draws attention to the value which often attaches to the drawing of Bonds. It will be seen that where drawings at 100 take place in securities standing well below this figure, a buyer is at a disadvantage if he is not able to participate through the Bonds being in his possession. Cases are frequent where the value of the "drawing" is sufficiently large for Bonds to be quoted "ex" the value of such prospective advantage.

Exactly when Registered Securities may be considered "drawn" is set out in Clause (1) of the Rule above quoted.—

Registered Securities shall be deemed to be drawn on the date on which the books are closed for the drawing, or on the date on which the drawing takes place if the books do not close for that purpose. Bargains in Registered Securities shall for the purpose of this Rule be deemed to be settled if delivery takes place before the date of the drawing as defined above.

The fact that such a contingency as the overlooking of drawn Bonds can easily arise is an additional objection to holding the second of the series of title which we have included under the heading of bearer Bonds. In the case of registered title, the first of our series, such an event would be easily notified, as it would with the third and last, namely, Inscribed Stock, to which important division we will now turn for information.

CHAPTER XIV

HOW INSCRIBED STOCKS AND DIVIDEND TITLE ARE TRANSFERRED

INSCRIBED Stocks—Abolition of Inscription—Dividends, Rights and Calls—Ex Dividend and Ex Rights—Accrued Interest—Deductions and Claims—Valuation of Rights—Payment of Calls—Bonus Issues—Special Application Forms

AN investor buying British Government Stock in the past was usually asked whether "Bearer," "Registered," or "Inscribed" was required. Any one of these forms of Stock could be obtainable without extra charge. If the decision was left to the Broker he usually recommended

Inscribed Stock

There was no difference in the market value of the various forms of Stock, the different methods of holding them being purely for convenience. That inscribed Stock is the most desirable form is suggested by Rule 118, Clause (1), which reads—

A Buyer of British Government or other stock which is inscribed at the Bank of England or a London Bank is entitled to delivery in inscribed form unless otherwise arranged.

However, many people, particularly trustees, prefer to hold a certificate, which is obtainable when registered form is chosen.

The reason inscribed Stock was recommended was that the risks attaching to holding bearer Stock were absent, and any delay that may have been experienced when registered Stock was sold could be avoided. Inscribed Stock could be sold by a holder on one day and delivered on the same day or the next by personal attendance at the bank. The receipt which was issued by the bank in cases of inscribed Stock was of no negotiable value, and, should it be lost, title to the Stock was in no way invalidated.

Inscription of Stocks, the method whereby title could be transferred, simply meant the writing in and out of holdings at the place where the records were kept. In the case of British Government Loans, Dominion and Colonial Loans, and most of the Corporation issues, the records were kept at the Bank of

England, or at one of the large joint-stock banks in the City of London.

Abolition of Inscription

Owing to removal of records and staff to the country during the War, the practice of transferring "Inscribed" Stock by personal attendance of the seller at the Bank was discontinued. This made unnecessary the preparation, lodgement and use of "Ticket" and "Receipt" and also the popular "Power of Attorney" enabling a Broker or Banker to sign on behalf of the seller. One of the first Emergency Provisions issued by the Bank of England was "Transfers of all Inscribed Stocks will be effected by the common form of transfer, but a certificate of Title will only be issued if a Deed Register is already in existence" . . . These provisions were later supplemented by The Government Stock (Transfer) Regulations 1941, and the principle extended under Section 47 of the Finance Act 1942. Thus from the beginning of 1943 "Inscribed" Stock to buyers was abolished. It should be noted these arrangements apply to British Government securities, as well as to issues such as L.C.C. Metropolitan, London Transport, London County, Metropolitan Water Board, Mauritius, Newfoundland, Nyasaland and Tanganyika Stocks, all of which are domiciled at the Bank of England. It is still possible to hold most Corporation Stocks in "Inscribed" form.

All transfer deeds used for "Inscribed" Stocks have to be accompanied by the Exchange Control Form referred to under "Registered" Stocks. When a certificate for Stock sold is for a larger amount than the transfer, or is needed to meet more than one transfer, certificate and transfers are presented to the Bank or their accredited agents for certification. Where a certificate is in being facilities for certification are available at the Share and Loan Department of the Stock Exchange, London, or by the authorised officials of all Stock Exchanges affiliated to the Council of Associated Stock Exchanges. In cases of "Inscribed" Stock where no certificate exists, these must be sent to the Bank of England or to the office concerned for certification.

The term "Inscribed Stock" is extensively used still in connection with Government Stocks and other securities. It is

fair to say that now in every case the transfer of title where such term is employed is carried through by means of a common form of transfer. It is noticeable also in this connection that a number of Rules having particular reference to "Inscribed" Stocks still figure in the Rules and Regulations of the Stock Exchange. Whether a return will be made to the long-established custom which made the transfer of such securities unique, time will reveal, but as Rules dealing with their treatment are still in existence reference to them is made. The first Rule 148 deals with Buying-in and reads

> Inscribed Stock, not subject to an *ad valorem* Stamp Duty, bought for a specified day and not then delivered, may be bought-in without notice on the following day at Eleven o'clock, Saturday excepted, and the Member causing default shall pay any loss incurred.

Inscribed Stock subject to an *ad valorem* stamp duty, however, cannot be bought-in on the following day. The same period of grace, namely, ten days, is allowed by Rule 149, Clause (1), which Rule we deal with fully on pages 275 to 279.

Provision is also made for selling-out in the case of inscribed Stock. Rule 154 (1) reads—

> The Seller of Inscribed Stock for a specified day, who shall not receive a Ticket by Half-past Twelve o'clock, or Half-past Eleven o'clock on Saturday, may sell out against the Buyer.
>
> (2) If such Ticket shall not have been regularly issued before Eleven o'clock, the issuer thereof shall be responsible for any loss occasioned by the Selling-out. Should the Ticket have been regularly put in circulation, the holder at Half-past Twelve o'clock, or Half-past Eleven o'clock on Saturday, shall be liable.

In practice, buying-in or selling-out of Government securities is almost an unknown quantity. All dealings being for cash, completion could be enforced on the day following each bargain. It is no exaggeration to say that, if immediate delivery were insisted upon by all buyers through this medium, there would need to be considerable augmentation of the "Buying-in and Selling-out" staff. Sellers, however, are naturally anxious to complete by delivering their Stock with as little delay as possible; otherwise they are out of money that would normally be in their possession.

The times for delivery of inscribed Stocks laid down by

Rule 116, are superseded by Temporary Regulation 3 (1) which reads—

The latest time for delivery (with the exception of delivery on the trace) of all Securities is a-quarter-past-One-o'clock. If a deliverer elects to settle with his immediate Buyer under the provisions of Rule 106, he shall deliver his Securities before Twelve o'clock, but Intermediaries on the trace are bound to pay their Sellers up to half-past-Twelve-o'clock.

An important department of knowledge connected with the transfer of title is that relating to

Dividends, Rights, and Calls

The department dealing with dividends, rights, and calls is usually under the care of an expert or one who has had experience of such matters. The subjects require constant and close study and call for exact knowledge. A clerk responsible for this position should make as his bosom companion the *Stock Exchange Weekly Official Intelligence*, and this production should be constantly consulted in collaboration with his firm's list of purchases. The columns of the Press will also furnish information regarding dividends, etc., usually in advance of the particulars published officially.

The more subtle the subject, the more necessary it is that clear rules be laid down for guidance. On the face of all Tickets which are issued for transfer purchases appears this claim, "All Dividends and other Rights are hereby claimed." That this claim is purely formal is shown by the fact that in hundreds of cases the question of dividends or rights never arises. Where, however, the claim does arise, the wording on the Ticket does not alone ensure that the dividend or the right in question will automatically be handed over to its rightful owner. The recovery of dividends is the task of the dividend clerk, and his duty is the examination of all claims, and the establishment of title where such dividend title is due.

In this connection two points are of vital importance—

1. The date of the transaction.
2. The date on which the security goes "ex."

Ex Dividend and Ex Rights

The importance of the date of the purchase of any security was emphasised at the opening of Chapter XII, and this date

is the basic point of all discussion where the ownership of dividend or rights is concerned. Where dividends, benefits, or liabilities are concerned, a person actually becomes a Stock- or Shareholder from the time a purchase is made, although it may be a considerable time before title is officially established. As far as a company whose capital is transferable by deed is concerned, the unregistered Stockholder does not exist, and any distribution of profit which is made before he is registered completely ignores such person's position. It follows, therefore, that a dividend may be sent to a person who is no longer a Shareholder because he has sold his holding, and that the new holder does not receive it direct from the company because he is not registered in time. That is the dividend problem that has to be met where registered title is concerned.

It is the practice of most companies to "close their books" for a definite period when a distribution of any kind is to be made. This closing or "shutting" of Stock or Share registers is to avoid confusion and to allow time for the preparation of dividend or other warrants in registered Shareholders' names. Frequently a Press announcement giving the period of such closure is made. During the time the books are closed a company's security may be bought or sold, and the changing of title may be proceeding steadily. Changes of ownership in a company's Stock which took place possibly weeks before may not have moved forward in time for official recognition owing to delay in registration. Nevertheless, these unregistered holders may have a just claim to the benefit which the company is about to distribute. Now who is entitled to the distribution in question and how is such title determined?

The system employed by the Stock Exchange for dealing with this complicated question of dividends, bonuses, and rights by quoting prices "ex" on a certain date provides a fair and workable method. This is how the system works. On a given date all securities upon which a distribution is to be made are quoted "ex." "Ex" and "cum" are well-known expressions on the Stock Exchange, the last-named being a preposition from the Latin meaning "with," and the first a prefix from the same language meaning "out." We are all familiar with the meaning of an "ex-officer" or "ex-president" as referring to those who once held title, but do so no longer.

The same principle is applicable to a Stock or Share quotation. The fact that such quotation is "ex" means that it is definitely without the quantity that caused it to be so quoted. On the day that a security is quoted "ex" dividend, the approximate value of the dividend is deducted from the market price. The specific date of such deduction has the immediate effect of settling to whom the dividend belongs. An investor buying Consolidated 4 per cent Stock on the day it is quoted "ex" is not entitled to this dividend, for the simple reason that the dividend is allowed him in the price he pays for his Stock. The seller of the Stock on that day, however, is entitled to that dividend, because he receives a lower price than would have been given if the dividend value had not been deducted. It follows, naturally, that all bargains done before the security is quoted "ex" are done "cum," and, had the investor we mention purchased Consolidated 4 per cent Stock the previous day, such investor would have been entitled to this dividend because its value would be in the price, while the seller would automatically have forgone this particular dividend for the same reason.

How, it may be asked, is this deduction of the dividend value actually brought about? We shall see that Stock Exchange Rules provide for this to be done in accordance with definite plans. On the morning in question the Jobbers who deal in a particular security decide on the opening quotation. If, for instance, the previous closing price of Consolidated 4 per cent Stock was 100–¼ the amount to be deducted the following morning would be 6 months' dividend at £4, equals £2, less tax at, say, 5s. in the £, namely, 10s., the net amount being £1 10s.

The opening quotation would therefore be "Consolidated 4 per cent Stock 98½-¾." In the case of a Share quoted at, say, 20s. to 20s. 6d. cum a dividend of 5 per cent for the year, the amount to be deducted when it is quoted "ex" would be 1s. less tax at 5s. in the £, namely 3d., equals 9d. net. The opening quotation for this Share would therefore be 19s. 3d. to 19s. 9d. "ex dividend." Following the opening quotations, business would proceed naturally in these two securities, the demand taking the prices higher, or pressure to sell taking them lower. What is a little confusing to investors is that when a security is seen quoted ex dividend it sometimes remains

at the same price as it was before the dividend was deducted. The explanation is usually that either the amount of the dividend to be deducted is so small as to make little difference to the price, or that a demand for the security has restored the price to its old basis. It is not unusual for the remark to be made that a Stock looks cheap when it first appears with its shorn, that is, its ex dividend, quotation. Buyers may appear at this level, which, actually taking the dividend into consideration, is identical with the price which failed to interest prospective purchasers on the preceding day. On the other hand, many investors prefer to wait before selling a security until they have had their dividend. It may be mentioned that there is little point in doing this, and the answer to the question as to when is the better time to sell, before or after the Stock is quoted "ex dividend," is the rough and ready one that it is as broad as it is long.

The Stock Exchange Rules governing the making of Securities ex dividend are as follows—

Rule 111. Unless otherwise ordered by the Council—

(1) Government and other Securities mentioned in Rule 97 (including also those subject to Stamp Duty and Corporation Stocks, Dominion, Indian, and Colonial), Inscribed, Registered, Scrip, Certificates, or Bonds, shall be made ex-dividend or ex-interest on the day on which the Books close or the balance is struck for the payment of the dividend, except Bank of England Stock, which shall be made ex-dividend on the day after that on which the balance is struck . . . . . .

(2) Securities deliverable by Deed of Transfer (except Registered Debentures), also Stock, Units of Stock and Shares which are dealt in in both Bearer and Registered form, shall be made ex-dividend on the Contango-day on or preceding the first or only day on which the Transfer books are closed for payment of the dividend or if information does not reach the Secretary of the Share and Loan Department in time to enable the Security to be made ex-dividend on that date, then the Security shall be made ex-dividend on the Contango-day following the first or only day on which the Transfer Books are closed for payment of the dividend.

On receipt of official information cancelling the recommendation or declaration of a dividend any notice posted making the security ex-dividend under Rule 111 (2) shall automatically be cancelled and be deemed to have been void and of no effect.

Bargains shall be completed as if the security had not been made ex-dividend.

Any deduction made under Rule 132 shall be refunded.

(3) Securities to Bearer (other than the Bonds and Bearer Securities referred to in Clauses (1) and (2) respectively) and Registered Debentures shall be made ex-dividend on the day when the dividend is payable, but Securities to Bearer with Coupons payable only abroad may be made ex-dividend on the Contango-day which shall allow the necessary time for the transmission of the Coupon for collection.

(4) (*a*) "American Shares" (both quoted and unquoted) shall be made ex-dividend on the day following that on which they are dealt in ex-dividend in New York or other "American" Exchange.

(*b*) In the case of "American" Companies which have a London Register, if the London Books have not been closed on the date following that on which the Shares are dealt in "ex-dividend" in New York, or other "American" Exchange, the Shares shall not be made ex-dividend until the London Books have been closed.

Rule 112. (1) In the settlement of all bargains, except in 3½ per cent War Loan, and except as below provided, dividends are to be accounted for at the net amount receivable after deduction of Income Tax.

(Where War Loan in bearer form sold cum dividend is delivered after the day on which the stock is quoted ex-dividend, the bonds should be delivered without the coupon and the dividend settled without deduction of tax.)

Subject to the rights of buyers under Rule 139, sellers of securities, the dividends on which can be cashed without deduction of United Kingdom Income Tax, or where exemption from deduction of tax may have been obtained by the seller, must account for the gross dividend unless they are able to provide a valid Tax voucher.

(*Vide* Appendix 45.)

.....

(2) Accrued interest on Securities excepted in Rule 138 shall be paid without deduction of Income Tax.

An important prohibition when dealing is set out in Rule 165 (2) (*b*) as follows—

In the case of registered Securities dealt in for the Account no bargain may be done Ex dividend earlier than the Account immediately preceding the Ex dividend date. In the case of Securities dealt in for Cash no bargain may be done Ex dividend earlier than three weeks before the Ex dividend date.

(*c*) In the case of the 3½ per cent War Loan no bargain may be done Ex dividend before or Cum dividend after the Stock is officially made Ex dividend.

The above Rules are explicit, and generally cover the principles employed for the adjustment of this involved subject. Various contingencies arise, however, which call for special provisions. In the above-mentioned Rule 112 the exception referred to in respect of which the deduction of tax from dividends does *not* apply is important.

Rule 139 reads as follows—

Securities shall not be a good delivery without the Coupon before they are made ex Coupon.

Except as provided above, should Bonds or Securities with Coupons payable abroad, or both in London and abroad, be sold cum Coupon and delivered without the Coupon, the seller must compensate the buyer by the payment of the market value of the Coupon on the date for which the bargain is done, in case of dispute the market value being fixed by the Secretary of the Share and Loan Department.

The adjustment called for in such cases is amplified by Temporary Regulation 6, which continues . . . .

Should Securities sold "with coupon attached" be delivered without the Coupon, the seller must compensate the buyer by payment—

(*a*) in the case of British securities of the sterling value of the Coupon less Income Tax;

(*b*) in the case of Dominion, Colonial and Foreign securities with Coupons payable only in London, by the sterling value of the Coupon without deduction of Income Tax; and

(*c*) in the case of securities with Coupons payable abroad or both in London and abroad with any greater value than the sterling value without deduction of Income Tax. In the case of dispute the value of the Coupon to be fixed by the Secretary of the Share and Loan Department.

Where a dividend is payable on or before the day for the settlement of the bargain the Making-up Price shall be ex-dividend.

The above Rules are designed to adjudicate fairly on the vexed question of income tax. It will be seen that there are many Bondholders who by reason of their nationality are not liable to income-tax deduction. For such Bondholders possession of a coupon often enables the interest to be collected in full, that is, without deduction of tax. It was common practice in such cases where coupons were payable abroad for them to be either sent out of the country, or sold to firms who made a business of purchasing them for collection abroad. Another factor of importance was the question of exchange. Where, for instance, a coupon was encashable abroad, and the existing rate of exchange made such collection abroad profitable, it was obviously unfair to withhold this advantage from a purchaser of the Bond. Where such advantage is lost because a coupon is missing, when by the terms of the bargain it should be attached, Rule 140 becomes operative—

In the case of dividends payable abroad or both in London and abroad, the Secretary of the Share and Loan Department shall fix the market value of the dividend or Coupon in sterling money,

which shall be posted in the Stock Exchange and the dividend or interest shall be accounted for at such valuation.

The reference in Rule 112 (1) to 3½ per cent War Loan dividends being accounted for without deduction of tax is explained by the fact that interest is payable under the terms of the issue without such tax deduction.

A frequent expression heard in Stock Exchange circles is that a particular security is "full of dividend." This expression has reference to the fact that from the time a Stock or Share is quoted ex dividend, provided it is a security which will again carry a dividend payment, each succeeding day makes such security correspondingly more valuable because of the interest or dividend which is accumulating. Supposing that the price of a Stock paying 5 per cent per annum were quite stationary at 100, the best time to buy such Stock would obviously be just before its half-yearly dividend was to be paid. What, however, happens in practice is that, eliminating all price movements for the purpose of our illustration, such Stock at the end of three months would stand at around 100¾ and, at or approaching the end of the six months, 101½, which is approximately the value of the interest which is "in it" less tax. To use a homely illustration, securities are like Robert Bruce's spider; they clamber slowly upwards only to slip backwards again on the interest deduction, such setback being merely the occasion for another upward progression. Reference to this aspect of interest accruing in the price of a Stock is found in Rule 138 which lays down—

Bargains in Bonds and Debentures include the accrued interest in the price, except in the case of British, Dominion and Colonial Treasury and Exchequer Bonds or Bills, Rupee Paper, Indian Railway Debentures, and certain Securities of a like character which are dealt in subject to the accrued or accruing interest being accounted for between buyer and seller up to the day for which the bargain is done.

The exception referred to above is the class of security known as "Shorts."[1] These Treasury and other such securities are settled with accrued interest calculated from day to day. A seller of, say, 2½ per cent National War Bonds 1949–1951, interest payable 1st February and 1st August, would receive credit on his contract note for interest at 2½ per cent from the day the last

[1] See also Glossary.

interest was paid to the following business day after the bargain was contracted. This amount would be charged to the buyer. If the Bonds were sold, and the date of the sale was 31st March, the amount credited to the seller would be 59 days on the nominal value of the Bonds calculated at $2\frac{1}{2}$ per cent per annum. This amount would be due from the buyer, because, with the coupon in his possession on the 1st August, he would receive the full six months' interest, less tax, on the Bonds, despite the fact that they were in his possession for 122 days only. This is known as dealing "Plus Accrued."

Students must be a little careful not to apply this method of calculating interest when such Treasury issues are only partly paid. In such cases the practice is to calculate the interest due to the seller in proportion to the amount that is "paid up" on the security at the time of the transaction.

The explanation as to why this method is adopted in calculating the interest on "Shorts" is that this class of security is largely used for day-to-day money loan transactions. As Treasury Bonds, Exchequer Bills, etc., constitute the nearest approach to bank-notes or currency, it is found more satisfactory thus to calculate interest from day to day than to endeavour to establish the interest value by an adjustment in the price of the security.

It can be seen that to extend this principle of settling interest to the vast number of securities dealt in on the Stock Exchange would be impossible, as in many cases the payment of interest is by no means certain. In the case of Ordinary Stocks or Shares the dividend or its amount is an unknown quantity until it is actually announced. Rule 138 makes provision for interest adjustments on Treasury and other similar issues which may be described as the safest securities in existence. Therefore, doubt on the question of the interest being duly forthcoming does not arise. The interest adjustments which take place from day to day on these securities, as will be seen by reference to Rule 112, Clause (2), are made without deduction of income tax (see page 302).

It frequently occurs that registered securities are purchased cum dividend, but, owing to the date of the declaration of a dividend or delay in delivery of the transfer, the purchaser is unable to register in time to receive such dividend direct from

the company. Under such circumstances the transfer clerk in the Stockbroker's office who pays for the deed should take action to recover the dividend under Rule 132, which provides—

The Buyer is entitled to deduct the dividend when paying for Securities on which the dividend has been declared and in respect of which the Transfer Books are closed at the date of delivery.

Both factors, the dividend declaration and the closing of the transfer books, however, must be present, for if the dividend be not known, it is impossible to deduct it, while, if the books are still open, a buyer could register, and thus receive the dividend twice, that is, assuming that it were deducted from the seller at the time of the delivery of the transfer.

Rule 132 does not mention the question of income tax, which naturally arises when it is necessary to deduct a dividend under this Rule. With the exceptions to which we refer later, it is the practice to deduct dividends after allowance has been made for income tax. In other words, the amount which is deducted is exactly the same as the purchaser would have received if the dividend had been sent direct by the company. As the dividend counterfoil will not come into the personal possession of the purchaser, and it may be required for purposes of income tax reclamation, Brokers are authorised to issue an income tax certificate in such cases. The certificate or declaration that tax has been deducted is usually accepted as proof of payment of the tax by income tax authorities.

Where dividends are payable in foreign currency, Rule 133 should be observed—

In cases where dividends are declared payable in a foreign currency the Secretary of the Share and Loan Department shall fix a price for the dividend in Sterling money, which shall be posted in the Stock Exchange, and the dividend shall be accounted for at such price.

Special regulations relating to dividends became necessary on Great Britain's abandonment of the Gold Standard, and the following should be read in connection with Rules 132, 133, and 140 which we have quoted—

Resolution confirmed 11th September, 1939.

That the following Regulation shall until repealed govern the transaction of business in the Stock Exchange and shall form part of the Rules and Regulations of the Stock Exchange and shall take effect notwithstanding any of the existing Rules and Regulations.

Regulation. Rules 132, 133 and 140.

Dividends which are settled under Rules 132 and 133 and dividends on "American" Securities which are settled under Rule 140 shall be temporarily settled at the par rate of exchange, subject to recourse at a valuation to be fixed on the date of payment, such date and valuation to be fixed by the Secretary of the Share and Loan Department.

The Temporary Settlement of dividends on "American" securities paid in United States dollars and in Canadian dollars shall be at a rate to be fixed by the Secretary of the Share and Loan Department in consultation with the Market; but as regards all other securities the Temporary Settlement shall be at the par rate of exchange.

The Regulation shall also apply to dividends payable in Dominion or Colonial Pounds, and in the case of such dividends the par rate of exchange shall be deemed to be £ per £.

The method of obtaining a dividend in the case of registered securities where deduction on payment is not possible, and registration of the transfer has not been in time, is to put forward a formal claim to the seller. In this connection Rule 120, Clause (4), is of importance—

The Seller is responsible for such dividends as may be due to the Buyer unless an unreasonable time has been taken by the transferee to execute and lodge the documents for registration, or there has been unreasonable delay in claiming the dividend.

Just what is an unreasonable time is not clearly defined by this Rule, but it should be remembered that, while a seller is responsible for dividends belonging to a buyer, this responsibility can be affected by lapse of time.

The formal claim for a dividend is a simple one. It sets out the details relating to the security, date of delivery, and particulars of the transferor and the transferee. Here is an ordinary Dividend Claim Form which could be adopted for all forms of securities—

100 DRAPERS GARDENS,
LONDON, E.C.2.

.... 194 .

MIDAS & CO. *Claim of Messrs.* ... ...

the . . . .. *on* . . ..

Transferred from.... . . .. *to*. ....

and paid for 194

When dividends are deducted on delivery of the transfer a purchaser will frequently receive the amount before the company make the dividend distribution. When a claim is made as above the purchaser must often wait long after the sum is due, settlement of the claim being frequently more reluctant than prompt.

Rule 119 deals with the deduction of dividends on Government, Corporation, Inscribed, and Registered Stocks, and its similarity to Rule 132, that relating to Transfer Stocks, can be observed—

The Buyer is entitled to deduct the dividend when paying for Securities of which the books are closed for the payment of the dividend.

Rule 141 refers specifically to American Shares and is as follows—

Should the Buyer of "American" shares be unable to obtain the dividend, to which he is entitled, direct from the Transferor or his Agent the Deliverer shall be responsible to the Buyer for such dividend provided that not more than eleven clear days have elapsed between the day of delivery and that of the closing of the books of the Company.

This rule throws light on the reference made in the last chapter, page 287, regarding what constitutes a "good" name on an American Share certificate. Certain names in which American Shares are registered have international status, while others are well-known in Stock Exchange circles. It is the accepted practice that when American Shares are delivered to a buyer in well-known names, the certificates remain thus registered. In such cases registered "owners" do not actually possess the securities, but the endorsement on the back makes the certificates negotiable. The registered holders, however, do accept at once any claim for dividends. On an announcement of any dividend distribution by a company, the method employed by the real holder is for him to present the Shares to the office of the registered holder together with a formal claim for the dividend. This is described as getting certificates "marked for dividend." The firm in whose name the Shares are registered will sometimes keep the certificates for a few days in order to record the particulars, handing out to the claimant a "docket" which later is exchanged for the Shares and sometimes the dividend as well.

In this connection dividends may be claimed and paid out in certain cases by those registered without tax deduction as Temporary Regulation 8 (3) sets down as follows—

> Members whose names are on the list of "Marking Names" recognised by the market may pay dividends on Shares in "American" form registered in their names without deduction of Income Tax to any firm or person who accounts for Tax as a person entrusted with the payment of Foreign and Colonial dividends under the Provisions of the Income Tax Acts and to any firm or person claiming relief on the ground of non-residence who lodges with them the appropriate Inland Revenue declaration.
>
> Such Members shall deliver to the Commissioners of Inland Revenue true and perfect accounts of the amounts of all such dividends.

There is little point, assuming that American Shares stand in a "good" name, in hurrying to re-register them, as some expense is incurred in sending them away, and they are less negotiable when eventually they stand registered in a comparatively unknown name.

Dividends on registered Stocks, both in the case of Governments and companies, are paid, as we have shown, direct to registered holders. The case of dividends on bearer Shares we have also dealt with. With bearer Bonds it is usual for interest coupons to be attached. These coupons are cut off and presented to a bank or the agent for the Government concerned on the due dates for payment. If payment is not expected interest coupons should be allowed to remain on the Bonds, as, if they are taken off and separated, the Bonds become bad delivery. Particulars are given in official records of the coupons which should be attached to Bonds, and, as these coupons usually bear a number, they are easily identified. The information given in the *Stock Exchange Official List* and the *Weekly Official Intelligence* relating to the dates on which securities are quoted ex dividend or ex coupon is invaluable.

The dates when securities are quoted "ex" are thus authoritatively fixed. The dates appear in official records and can always be referred to. Owing to the very large number of dividend warrants that have to be prepared in connection with the securities they sponsor, the Bank of England make a practice of "drawing the line" long before the actual date of a dividend payment. This "drawing the line" is equivalent to the closing of a company's transfer books, and simply means

that after a given date no transfers will be accepted by the bank, which affects the destination of the dividend in question. In the case of 3½ per cent War Loan and certain other Stocks domiciled at the Bank of England, the line is drawn, and the Stocks are automatically quoted ex dividend, no less than five weeks before the actual distribution of the dividend.

Valuation of Rights

Rights and their values are treated by the Stock Exchange in a similar way to dividends. Extreme care should be exercised in dealing with rights, as in many cases large cash issues are involved. In the case of a company issuing Shares *free* to its registered Shareholders the decision as to whether to accept them or not is easy of solution. When Shares are offered at a price considerably below the level of existing Shares it is again simple to make a decision regarding claim or acceptance. These instances are what is known as making issues on bonus terms. Then the rights on such Shares are of value. Where claims and their treatment become involved is where new Stock or Shares are issued or offered to holders on terms which are of problematical advantage. For instance, a company whose Ordinary Shares are standing at 30s. may offer new Shares to its registered holders at 29s. At first sight this may appear to the Shareholder to be of value, but if the price of the old Shares should drop to 29s. on the appearance of the new, are the new Shares then of value, and what is the value of the rights?

The method adopted to arrive at the value of rights will be seen from the following example: A company whose £1 Shares stand at £10 decides to increase its capital by issuing to its Shareholders new Shares at the price of £2 in the proportion of one new Share for every three old Shares held. In order to find the value of the rights, it is necessary to calculate (1) the value of the old holding, and (2) the value of the combined holding after the new Shares have been accepted. Thus,

3 Old Shares at £10 = £30.

This holding gives the right to

1 New Share at £2 = £2.

Therefore, 4 Shares can be acquired for £32 or £8 per Share. As the price of the old Shares was £10, the value of the rights to the Shareholder is therefore £2 per old Share, and this is the value that will be deducted from the price of the old Shares when in due course they are quoted ex rights.

The above stated as a simple formula is as follows—

$$\frac{OH + NO}{NH} = NP$$

$$OP - NP = VR$$

OH = Old holding
NO = New offer
NH = New holding
OP = Old price
NP = New price
VR = Value of Rights

An important point to be remembered in connection with the above method of calculation is that whenever a dividend is announced which applies to the old or existing identical Shares, the net amount of this dividend should be deducted from the market value of the old Shares before proceeding to the valuation. Cases have been known where a dividend not yet announced on old Shares has had to be taken into consideration. In such cases an intelligent anticipation must lend assistance.

The question of the value of rights can only be settled by the circumstances which are present in each individual case. All rights are not equally attractive, but of necessity a decision must be reached by Stock- and Shareholders. So that no doubt can be entertained as to a principal's intentions in such important matters the following Rules provide for a declaration in writing.

Rule 114 reads—

(1) The Buyer is entitled to new Securities issued in right of old, provided he specially claim the same in writing from the Seller not later than 4 o'clock (12 o'clock on Saturdays) on the business day preceding the latest day fixed for the receipt of applications in the London Postal Area (or 24 hours earlier if elsewhere).

If the latest time for splitting Letters of Rights is earlier than that for the receipt of applications, claims must be delivered at the Seller's office in time for the Seller to obtain any necessary split letters.

(2) Notwithstanding the provisions of the above Clause, the Seller if he be in possession of the new Securities shall be responsible to the Buyer for the same although claimed by him later than 4 o'clock (12 o'clock on Saturdays) on the above-named day, and

should he not be in possession of the new Securities he is bound to render every assistance to the Buyer in tracing them.

(3) Wherever possible the Seller shall deliver to the Buyer Letters of Rights to the new Securities duly renounced, but the Buyer shall not be compelled to accept the same later than a quarter before 2 o'clock (12 o'clock on Saturdays) on the business day preceding the latest day fixed for the receipt of applications in the London Postal Area (or 24 hours earlier if elsewhere).

(4) Where renounceable Letters of Rights have not passed, all payments as and when required by the Company are to be advanced to the Seller by the Buyer, who may demand a receipt for the same, such payments being for the new Securities to be delivered after leave to deal has been granted.

(5) The Secretary of the Share and Loan Department will on application fix a price at which the new Securities may be settled temporarily, which amount may be deducted by the Buyer from the purchase money of the old until delivery of the new.

How necessary it is for a seller to know definitely whether his buyer requires new Shares or not is shown by the fact that cases occur where claims are hurriedly cancelled. In the case we mention, where new Shares are issued by a company at 29s., it may be that the 1s. difference in price between the old Shares and the new will induce an unregistered buyer to claim the new Shares. Should the old Shares fall in price to 27s. 6d. the apparent advantage would not only disappear, but a possible loss ensue by taking up the new at 29s. per Share. In such a case, if it were not too late, a cancellation of the claim for the rights by the buyer might reasonably follow.

It is frequently necessary in order that a buyer may obtain new Shares from a company, for the registered Stock- or Shareholder to "put up" cash application money in whole or in part. In the case of a registered holder who has sold, the advancement of this cash may be inconvenient. Such contingency is provided for by Rule 114, Clause (4), and is only reasonable.

Payment of Calls

Calls that are made from time to time by authorities and companies have to be paid on due dates. If these are paid by a seller on a buyer's behalf he has a just claim for the amount from the buyer, as illustrated by Rule 127 which deals with the point in regard to registered securities—

The deliverer may, previous to delivery, pay any call pending on registered Securities, provided a call letter has been issued, and claim the amount from the issuer of the Ticket on delivery of the Security.

Bonus Issues

Cash, Shares, Scrip, or Stock distributed as a bonus to holders are treated in a similar way to dividends. If such bonus has a value, the security in question is quoted ex bonus as soon as possible. If dividend and bonus are deducted from the price of a security on the same day, on that day the security is said to be "ex all." The date securities are quoted "ex" determines to whom the value of the distribution belongs.

How strange can be the attitude adopted towards the question of bonus Shares will appear from the following instance of an actual experience. A client purchased 1,000 textile Shares in anticipation of good news being announced in regard to the company in question. Soon after his registration as a Shareholder an announcement was made by the company that bonus Shares were to be distributed. On this information the Shares rose in price and were sold by this Shareholder *cum the bonus* to give the Shareholder in question a profit. Later the Shares were quoted ex bonus, but the new buyer not having been registered in time to receive them direct from the company claimed the bonus Shares to which he was entitled from the seller. The seller refused to give up the Shares, the reason advanced with apparent sincerity being the rather extraordinary one that he, the seller, must have been entitled to the bonus Shares, otherwise "the company would not have sent them to him." As this attitude was maintained, it was suggested that the seller should obtain legal advice. It was understood this had been sought and that the seller's attitude was legally defended, whereupon the bonus Shares were purchased in the market by the obstinate seller's Broker, who admitted the buyer's claim, and a cash demand was entered against the seller for the amount involved. The case was duly taken to Court, and judgment obtained against the seller. A great deal of trouble and expense was entailed in justifying what should have been quite clear to anyone.

Special Application Forms

Some companies when a fresh issue is being made send out to registered Stock- or Shareholders a special form for their use.

These documents are sometimes known as Preferential Allotment Forms. They are distinguishable by colours or marks, and give to holders priority in the matter of allotment. In

the case of attractive issues, these special forms are of value. No claim, however, can be made to registered holders for such document, although there is no reason why the Shareholder should not be approached by a buyer to whom nominally it belongs by virtue of the fact that he has purchased the Stock and is not yet registered. It may, of course, happen that the seller has sold part only of a holding, which would warrant the seller using the preferential form, as he is still a Stockholder, or the sale may have gone to more than one buyer, which would make the handing over of such preferential form to all buyers an impossibility. Companies will often assist by issuing duplicate forms to meet this difficulty.

We have endeavoured to make clear to students the methods by which title is transferred through the medium of transfer deeds, and bearer Stock; also the general principles which govern the claiming of dividends, rights, and bonuses. Title, let it be emphasised, is automatic from the date of purchase, however long completion of delivery is delayed. Sellers likewise surrender such title from the date of sale. Dividends, rights, and bonuses are determined by the date of purchase or sale, and the date when the security is quoted ex dividend, ex rights, or ex bonus. An appreciation of these vital points, if kept clearly in mind, will be of great assistance when consideration is being given to this important subject.

CHAPTER XV

INFORMATION FOR THE SENIOR STUDENT

THE Share and Loan Department—Appendix 34—Placings—Permitted Dealings—Prohibition of Dealings—Appendix 35—Stock Exchange Official Year Book—The Official Assignee—Failures—Readmission of Defaulters.

THERE are two departments connected with the Stock Exchange to which it is necessary to refer, and without which an examination of its activities would be incomplete. The first is

The Share and Loan Department

Frequent reference has been made in preceding chapters to the work of this department in connection with—

Certification of registered transfer deeds (Chapter XII);

Fixing the price of coupons (Chapter XIV);

Fixing the value of dividends payable in foreign currency (Chapter XIV);

Fixing the market value of drawings (Chapter XIII);

Temporary settlement of rights (Chapter XIV);

but, while important, these are subordinate to the main work of the department. The title "Share and Loan" is misleading, giving the impression of a department to which all may pay and from which all can borrow—a kind of large slate club. Actually it is the official department responsible for all the Stock, Share, and Loan records, the activities of the department resembling those of Somerset House, and its relation to the British nation. The *Official List*, the *Monthly Supplement* and the *Stock Exchange Weekly Official Intelligence* as we saw in Chapter IV, are produced under the Share and Loan Department's auspices, and all alterations touching these lists which relate to capital and dividends must be notified to the department.

Secretaries, registrars, liquidators, receivers, agents, or any other person acting for or on behalf of any company, the Stock or Shares of which are dealt in in this country, are or should be in direct touch with this department, and to it all details relating to the capital of any such company should be immediately communicated.

Of recent years the importance and responsibility of the Stock Exchange in the matter of Permitted Dealings, Official Quotations, Preliminary Arrangements and Placings have led to intensive overhaul of the Rules dealing with these subjects, as a result of which the Committee on Quotations (through which the Council exercises its powers) and the Share and Loan Department have set out their requirements in one comprehensive document known as

Appendix 34

The co-ordination of regulations under one heading dealing with the above subjects meant the repeal of a number of Rules, Temporary Regulations and Appendices; their place being taken by new Rules 159 to 165 and Appendix 34. On the 19th May, 1947, these far-reaching recommendations were confirmed by the Council.

The publication of Appendix 34 was welcomed as it set out the many requirements for the many differing types of issue under separate headings. As the Appendix occupies fifty pages of printed matter it must suffice if examples of what is contained are given, with an indication of its further contents.

Many objectives were attained by publication of Appendix 34, of which the following are outstanding—

(*a*) Applicants can see at once the requirements of the Council touching their own particular case;

(*b*) Incorporation of recommendations placed by the Stock Exchange before the Cohen Committee on Company Law;

(*c*) Co-ordination of requirements sanctioned from time to time by the New Issues Committee;

(*d*) Provision of authoritative direction in the matter of Placings.

The Appendix is divided into two sections A and B, followed by ten Schedules. Section A contains notes of the Council's requirements and the headings appear as follows—

REQUIREMENTS FOR QUOTATION
(Rule 159 (2).)
Arrangement of Appendix

SECTION A. COMPANIES.

Part I. Original Issues by Prospectus or Offer for Sale
Part II. Original Issue by Placing or Introduction.

Part III. Original Issues by Circular (Rights, Bonus, Conversion, etc., to share- or stockholders).
Part IV. Further Issues, i.e. where the security is or will become identical with a quoted security.
Part V. Provincial Issues, i.e. where the security is already quoted on a Stock Exchange affiliated to the Council of Associated Stock Exchanges.

Section B is devoted to the Council's requirements in respect of

GOVERNMENTS, MUNICIPALITIES, LOCAL AUTHORITIES AND STATUTORY BODIES

The nine Schedules which follow set out the full details and form of documents which must be submitted to the Council of the Stock Exchange in support of an application for a quotation, and official guidance is provided as to what is required in the matter of Placings. Here are the headings—

SCHEDULES.

I. Letter of Application.
II. Part 1. Prospectus or Offer for Sale.
Part 2. Advertised Statements (Placings or Introductions).
(*a*) New Companies.
(*b*) Companies not previously quoted but having two years or more audited accounts.
(*c*) Companies already quoted.
(*d*) Governments, etc.
III. Letters of Allotment, Acceptance or Rights.
IV. Definitive Certificates.
V. Particulars of Numbers of Shares to be quoted.
VI. Part 1. Statutory Declaration (Original Issues).
Part 2. Statutory Declaration (Further Issues).
VII. Part 1. Memorandum and Articles.
Part 2. Trust Deeds and Debentures.
VIII. Part 1. General Undertaking (Companies).
Part 2. General Undertaking (Governments).
IX. Marketing Statement (Placings).

As indicated, all Government Departments or Company Officials can see by Appendix 34 what is required in matters touching "Permission to Deal and Quotation." The requirements are exhaustive, but years of experience and company law have shown the need for their existence. An example of what is required in a case which is frequently seen in the Public Press follows, and a perusal of the conditions will show how exacting are the requirements which must be complied with.

SCHEDULE II

PART 2 (B)

ADVERTISED STATEMENTS

In the case of a Company (a) no part of whose capital is already quoted on The Stock Exchange, and (b) whose annual accounts for at least two years have been made up and audited, the statement required to be advertised must contain the following information giving all material particulars relating to the formation of the Company and to the flotation of the issue, including the following—

1. The full name of the Company.
2. A statement as follows—

"This Advertisement is issued in compliance with the Regulations of the Council of The Stock Exchange, London, for the purpose of giving information to the Public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information given and confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the Advertisement misleading, and that they have made all reasonable inquiries to ascertain such facts."

3. A statement that an application for permission to deal and for quotation has been made to the Council of The Stock Exchange, London.
4. The authorised share capital, the amount issued or agreed to be issued, the amount paid up and the description and nominal value of the shares.
5. The authorised loan capital, the amount issued and outstanding or agreed to be issued, or if no loan capital is outstanding a statement to that effect.
6. The full name, address and description of every Director.
7. The full name and professional qualification of the Secretary and situation of Registered Office.
8. The names and addresses of the Bankers, Brokers, Registrars, Solicitors and Trustees (if any).
9. The name, address and professional qualification of the Auditors.
10. If the application is in respect of shares—

(*a*) The voting rights of shareholders.

(*b*) If there is more than one class of share, the rights of each class of share as regards dividend and capital and

(*c*) A statement as to the consents necessary for the variation of such rights.

11. The provisions or a sufficient summary of the provisions of the Articles of Association, contract or other corresponding document with regard to—

(*a*) Qualification of Directors.

(*b*) Remuneration of Directors or other similar body.

(*c*) Any power enabling the Directors to vote remuneration to themselves or any members of their body.

(*d*) The borrowing powers exercisable by the Directors and how such borrowing powers can be varied.

12. The date of the Board Resolution creating any loan capital, the rights conferred upon the holders thereof, the obligations undertaken by the Company in respect thereof, and short particulars of any mortgages and charges subsisting on any part of the Company's assets.

Any advertisement relating to Debentures or Debenture Stock issued by way of conversion or replacement of Debentures or Debenture Stock previously issued shall state all material differences between the security for the old Stock and the security for the new Stock or (if such be the case) shall state that the security for the new Stock is identical with the security for the old Stock.

13. A statement of any provisions, excluding any invalidated by law, of the Articles of Association and/or Trust Deed for the indemnification of the Directors and/or Trustees and/or their relief from responsibility.

14. The date and country of incorporation. The authority under which the Company was incorporated and the date (if any) of conversion into a public company.

In the case of a Company not incorporated in the United Kingdom, the address of the principal place of business and the place of business in the United Kingdom (if any).

15. A statement of—

(i) any alterations in the Share Capital within the preceding two years; and

(ii) the names of the holders of any substantial or controlling beneficial interest in the capital of the company and the amount of their holdings.

16. The principal objects of the Company. The situation, area and tenure of the factories (if any) and in the case of leasehold property, the unexpired term and rent of such lease.

17. The name, date and country of incorporation, and capital of any subsidiary company, together with details of capital held by the parent company. The principal objects and situation of factories (if any) of any such subsidiary.

18. A statement as to the financial and trading prospects of the Company, together with any material information which may be relevant thereto.

19. A statement by the Directors that in their opinion the working capital available is sufficient, or, if not, how it is proposed to provide the additional working capital thought by the Directors to be necessary.

20. A report by the auditors of the Company—

(i) with respect to the profits or losses of the Company in respect of each of the 10 completed financial years immediately preceding the publication of the Advertisement or in respect of each of the years since the incorporation of the Company, if this occurred less than 10 years prior to the publication of such Advertisement; and, if in respect of a period ending on a date earlier then three months before the publication of the Advertisement no accounts have been made up, a statement of that fact. In making such report the auditors shall make such adjustments (if any) as are in their opinion necessary for purposes of the Advertisement;

(ii) in the case of an issue by a holding company, in lieu of the report in (i), a like report with respect to the profits or losses of the Company and of its subsidiary companies, so far as such profits or losses are attributable to the interests of the holding company. For the purposes of this report the financial years of each company shall mean as regards that company the financial years immediately preceding the publication of the Advertisement;

(iii) with respect to the rates of the dividends, if any, paid by the Company in respect of each class of shares in the Company in respect of each of the said 10 years or shorter period as the case may be, giving particulars of each such class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of shares in respect of any of those years;

(iv) with respect to the assets and liabilities of the Company and in the case of an issue by a holding company, a like report with respect to the assets and liabilities of the Company and of its subsidiary companies so far as attributable to the interests of the company. In making such reports the auditors shall make such adjustments as are in their opinion necessary for the purposes of the Advertisement.

(v) with respect to the aggregate emoluments paid to the Directors by the Company during the last period for which the accounts have been made up and the amount (if any) by which such emoluments would differ from the amounts payable under the arrangements in force at the date of the Advertisement.

21. If the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of a business or of shares in a company which is, or will by reason of such purchase become, a subsidiary company of the Company, a report made by qualified accountants who shall be named in the Advertisement—

(i) with respect to the profits or losses of the business or to the profits or losses attributable to the interests acquired or being acquired by the Company in the subsidiary in respect of each of the 10 completed financial years preceding the publication of the Advertisement or in respect of each of the years since the commencement of the business or the incorporation of such subsidiary company if this occurred less than 10 years prior to such Advertisement; and, if in respect of a period ending on a date earlier than three months before the publication of the Advertisement no accounts have been made up, a statement of that fact. In making such report the accountants shall make such adjustments (if any) as are in their opinion necessary for purposes of the Advertisement:

Provided that where any such subsidiary is itself a holding company the report shall be extended to the profits or losses of that company and its subsidiary companies which shall be ascertained in the manner laid down in sub-paragraph (ii) of paragraph 20;

(ii) with respect to the assets and liabilities of the business or of the subsidiary and where such subsidiary is itself a holding

company, the report shall be extended to the assets and liabilities of that company and of its subsidiary companies in the manner laid down in sub-paragraph (iv) of paragraph 20.

22. Particulars of the capital which has within two years preceding the publication of the Advertisement been issued or is proposed to be issued fully or partly paid up otherwise than in cash and the consideration for which the same has been issued or is proposed to be issued.

23. In the case of capital issued or agreed to be issued for cash within two years of the publication of the Advertisement, the price and terms upon which the same has been or is to be issued and (if not already fully paid) the dates when instalments are payable with the amount of all calls or instalments in arrear.

24. Particulars of any capital which is under option, or agreed conditionally or unconditionally to be put under option, with the price and duration of the option and consideration for which the option was granted, and the name and address of the grantee.

Provided that where an option has been granted or agreed to be granted to all the members or debenture holders or to any class thereof, it shall be sufficient so far as the names are concerned, to record that fact without giving the names and addresses of the grantees.

25. The amount or estimated amount of the expenses of the issue and of the application for quotation and by whom the same are payable.

26. Particulars of any commissions, discounts, brokerages or other special terms granted within two years preceding the publication of the Advertisement in connection with the issue or sale of any capital of the Company.

27. (i) The names and addresses of the vendors of any property purchased or acquired by the Company within two years preceding the publication of the Advertisement or proposed to be purchased or acquired on capital account and the amount paid or payable in cash, shares or securities to the vendor and, where there is more than one separate vendor or the Company is a sub-purchaser, the amount so paid or payable to each vendor and the amount (if any) payable for goodwill;

(ii) Short particulars of all transactions relating to any property falling within the immediately preceding sub-paragraph which have taken place within two years of the publication of the Advertisement and in which any vendor or Director or proposed Director was or is directly or indirectly interested.

28. Full particulars of the nature and extent of the interest direct or indirect (if any) of every Director in any property proposed to be acquired by the Company.

29. Where an Advertisement includes a statement purporting to be made by an expert, a statement that the expert has given and has not withdrawn his written consent to the issue of the Advertisement with the statement included in the form and context in which it is included.

30. The dates of and parties to all material contracts with a description of the general nature of the contracts entered into within two years preceding the publication of the Advertisement not being

contracts entered into in the ordinary course of the business carried on or intended to be carried on by the Company.

31. A reasonable time (being not less than 14 days) during which and a place in the City of London at which the following documents (or copies thereof) where applicable may be inspected: The Memorandum and Articles of Association, Trust Deed, all material contracts or in the case of a contract not reduced into writing, a memorandum giving full particulars thereof, all reports, letters, balance sheets, valuations, and statements by any expert any part of which is extracted or referred to in the Advertisement, a written statement signed by the Auditors or Accountants setting out the adjustments made in the report on the profits and giving the reasons therefor and the audited accounts of the Company for each of the two financial years preceding the publication of the Advertisement, together with all notes, certificates or information required by the Companies Act.

Note 1. In the case of foreign companies, the documents to be offered for inspection will be the documents corresponding to those above mentioned in the case of British companies, and where such documents are not in the English language notarially certified translations thereof must be available for inspection.

Note 2. In cases where it is contended that contracts cannot be offered for inspection without disclosing to trade competitors important information the disclosure of which might be detrimental to the Company's interests, application may be made to the Committee to dispense with the offering of such documents for inspection.

Note 3. In any case where information is not given under any of the above heads Nos. 22, 24, 25, 26, 27 and 28, the Advertisement must state that no such payments etc. have been made or explain why the information is not given.

Note 4. The requirements stated above are in general applicable to an industrial company. The Committee will require additional or alternative information for companies engaged in other enterprises, e.g. mining.

The above sets out in full what is required in the case of advertised statements where no part of the Company's capital is already quoted and where annual accounts for two years have been audited. Somewhat different requirements exist for differing circumstances and under Schedule II (Part 2) can be found appropriate guidance under (*a*) for Companies, no part of whose capital is already quoted and whose annual accounts for at least two years have not been made up; (*c*) for Companies, part of whose capital is already quoted; and (*d*) for Governments, Municipal Loans and issues by Statutory Bodies. The particulars that must be advertised in the last-mentioned case are given, together with an undertaking called for in Schedule VIII.

SCHEDULE II

PART 2 (D)

ADVERTISED STATEMENTS

In the case of Government and Municipal loans and issues by Statutory Bodies the statement required to be advertised must contain the following information—

1. The full name of the Issuing Authority.
2. A statement as follows—

"This Advertisement is issued in compliance with the Regulations of the Council of The Stock Exchange, London, for the purpose of giving information to the Public with regard to the Authority. The Directors[1] collectively and individually accept full responsibility for the accuracy of the information given and confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the Advertisement misleading, and that they have made all reasonable inquiries to ascertain such facts."

3. A statement that an application for permission to deal and for quotation has been made to the Council of The Stock Exchange, London.
4. The amount and title of the security for which quotation is to be applied.
5. The authority under which the security is issued.
6. Details of the revenue and capital against which the security is charged.
7. In the case of a public utility company, details of the area served by the Company.
8. Full particulars of the security for which quotation is sought and in particular—

(*a*) The rights conferred as regards income and capital, with full information as to the amount and application of any sinking fund, any right of the Authority to redeem before maturity, any rights of conversion, or other similar rights and the security upon which any loan is charged.

(*b*) The price at which and the terms upon which the security has been issued or agreed to be issued, and whether the same has or has not been paid up in full. If not paid in full, particulars of all payments still to be made with due dates of payment must be given.

(*c*) The dates of and parties to all material contracts affecting the issue of the security with a description of the general nature of the contract.

9. Particulars of any capital which is under option or agreed to be put under option with the price and terms of option and consideration for which the same was granted.
10. In the case of a Company incorporated otherwise than under the Companies Acts, a copy of the last audited Balance Sheet and Profit and Loss or Income and Expenditure Account, with a copy

[1] In cases of issues where there are no Directors, application should be made to the Secretary of the Department for the form of heading and other requirements.

of the Auditor's Certificate and any notes or observations in or on the Balance Sheet required to be published by any Act of Parliament relating to the Company.

11. The full names of Directors (if any) and Auditors (if any) stating professional qualification.

12. The full name, professional qualification and address of Secretary (if any) and situation of Chief Office (if any).

13. The names and addresses of the Bankers, Brokers, London Agents and Trustees (if any).

14. A reasonable time (being not less than 14 days) during which and a place in the City of London at which a copy of the Statutes, Orders, or other authorities under which the Security has been created and issued, with copies of all the material contracts, Trust Deed (if any) and of all reports, letters, balance sheets, valuations, and statements by any expert any part of which is extracted or referred to in the Advertisement and, where any of the above-mentioned documents are not in the English language, notarially certified translations thereof, can be inspected.

SCHEDULE VIII

PART 2

GENERAL UNDERTAKING (GOVERNMENTS, ETC)

1. To issue all Allotment Letters simultaneously and in the event of its being impossible to issue letters of regret at the same time to insert in the Press a notice to that effect, so that the notice shall appear on the morning after the Letters of Allotment have been posted.

2. To split Allotment Letters.

3. In the case of a registered security to issue the Definitive Certificates within one month of the date of the lodgment of the transfer and to issue balance Certificates, if required, within the same period.

4. To advise the Share and Loan Department, prior to the due date—

(*a*) of all proposed payments of interest or the decision to pass any interest payment;

(*b*) in the case of a registered or inscribed security of the date of the closing of the books or the striking of the balance for the payment of interest.

5. To advise the Share and Loan Department prior to the date—

(*a*) of all proposed drawings;

(*b*) in the case of a registered security of the date on which it is proposed to close the books for the purpose of making the drawing.

6. To advise the Share and Loan Department without delay of the amount of the security outstanding after any purchase or drawing has been made.

7. To forward to the Share and Loan Department three copies of all other announcements made in respect of the security.

Placings

In view of the public interest in the matter of Placings and the absence of exact knowledge of the methods employed, we give the particular requirements laid down for such issues together with a Marketing Statement which forms Schedule IX, one of the last to be given in Appendix 34. These will suffice to show that strict supervision is exercised by the Council of the Stock Exchange over such issues, and that the co-operation of the Jobbers who specialise in whatever market is involved is essential to regularise the price and ensure a fair opening market quotation.

PART II

ORIGINAL ISSUES BY PLACING OR INTRODUCTION

Cases in which the security to be placed or introduced is new to The Stock Exchange and will not be identical with any security already quoted.

I. Application should be made to the Department at the earliest possible date in the form set out in Schedule 1.

II. An Advertisement stating the matters specified in the appropriate section of Part 2 of Schedule II must be prepared for circulation by the Exchange Telegraph Co. Ltd. and Moody's Services Ltd. in their statistical services and must be inserted in at least two leading London newspapers.

Applicants must submit 4 copies of the draft Advertisement to the Department for initial approval at least 14 days prior to insertion in the Press and where Abridged Particulars or a Preliminary Announcement are to be advertised in the Press, Applicants must submit 4 copies of such draft advertisements to the Department for approval at least 4 days prior to insertion in the Press.

III. The following documents must be lodged with the Department at least 2 days prior to the hearing of the application by the Committee—

(*a*) A formal application in the form issued by the Department, signed by the Broker appointed by the Company and supported by at least two Dealers in the Market concerned.

(*b*) A copy of the Advertisement dated and signed by every person who is named therein as a director or proposed director of the Company, or by his agent authorised in writing.

(*c*) A copy of the Exchange Telegraph and Moody's Services cards and of each newspaper in which the Advertisement appeared.

(*d*) A certified copy of the Board Resolution authorising the Advertisement and/or any issue of capital.

(*e*) A certified copy of every Letter, Report, Balance Sheet, Valuation, Contract or other document any part of which is extracted or referred to in the Advertisement.

(*f*) A certified copy of the written consent by any expert to the inclusion in the Advertisement of a statement purporting to be a copy of or extract from or summary of a report or valuation or other statement by such expert.

(*g*) A specimen (or 2 advance proofs) of the Allotment Letter or Scrip. This must comply with Schedule III.

(*h*) A specimen (or 2 advance proofs) of the Definitive Certificate. This must comply with Schedule IV.

(*i*) A statement in the form set out in Schedule V.

(*j*) An undertaking to submit as soon as possible after the grant of quotation the Statutory Declaration set out in Part 1 of Schedule VI.

(*k*) A marketing statement by the Broker in the form set out in Schedule IX or as near thereto as circumstances admit.

IV. The following documents may be required—

(*a*) [1] The Certificate of Incorporation.

(*b*) [1] The Certificate (if any) entitling the Company to commence business.

(*c*) [2] Two copies of the Memorandum and Articles of Association or other corresponding document. These must comply with Part 1 of Schedule VII.

(*d*) [2] Two copies of the Trust Deed or Debenture (if the Debentures are not secured by a Trust Deed). These must comply with Part 2 of Schedule VII.

(*e*) The general undertaking in the form set out in Part 1 of Schedule VIII.

(*f*) Where the promoter or other interested party is a limited company or a firm a Statutory Declaration as to the identity of those who control it or are interested in its profits or assets.

(*g*) A statement giving the following particulars of every Director.

(*i*) any former christian names and surnames;

(*ii*) his nationality, if not British;

(*iii*) his nationality of origin, if his present nationality is not the nationality of origin.

SCHEDULE IX

MARKETING STATEMENT

(PLACINGS)

1. Name of Company . . . . .

2. Description of Security

3. Total amount involved in marketing operation . . at . . . . . .

[1] Where the Company is registered abroad, a notarially certified copy or translation will be required.

[2] In the event of any of these documents not complying with the requirements of the Committee and if it is impracticable for the Company to alter them before making the application for quotation, the Committee may accept an undertaking to amend these documents at the earliest possible opportunity.

4. State how allocated, whether subject to quotation or not, and at what price, e.g.,
   Retained by Issuing House (if any)
   Placed with Issuing House's Clients
   at
   Retained by Broker
   Placed with Broker's Clients
   at
   Placed with Country Brokers
   at
   Placed with Market
   at

   Total

5. State how allocated by Market and at what price to—
   Broker applying for quotation
   at
   Other Brokers
   at
   Retained by Market for free dealings at opening of the Market

6. Description of pooling arrangements, if any

7. Anticipated "opening price" when free dealings commence (i.e., apart from all placing arrangements)

8. Details of proposed orders to repurchase at opening of Market

9. Details of further selling limits and whether left firm with Market

10. General statement that these arrangements have been completed and no other arrangements at other prices have been made

11. Details of any other circumstances attending this placing which the Committee should know before giving their decision with regard to granting of quotation

(See question 4)

Name of Jobber(s) Amount

Brokers.

Dated 19

It may be mentioned that "Placings" (a marketing operation in which the Company's Broker or the Issuing House concerned

distributes the Company's Shares among its own clients) are allowed by the Committee on Quotations only in cases where the value of the shares which it is proposed to market is not large enough to bear the heavier expenses which an Offer for Sale or Prospectus issued to the Public would involve. "Introductions" are allowed only where a Company's shares are already widely spread and an orderly market is assured.

The method of raising fresh money and floating new issues by Placings and Introductions was stimulated by the shortage of paper during the war and made necessary for security reasons. During hostilities the place of the Press advertisement was taken by a similar statement through the medium of the Exchange Telegraph or Moody's Statistical Service. Advertisements have since reverted to the Press and from time to time these will be seen complying with the requirements we have dealt with. The Stock Exchange has, however, found it necessary to recognise the practice, to define its activities and to incorporate them in Rules and Regulations. Here is the Rule under the heading "Preliminary Arrangements and Placings."

164. (1) A Broker desiring to secure quotation for an issue of securities, whether already issued or to be issued, may, before applying for quotation, enter into an underwriting contract in relation thereto, or may contract either as principal or agent to subscribe or purchase or procure subscribers or purchasers for the same. Such purchasers or subscribers may be procured through the Market. Arrangements (other than underwriting) entered into under this paragraph are "Placings" as distinguished from "Dealings" which term for the purpose of this Rule denotes Stock Exchange transactions after the grant of quotation.

(2) Dealings or arrangements for dealings "subject to quotation" are not permitted.

(3) In the case of registered securities "Placed "under the provisions of paragraph (1) of this Rule, a purchaser from the Market must issue a Ticket forthwith and without waiting for quotation to be granted. Such Ticket may not subsequently be cancelled, altered or substituted nor may the bargain if established be made up. In the event of quotation not being granted no bargain will have been established and the Ticket must be returned to the issuer for cancellation.

(4) Except with the permission of the Council under Rule 163 (2) Securities placed under this Rule may not be replaced or negotiated in any way before the grant of quotation.

The above Rule, in addition to clearly defining what is known as "Placing," regularises the issue of Tickets in such cases and precludes all dealings until quotation is granted.

The costs of the Share and Loan Department's unique and invaluable service to public companies has made it necessary for the first time in history to make a charge for the quotation of new issues. The scale which came into force 21st March, 1949, is contained in a new Schedule as under.

NEW SCHEDULE X

TABLE OF CHARGES FOR QUOTATION TO BE MADE BY THE COUNCIL

(No fee is charged for stock unit applications, un-numbering of shares, or applications arising out of change of name, denomination, dividend rights, or exercise of conversion or option rights.)

1. For all quotations granted up to £100,000 money value other than those indicated above: a minimum charge of 50 guineas.

2. Quotations involving a money value in excess of £100,000 are divided into two categories as under:—

Category I. Prospectuses, offers for sale, placings, and introductions.

Category II. Rights, bonuses, open offers, conversions, reconstructions, and further issues of identical securities.

For Category I quotation charges are in accordance with the following scale—

For Category II quotation charges are at half the following scale—

SCALE OF CHARGES

	£	Gns.
Money value not exceeding	200,000	100
,, ,, ,, ,,	300,000	150
,, ,, ,, ,,	400,000	200
,, ,, ,, ,,	500,000	250
,, ,, ,, ,,	600,000	300
,, ,, ,, ,,	700,000	350
,, ,, ,, ,,	800,000	400
,, ,, ,, ,,	900,000	450
,, ,, ,, ,,	1,000,000	500
,, ,, exceeding	1,000,000	500

The above charges are on the granting of quotation and are not applicable to existing quotations. Furthermore, the charge is "once-for-all" and not an annual payment and does not apply in the case of issues to be quoted in the following sections of the Official List—British Funds; Securities guaranteed under the Trade Facilities and other Acts; Corporation and County Stocks, Great Britain and Northern Ireland; Public Boards, etc., Great Britain and Northern Ireland; Dominion, Provincial and Colonial Government and Corporation Securities.

Appendix 34, it will be seen, is a valuable and comprehensive piece of work. The matters dealt with were carefully examined

by the Cohen Committee on Company Law. Stock Exchange requirements regarding "Permission to Deal" and "Placings" have always been strict, but they are now so rigorous that the Cohen Committee could report "that reforms which they thought desirable and necessary in the public interest would be best carried out not by legislation, but by the flexible machinery of the Stock Exchange." A Member making application on behalf of a company under Rules 159 and 164 must therefore study and comply with the many requirements set out in Appendix 34. To assist easy reference all paragraphs in the Appendix are serially numbered throughout its pages. As mentioned, space precludes giving the Appendix in full here, but in special cases a copy can be obtained through a Company's Stock Exchange Broker or by application to the Secretary of the Share and Loan Department. An authoritative booklet bringing together in a convenient form the Council's legislation and pronouncements regarding quotations for new issues is published by The Times Publishing Company Ltd.—price 1s.

Permitted Dealings

A new Rule to emerge when the Rules 159–165 were promulgated was Rule 163. Clarification was needed regarding the matters dealt with hitherto under the much-discussed Appendices 34D and 34E. In view of the simplification provided, we quote the Clauses in full with the exception of Clause (2) already referred to.

163. (1) Dealings are permitted in the following securities—

(*a*) Securities which are quoted in the Official List or which have been removed from that List on account of lack of dealings.

(*b*) Treasury Bills and the bills, mortgages and short-term securities of Local Government Authorities and Public Boards of Great Britain and Northern Ireland.

(*c*) Securities of Statutory or Public Companies or Public Boards operating Canals, Docks, Railways or Electricity, Gas or Water undertakings in Great Britain or Northern Ireland which have been issued not less than three years previous to the date of the bargain.

(*d*) Securities which are quoted in the Lists or Supplementary Lists published by Stock Exchanges affiliated to the Council of Associated Stock Exchanges, or which have been removed from those Lists on account of lack of dealings, or which are regularly dealt in on such Exchanges.

(*e*) Securities which have been given Listed or Unlisted trading facilities on a Dominion, Colonial or Foreign Stock Exchange prior to 23rd September, 1946. Application for dealings to be permitted in issues admitted to Listed or Unlisted trading facilities on a Dominion, Colonial or Foreign Stock Exchange after that date must be made to the Secretary of the Share and Loan Department.

(3) Except as above provided dealings are not permitted in any Securities until the date from which quotation has been granted.

The closer co-operation brought about during recent years between London and the Provincial Stock Exchanges can be clearly traced in sub-section (*d*) of Clause (1) incorporated in Rule 163; and in view of the public's growing interest in the securities of, say, South African Industrial Companies, the provisions of and clear definition set out in sub-section (*e*) of this Rule are doubly welcome.

The last of the new Rules which in the reorganisation we have outlined replaced old Rules 159–169 deals with

Prohibition of Dealings

Rule 165 states—

(1) The Council may prohibit dealings in any security for any cause. Any such decision shall be published in accordance with Rule 159 (8).

(2) (*a*) Dealings in prospective dividends, "Majorities," "Results," or in Securities of which the quotation has been cancelled under Rule 159 (7) are not allowed.

The Rule 159 (8) referred to deals with the method of posting the Council's decisions on the notice boards of the House and "when ordered by the Council communicated to the Exchange Telegraph Company for announcement on the tape." The prohibitions dealt with by the first part of Clause (2) above are in quantities quite removed from ordinary security transactions. The securities referred to in the Rule 159 (7) are those which have been "suspended on the authority of the Council or of the Chairman, a Deputy Chairman or two members of the Committee on Quotations." "Where such action is taken otherwise than by the Council," continues this Rule, "it shall be reported to the Council at the first available opportunity." In any case the opening sentence of Rule 165 Clause (1) is certainly not ambiguous.

While the many requirements in connection with Quotations, Placings and Permitted Dealings may be thought onerous,

an idea of the protective part played by the Stock Exchange in the interests of the public in these matters is seen by the unusual tribute contained in the Report of the Committee on Company Law presided over by Mr. Justice Cohen. We give an extract from Clause 23 and quote Clause 24 of the Cohen Committee's Report in full—

CLAUSE 23. *Permission to Deal*

" . . . The Committee (Council) of the London Stock Exchange, before granting permission to deal, make searching inquiries as to the promotion and the personnel connected with the company and impose stringent requirements as to the articles of association of the company and as to disclosure of the facts relating to the business and the information material to the prospectus. Permission to deal is never granted until after the publication of the prospectus, as valuable information about the company and its promotion sometimes reaches the London Stock Exchange Council only as a result of the publication of the prospectus. "Where the shares or securities have been allotted and permission to deal in them is refused or a final decision on the application for permission is deferred, the holders find that their shares or securities are practically unmarketable. These cases are, however, the exception to the rule. . . ."

CLAUSE 24. *Stock Exchange Requirements*

"Some of the requirements of the London Stock Exchange Council as to the information to be disclosed in prospectuses and advertisements go beyond the requirements of the Companies Act. The sanction behind these requirements, and it is a powerful one, is the fact that if the London Stock Exchange Council are not satisfied, they can refuse permission to deal or defer decision on the matter. On the other hand, as the requirements are not laid down by statute, the London Stock Exchange Council can waive some or all of them in suitable cases. Their flexibility makes it possible for the rules to be more stringent and to afford the investor a greater measure of security than could be achieved by a statute except at the cost of hampering legitimate business. We recognise that particularly in recent years the London Stock Exchange Council have exercised a beneficial influence in the matter of issues and we consider that they should approach the provincial Exchanges with a suggestion that in respect of new issues it would be in the public interest for the rules and practice of the provincial Exchanges to be brought into line with those prevailing in London."

In this connection, it is of interest to note that under Section 30 of the Companies Act, 1948, the London Stock Exchange (and certain other specified Exchanges) has a discretionary power to grant a Certificate of Exemption to a Company seeking permission to deal and quotation which issues a Prospectus, where strict compliance with the Fourth Schedule of the Act (which relates to matters to be disclosed in Prospectuses) would be unduly burdensome.

Appendix 35

This important Appendix contains the requirements laid down by the Stock Exchange Council in cases where Quotation is sought for Unit Trusts. Reference to the subject will be found in Chapter X under the heading of "Fixed Trusts." The decision to allow dealings to take place in Unit Trusts made necessary alterations and additions to certain Rules, of which the following are the most important—

Rule 92 (2) Subject to the like annual authorisation a Jobber may transact business with the Management Company of a Unit Trust, the business to be limited to the purchase from the Management Company of such new units of a quoted Unit Trust as he may require for the purpose of his business as a Jobber (application for authorisation to be made in accordance with Appendix 32*a*).

Rule 159 (2) Applications for Quotation in the Official List must be made to the Secretary of the Share and Loan Department and must comply with the requirements of the Council as contained in Appendix 34 *or in the case of Unit Trusts, with the requirements of the Council as contained in Appendix* 35.

Rule 163 (1) referred to earlier under the heading "Permitted Dealings" contains a new sub-clause (*f*) as follows—

Sub-Units of Unquoted Unit Trusts if negotiated by Brokers with Unit Trust Managements; but dealings between Members in Unquoted Sub-Units are not allowed.

Appendix 35 deals only with Unit Trusts and for this reason is not as voluminous as Appendix 34. That its provisions are strict can be seen from extracts we give under the headings of—

(1) General Requirements.
(2) Application for Quotation.
(3) Schedule III dealing with Trust Deeds, and
(4) Schedule IV which provides for a General Undertaking.

Schedules I and II deal with Definitive Certificates and particulars of number of units to be quoted.

APPENDIX 35

UNIT TRUSTS

Requirements for Quotation

General Requirements

(i) Trusts must conform to a standard which satisfies the Committee and there must be provisions for disciplinary powers

to be exercised by an independent authority approved by the Committee.

(ii) In the case of new Trusts, only Cash Trusts will be recognised.

(iii) The Committee will require to be satisfied as to—

(*a*) the amount of preliminary and annual charges,

(*b*) the method under which the daily valuation of Units is made.

(iv) If there is an element of Fixity in the portfolio of investments the Committee will take into consideration the distribution of the underlying securities.

APPLICATION FOR QUOTATION

(i) Application should be made to the Department at the earliest possible date in the form set out in Schedule I of Appendix 34.

(ii) The following documents must be lodged with the Department at least 2 days prior to the hearing of the application by the Committee—

(*a*) A formal application in the form issued by the Department, signed by the Broker appointed by the Managers and supported by at least one Dealer in the Market concerned. This form must be accompanied by a Letter signed by the supporting Dealer stating that his firm are prepared to deal in the Units in the event of quotation being granted.

(*b*) A copy of any Advertisement issued or intended to be issued by the Managers in connection with or as a result of the application for quotation, but limited to advertisements issued in the period two months immediately prior to the application being lodged and two months subsequent to the grant of quotation.

(*c*) A certified copy of the Board Resolution of the Managers authorising the Advertisement and/or sale of Units.

(*d*) A certified copy of every Letter, Report, Balance Sheet, Valuation, Contract or other document contained or referred to in the Advertisement.

(*e*) A certified copy of the written consent by any expert to the inclusion in the Advertisement of a statement purporting to be a copy of or extract from or summary of a report or valuation by such expert.

(*f*) A Letter stating the size of the Trust at the time of application.

(*g*) A specimen (or 2 advance proofs) of the Definitive Certificate. This must comply with Schedule I.

(*h*) A statement in the form set out in Schedule II.

(iii) The following documents may be required—

(*a*) [1]Two copies of the Trust Deed. These must comply with Schedule III.

(*b*) The general undertaking in the form set out in Schedule IV.

(*c*) A Statutory Declaration as to the identity of those who control the Management Company or are interested in its profits.

[1] In the event of these documents not complying with the requirements of the Committee and if it is impracticable for the Management Company to alter them before making the application for quotation, the Committee may accept an undertaking to amend these documents at the earliest possible opportunity.

SCHEDULE III

TRUST DEEDS (UNIT TRUSTS)

Trust Deeds must contain provisions to the following effect—

(i) That no commission shall be paid by Managers on the purchase or sales of Units.

(ii) That proper transfer facilities shall be available.

(iii) That in the case of new Trusts, adjustments arising from stepping up of the offered price and stepping down of the bid price shall be credited to the Trust Fund.

(iv) That in the case of new Trusts the annual charge shall be taken out of revenue.

(v) That in the case of Flexible Trusts all dividends on underlying securities purchased or sold for account of the Trust shall be apportioned or equivalent arrangements made to secure that the distribution represents the revenue of the period and does not include capital items except as required for equalisation.

(vi) That Unitholders shall have the right to inspect the Register.

(vii) That not less than six months' notice of termination of the Trust shall be given.

(viii) That the proceeds of sales of "rights" and all other capital items shall be added to the Trust Fund and not distributed.

SCHEDULE IV

GENERAL UNDERTAKING (UNIT TRUSTS)

(1) That the amount of the annual charge, in the case of new Trusts to be taken out of revenue, shall be clearly set out on an annual basis on the capital value of the Trust Fund.

(2) That if bearer warrants and registered certificates are in existence the Share and Loan Department shall be advised periodically, or on request, of the number of Units outstanding in each.

(3) That the bid price of Units shall be fixed on conditions corresponding to the regulations laid down by the Board of Trade for the sale price and that the Managers will supply the Market with bid and offer prices as may be required by the Committee on Quotations.

(4) That (*a*) where shares of companies whose revenue derives from exploitation of wasting assets are held, advertisements and circulars must state that in the opinion of the Managers, proper provision has been and will be made for amortisation, and a signed statement by the Managers showing the basis of the amortisation must be supplied to the Share and Loan Department, or if no provision is made a statement to that effect must be contained in such advertisements and circulars.

That (*b*) the Managers shall state clearly in all their booklets the terms upon which they undertake to repurchase Units and if there is no such undertaking a statement to that effect.

(5) To issue the Definitive Certificates within one month of the date of the lodgement of a transfer and to issue Balance Certificates, if required, within the same period.

(6) To notify the holder of a Registered Certificate as soon as a transfer out of his name has been certified.

(7) Where power has been taken in the Trust Deed to issue Bearer Certificates and such power is being exercised; (i) to issue Bearer Certificates in exchange for Registered Certificates within three weeks of the deposit of Certificate for that purpose; (ii) to certify transfers against the deposit of duly stamped Bearer Certificate; and (iii) to notify the Share and Loan Department at intervals of six months or on demand of the number of Units represented by both Registered and Bearer Certificates outstanding in the Trust.

(8) To notify to the Share and Loan Department by letter (or telegram) at the end of each distribution period as soon as computed by the Auditors—

(*a*) the total gross and net income per Unit before charging management participation;

(*b*) the net amount per Unit (after allowing for charges and adjustments) to be distributed, together with the gross equivalent, attributable to the distribution period;

(*c*) the date of the striking of the Unitholders Register balances; and

(*d*) the date on and from which purchases and sales of Units by the Managers will take place ex dividend.

(9) To notify the Share and Loan Department without delay—

(*a*) of any changes in the control of the Managers;

(*b*) of any proposed change in the general character or nature of the Trust;

(*c*) of intention to renew, vary or terminate the Trust;

(*d*) of any changes in the method of amortisation or wasting assets where such assets are held; and

(*e*) any other information necessary to enable the Unitholders to appraise the position of the Trust and to avoid the establishment of a false market in the Units.

(10)To forward to the Share and Loan Department—

(*a*) Three copies of the audited Statement of Account as soon as issued;

(*b*) Three copies of all notices or any other circular at the same time as sent to the Unitholders; and

(*c*) Three copies of the proofs of all circulars to Unitholders prior to their despatch.

(11) To maintain a complete file of all advertisements, brochures, leaflets and other documents issued with a view to effecting or stimulating sales or purchases of Sub-units and to furnish the Share and Loan Department half-yearly with a Certificate signed by the Chairman and Secretary of the Managers to the effect that the file has been maintained and is complete and intact and to produce that file to the Share and Loan Department or its authorised representative at any time on demand.

Thus after many years the facilities provided by the Stock Exchange are open to Unit Trust Managements, and in course of time a free market in Sub-Units may develop. It has been a singular feature of the Unit or Fixed Trust investment that, although Managements have found it necessary in the first

instance to purchase from the Stock Exchange the component parts which go to make up the Trust Units, when constituted, no market exists for the Sub-Units except that provided by the Managements themselves. This anomaly is now removed or can be removed. As Managements have hitherto had to themselves the business of selling the Sub-Units to the public and buying them back from the public, applications for Quotations may not speedily develop, but possession of a Quotation holds obvious advantages, both to those who promote this form of investment, and certainly to those who choose Sub-Units as a medium for investment.

In addition to the matters relating to Appendix 34 and 35, the certification of transfer deeds, the multitudinous details relating to the *Official List*, the production of a *Stock Exchange Weekly Official Intelligence* containing a mass of information regarding dividends, calls, shutting of books, etc., the Secretary of the Share and Loan Department is responsible for the annual publication of

The Stock Exchange Official Year Book

This encyclopaedic production is possibly the department's crowning achievement. It consists of approximately 3,500 pages, every one of which is tightly packed with official facts relative to capital and capitalistic enterprise, from the indebtedness of the greatest nations down to the capitalisation of the smallest individual limited company undertaking. It is a veritable mine of information, and, although other books of reference exist, admirable in their presentation of financial matters—and easier to handle[1]—none other enjoys the prestige awarded to the *Official Year Book*. It is the "Hansard" of the Stock Exchange, and bears the hall-mark of official status.

In conjunction with this work is issued a melancholy supplement containing references to about 17,500 companies which have disappeared in the course of time. In compiling this companion publication the aim has been of recent years to reduce as far as possible reference to back numbers of the *Stock Exchange Official Year Book* by setting out brief particulars of the manner of a company's "death," the date of the

[1] Now published in two Volumes, the first relating to Government Loans, etc., is issued early in each year; the second, Industrials etc., following at a later date.

dissolution, and, where possible, the distribution in cash or shares to creditors or members. The official title of this publication is the *Register of Defunct and Other Companies Removed from The Stock Exchange Official Year Book.* It is disrespectfully referred to in Stock Exchange circles as the "Cemetery."

The Official Assignee

It is perhaps fitting that this is the last of the official Stock Exchange departments to be examined here, as, unfortunately for some Members, it has proved the last with which they have had experience. The hope that the department may have little work to transact may be forgiven when it is pointed out that its existence is only justified and its services required under the Rules and Regulations relating to

Failures

Happily the department's services are not often required—failures being the exception rather than the rule—but when they are required its responsibilities are large and its task complicated. The business of the Official Assignee is tantamount to that of a receiver in bankruptcy, his position being that of one who takes over all claims on an estate arising out of Stock Exchange transactions. He collects all assets, and, in due course, distributes those assets as equitably and expeditiously as possible.

The subject of failures on the Stock Exchange is an extensive one, and considerable space is given in the Rules and Regulations to its treatment. Rule 170 (1) provides for the appointment of Assignees with a brief description of their duties—

> At their first meeting after the annual election the Council shall appoint an Official Assignee, and a Deputy Official Assignee, hereinafter called the Official Assignees. It shall be the duty of the Official Assignees to obtain from a Defaulter his original books of account, and a statement of the sums owing to and by him, to attend Meetings of creditors and to summon the Defaulter before such Meetings: to enter into a strict examination of every account: to investigate and report to the Council forthwith any bargains found to have been effected at unfair prices: and to manage the estate in conformity with the Rules, Regulations, and usages of the Stock Exchange.
>
> (2) Each Official Assignee shall find security amounting to £1,000 from Two or more Members of The Stock Exchange. In the event of any default or misappropriation by any Assignee of funds or

property entrusted to his care, or of any other act of dishonesty on his part, each of his Sureties shall pay, under direction of the Council, such sum as he shall have guaranteed.

This department is nominally self-supporting, and its charges are fixed by Rule 177—

The Scale of Charges to be paid to the Official Assignee's Department on differences collected shall be as follows—

5 per cent on the first £5000 collected (or part thereof).
1½ per cent on any sum in excess of £5000.

Sums received from the Estate of another Defaulter upon the same Settlement and redistribution, shall be charged with half the above percentage.

How the assets are collected and dealt with by the Official Assignees is laid down in Rule 178—

The Official Assignees shall collect and pay the assets into such Bank and in such names as the Council may from time to time direct. The net proceeds of the collections after payment thereout of all legal and other expenses (including in respect of the office and administrative expenses of the Official Assignees a poundage or percentage on collections at a rate to be approved from time to time by the Council) and any allowances or payments to the defaulter or his clerical staff which may be authorised by the Creditors in General Meeting or by any Committee of Creditors appointed by a General Meeting, shall be distributed as soon as possible amongst the Creditors in accordance with these Rules up to 20s. in the £ on the admitted claims but without interest. As between creditors for differences under Rule 179 and Stock Creditors under Rule 184 expenses shall be apportioned in accordance with the total amount of the claims of each category except that all allowances or payments to the defaulter or his clerical staff shall be paid primarily out of the assets on which creditors for differences have a prior claim. Any surplus which may remain after such payment has been made, should there be any, shall be at the disposal of and shall be returned to the defaulter.

The Rules relating to solvency, as we pointed out in Chapter III, are of necessity inflexible, and inability to fulfil his engagements automatically brings a Member under the operation of Rule 171, Clause (1), whereby he is publicly declared a defaulter. The effect of this declaration is that such person ceases to be a Member of the Stock Exchange, and the settlement of his account at once passes into the hands of the Official Assignees.

The procedure in all cases of failure is that a Deed of Arrangement is signed by the defaulter and handed to the Official Assignee under Rule 172 which reads—

A Member who has been declared a Defaulter shall forthwith

execute and deliver to the Official Assignee a Deed of Arrangement in the form in Appendix 37.

A glance at Appendix 37 is instructive. Following the formal opening of most legal documents, this one, as between the defaulting Member and the Official Assignee, proceeds—

NOW THIS INDENTURE WITNESSETH as follows—

(1) The Defaulters as BENEFICIAL OWNERS hereby as regards their joint estate assign and convey and each of them as BENEFICIAL OWNER as regards his separate estate hereby assigns and conveys to the Official Assignee ALL the property (real as well as personal) whatsoever and wheresoever (except property which by reason of its subjecting the holder to the performance of any onerous covenant or obligation the Official Assignee may think fit by writing under his hand to disclaim) which is held by or on behalf of and belongs to the Defaulters jointly or either of them separately at the date of this Deed and is or now represents property or the proceeds or produce of property which belonged to them or to either of them at the date on which they were declared Defaulters on the Stock Exchange.

To HOLD the same unto the Official Assignee and his assigns according to the respective natures and tenures thereof UPON TRUST for sale and collection and distribution in manner provided by the Rules and Regulations of the Stock Exchange set forth in the Schedule hereto and in accordance with the usage and practice of the Stock Exchange of the net proceeds thereof amongst the creditors of the Defaulters whose debts or claims arise from Stock Exchange transactions and who being Members of the Stock Exchange are entitled or who not being Members of the Stock Exchange are admitted to participate in the distribution thereof under and in accordance with the said Rules and Regulations.

(2) The Defaulters and each of them hereby declare that they hold or respectively hold and will stand possessed of the excepted property which may be disclaimed as aforesaid if any UPON TRUST to deal with and dispose of the same and the income and proceeds thereof if the Official Assignee shall so require in such manner as he shall from time to time direct to the intent and so that any net proceeds thereof or any benefit to result therefrom may be handed over to the Official Assignee and may form part of and be dealt with and administered in like manner as and as part of the property hereinbefore assigned and conveyed.

(3) The Defaulters and each of them hereby respectively and irrevocably appoint the Official Assignee and his assigns aforesaid to be their and his Attorney in their and his name and on their and his behalf to execute and sign all deeds or other documents which the Official Assignee or his aforesaid assigns shall deem necessary or expedient for transferring any stocks, shares, or securities registered or inscribed in the name of the Defaulters or either of them or for assigning or dealing with any of the excepted property the

subject of the last preceding clause or for any other purposes necessary or deemed expedient for giving effect to and carrying out the purposes of these presents.

(4) Any difference or dispute of whatsoever nature which may arise with regard to the effect or operation of these presents or of any of the provisions thereof expressed or implied or incorporated therein or as to any claim to participate or the amount of ranking or otherwise howsoever in relation thereto shall be referred to and settled by the Council of The Stock Exchange and their decision shall be final and bind all parties.

As WITNESS the hands and seals of the parties hereto the day and year first aforesaid.

Two very important points are disclosed in this indenture which are emphasised in view of their extreme consequence should a member have the misfortune to be declared a Defaulter—

1. That *all* property, including a defaulter's private possessions, are (at the Official Assignee's discretion) at the disposal of creditors.

2. That failure of a firm automatically involves *each* partner, and the private property of *each* must be placed at the Official Assignee's disposal.

While failures are a rare occurrence applicants for Stock Exchange Membership, and Members with long years of service behind them, should be aware of these liabilities.

Cases have been known where the failure of a firm of many partners has been brought about by the commitments or operations of one. While it may be regarded as a hardship, say, that a junior partner may be ignorant of the undertakings of his senior, the Rule on the subject admits of no other interpretation, and partners are presumed to be cognisant of all that is proceeding in respect of the liabilities of the firm to which they belong. In other words, when one partner fails all fail.

The proceedings which follow the default of a Member are clearly set out in Rule 176—

(1) In the event of a default the Regulations in Appendix 36 shall apply.

(2) In every case of failure, the Official Assignees shall publicly fix the prices current in the Market immediately before the declaration, at which prices all Members having accounts open with the Defaulter shall close their transactions by buying of or selling to him such Securities as he may have contracted to take or deliver,

the differences arising from the Defaulter's transactions being paid to, or claimed from the Official Assignees.

(3) Unexpired options shall be similarly closed at a Market valuation.

(4) In the event of a dispute as to the prices or valuations they shall be fixed by Two Members of the Council. Any objection must be lodged with the Official Assignees in writing within Two business days of the time when the list was posted in The Stock Exchange.

This fixing of the market price which was current immediately before the failure is important, as we shall see by referring to Appendix 36. All accounts between Stock Exchange Members are to be closed at these prices. The list of securities which a defaulter had open is posted as soon as possible in the Stock Exchange, and this list is always the centre of interest to Members. Against each security is given the "hammer" price. It is often possible by examining this list of securities to discover the cause, complete or contributory, of the Member's undoing. If the list is an extensive one, the failure is known to be of considerable proportions; if the list is short, the default is usually regarded as relatively unimportant.

Appendix 36 sets out the procedure to be adopted in the case of failures as follows—

(1) As soon after declaration as possible all Members having accounts open with the Defaulter should furnish the Official Assignee with two statements, showing respectively—

(*a*) A copy of the Jobbers' Ledger for the current Account.

(*b*) All bargains which have been closed at "Hammer Prices." If there are any bargains for future dates, these must be set out on separate sheets for each Account.

In the case of a Ticket issued by a Defaulter for Securities which have not been paid for, a contra entry should be made and the original bargain closed at the "Hammer Price."

(2) Differences due to or from a Defaulter on the current Account are to be set off against those due from or to the Official Assignee on the Account closed at the Hammer. Such set off is not to be made until the differences are payable. A creditor for "Hammer Price" differences, who has paid a difference on the current Account is entitled to the return of such difference, if this claim is equal to or greater than the amount paid and ranks upon the estate for the balance. If less he is entitled to the return of the amount claimed.

(3) A Member having delivered securities to a Defaulter and not having received due payment therefor should immediately apply to the Defaulter for the return of such securities.

If such securities were delivered on a Ticket the Member who had delivered should immediately apply to the Member next to him on the trace for payment handing him the Defaulter's dishonoured cheque and the securities (if any) recovered.

In the case of Tickets issued by the Settlement Department, application should be made to that Department for the trace.

Each Member on the trace should act in a similar manner until the ultimate Member, who dealt with the Defaulter, is reached. This Member should immediately lodge his claim with the Official Assignee.

If an intermediary on the trace be a Defaulter the Deliverer shall take the instructions of the Official Assignee.

If the Defaulter is a Broker

(4) Immediately on the declaration, Members having accounts open with him should apply to the Official Assignee for the names and addresses of the Clients (if any) for whom the bargains are open.

(5) If the Client is in default all bargains open for him should at once be closed by sale or purchase in the Market. Putting the Stock or Shares on the "book" without a definite agreement with the Client is not closing.

(6) (*a*) If the Client is not in default the Member should immediately communicate with him. If desired the Official Assignee will supply a suggested form of letter.

(*b*) A Client not in default is bound to complete his transactions at the price of the bargain, or in the case of securities carried over, at the last making-up price and rate.

(*c*) The Client may complete his transactions direct with the Member or appoint a Broker, Banker or other Agent to complete on his behalf, but no Member is compelled to accept instructions from the Client to "make-down."

(*d*) If the Client gives instructions to close, the Member is at liberty to do so, the difference between the bargain price and the closing price being payable by the Client to the Member or by the Member to the Client as the case may be. Putting the Stock or Shares on the "book" without a definite agreement with the Client is not closing.

(*e*) If after due communication the Client fails to give instructions by 3 o'clock on the day before Contango Day (or by 11 o'clock on Saturday if the Contango Day be Monday) the Member is entitled to close forthwith.

(7) As soon as a Client has personally completed his bargain or the Member has agreed to "make-down" with a new Broker, a supplemental account must be furnished to the Official Assignee, setting out only the bargains completed. This account will be the same as regards the prices as the former "Hammer Price" account, but with these items on the reverse sides. If this account shows a difference due to the Official Assignee, it must be paid when due. If the account shows a difference due to the Member furnishing it, such difference will rank as a preferential claim on differences, and be paid in full if the differences in the Official Assignee's hands are sufficient.

Among other important points which arise from a study of the above instructions is the ability of a Member, who finds

he is unable to secure payment when securities are delivered on a Ticket, to fall back on the person with whom he dealt. This, in practice, is equitable, as a Ticket is often the medium of introduction to a buyer who is completely unknown to the seller, and with whom if the seller had free choice he might not of necessity decide to deal. This application to the person with whom one has dealt in such cases is known as "going back on the trace," and enables a Member to take advantage of the care bestowed when in the first instance he transacted his bargain. It is natural that, even in Stock Exchange ranks, one firm may have the reputation for greater financial stability than another, and many Members prefer at all times to deal with well-established firms, even if by so doing they deal at an apparent disadvantage, in order to obtain the security that accompanies each transaction. A well-worn but derogatory appellation applied to a supposedly risky firm is "Wouldn't pick them" or, alternatively, "Don't like the account."

It is fair, however, to say that unpretentious firms, pursuing their honourable calling without ostentation, are usually as meticulously careful in the completion of their bargains as their more imposing brethren. Incidentally, such firms are less exposed to possible losses, by reason of their careful trading, than others who, though larger in size, are less discriminating in their dealings.

Clause (3) of Appendix 36 lays down that in a case of failure, deliverers of securities unable to obtain payment must apply for the return of such securities. Students may reasonably ask, "What is the position if a deliverer is unable to regain his securities?" The point is dealt with by Rule 184, to which we refer later, and in which it is shown that such deliverers under such circumstances would become "Stock" creditors. As such creditors, they would rank with others in the same category, and would have a preferential claim upon the defaulter's own resources for the amount of their loss. It is only possible to eliminate all risk of loss from non-payment for securities by arranging, as provided by Rule 104, Clause (2), for bank-notes to be given in payment, but securities are sometimes temporarily held back by deliverers in times of financial uncertainty in order that such securities shall not pass out of the deliverers' control.

Clauses (4) to (7) of Appendix 36 deal with the position which arises when the defaulter is a Broker. Here appears the important point that members of the public, assuming that they are not the cause of the failure, can complete their transactions at their original bargain price, either direct with the dealer with whom the Broker dealt, or through the appointment of another agent. It also serves to illustrate that, while Jobbers in their ordinary transactions are not allowed to deal direct with the public, actually they are principals in all such transactions, the Broker being simply an agent. While this affords protection to a client in cases where a Broker defaults, it may expose him to loss if the Jobber with whom his Broker deals, defaults, that is, if the Broker should advance the claim that he, the Broker, is purely an agent.

The operation where the open position of a client is taken over either for completion or continuation is known as a "make-down." This is only allowed where the client is not the cause of the default, and no Member is compelled to accept such instructions. The client, having received proper communication, is expected to give instructions in cases of a Broker's failure, and, if such are not forthcoming, the Member with whom the Broker has the securities open is entitled after 3 o'clock on the day preceding Contango Day (or by 11 o'clock on Saturday if Monday be Contango Day) to close such securities forthwith.

Amongst other points of interest on the subject is that Members who are involved are not allowed to connive at a private failure. Rules 174 and 175 make this clear—

174. When a Member shall give private intimation to his creditors of his inability to fulfil his engagements, the creditors shall not make any compromise with such Defaulter, but shall immediately communicate with the Chairman, Deputy-Chairman or two Members of the Council, in order that the Member in default may be immediately declared: and in case the Council shall obtain knowledge of any private failure, the name of the Defaulter shall be publicly declared.

175. A Member conniving at a private failure, by accepting less than the full amount of his debt, shall be liable to refund any money or Securities received from a Defaulter, provided such Defaulter be declared within Two years from the time of such compromise, the property so refunded being applied to liquidate the claims of the subsequent creditors. Any arrangement for settlement of claims, in lieu of *bona fide* money payment on the day when such

claims become due, shall be considered as a compromise, and subject to the provisions of this Rule.

While the above Rules are strict there is nothing to prevent a Member from being "helped." It is not an unknown occurrence during times of stress to hear of some "lame duck" who has been "helped over," but apparently this help must come from outside the circle of Members who have immediate business contact with the person in trouble. Any person, being a creditor, who might be desirous of lending assistance to a Member in difficulties would, under the Rules quoted, be conniving at a private failure, unless action as laid down were taken.

Rule 171 (2) reads as follows—

The Request for such declaration shall be handed to the Secretary not later than a Quarter to Three o'clock, or a Quarter before Twelve o'clock on Saturday, and the declaration shall be forthwith announced to the Stock Exchange. A Declaration shall not be announced before Half past Ten o'clock.

Rule 179 provides that—

Creditors for differences shall have a prior claim on all differences received by, or due to a Defaulter's estate.

Rule 182 lays down—

A claim which does not arise from a Stock Exchange transaction cannot be proved against a Defaulter's estate.

Other claims which are not allowed to rank until others have been met, in addition to options referred to on page 138, are—

Claims arising from differences which have been allowed to remain unpaid for more than Two business days, Saturday excepted, beyond the day on which they became due—Rule 183 (1) (ii).

Claims for securities delivered and not paid for are dealt with by Rule 184, which reads—

Stock Creditors are entitled to be paid *pro rata* and preferentially out of the net assets available for distribution (other than assets on which creditors for differences have a prior claim under Rule 179) and should these prove insufficient, such creditors shall, as to the balance of such claims, participate with creditors for differences in any surety-money of the Defaulter or any proceeds of sale of the Defaulter's Nomination. All creditors entitled to participate under the Rules other than creditors for differences under Rule 179, and creditors who are deferred under the Rules shall be treated as Stock Creditors for the purposes of these Rules.

The position of Non-Members is dealt with by Rule 187—

A Non-Member shall be allowed to participate in a Defaulter's

estate, provided his claim be admitted by the creditors, or in case of dispute, by the Council; the Creditors or the Council may determine whether any claim so admitted shall be treated as coming within Rule 179, or 184 or 183, and a person whose claim is so admitted, may be represented at the meeting of creditors by any Member whom he may appoint.

Restrictions are also placed by Rules 188 and 189 upon the actions of Members who may be involved in a failure. These Rules read as follows—

188. A Member, being a creditor upon a Defaulter's estate, shall not sell, assign or pledge his claim on such estate to a Non-Member without the concurrence of the Council; and such assignment shall be immediately communicated to the Official Assignees.

189. A Member shall not attempt to enforce by law a claim arising out of a Stock Exchange transaction against a Defaulter, or the Principal of a Defaulter, without the consent of the creditors of the Defaulter or of the Council.

It should be pointed out that while it is impossible to escape the opprobrium which attaches to failure in the Stock Exchange, as in all businesses, such failure frequently calls forth genuine sympathy from the main body of Members of the "House." It is not always appreciated that Brokers, with every order they execute, are involved in two very distinct risks: the risk of the client "letting them in," that is, being unable to pay; and the risk of dealing with a Jobber who may find himself unable to meet his liabilities. It is not always through neglect to make proper inquiries regarding a principal's financial stability that a Broker is involved in difficulties. Developments outside the Stock Exchange, affecting unfavourably even old-established clients, are often so sudden as to overthrow all legitimate precautions. On the other hand, a Jobber is equally exposed, in the first instance, to those Brokers with whom he may deal, and in the second to fellow-Members with whom such business is "undone." In this connection, while it is not obligatory on any Jobber to deal specifically with any one Member, he frequently finds it difficult to avoid dealing when approached by Brokers with whose standing he is unfamiliar, while, if he openly bids or offers securities, he is bound by the Rules to deal if his bid or offer is accepted. When Brokers or Jobbers, therefore, are unfortunately thus involved by failure, spontaneous sympathy from the "House" is usually forthcoming.

It is interesting to learn, in connection with the subject

of failure, that arrangements are made by the Stock Exchange under certain conditions for readmission to membership.

Readmission of Defaulters

The temporary conducting of the business of a defaulter prior to readmission is provided for by Rule 190, which lays down—

(1) A Member may, with the consent of the Creditors and the sanction of the Council, and not otherwise, carry on business for the benefit of a Defaulter in accordance with the Regulations contained in Appendix 38.

(2) A Member shall not deal with a Defaulter for his own account before his readmission to the Stock Exchange.

The regulations as to transaction of business for a defaulter's benefit laid down in Appendix 38 contain four simple provisions—

1. A preliminary Report from the Official Assignee must be submitted to the Council.
2. The permission will expire on the next 25th March.
3. Speculative business for the Defaulter or for clients introduced by him is not allowed.
4. Business for clients of the Defaulter who are in default to him or other Members is not allowed.

The matter of the readmission of defaulters does not strictly fall for consideration under the heading of the Official Assignee, but certain aspects of the matter touch this department, and may be referred to here.

For instance, the value of a defaulter's nomination passes at once to the Official Assignee, as will be seen below, but, should such nomination be sold by the Official Assignee, it is not required again in the case of readmission.

Rule 28, Clause (6), provides—

The right of nomination shall not be exercised by a Defaulter, but the Official Assignees for Twelve months after the date of default shall have a right of nomination in the case of any Defaulter, who, previous to his failure, had a right of nomination; should the Official Assignees exercise such right of nomination the proceeds shall be applied in discharge of the Defaulter's debts in The Stock Exchange. A Defaulter shall not be required to obtain a nomination before readmission.

Clause (7) of this Rule discloses that a defaulter may not only re-purchase a nomination, but that he may also after four years re-acquire one—

A Defaulter readmitted after the 22nd December, 1930, in whose case the Official Assignees have exercised the right of nomination

shall not have any right of nomination unless after the date of his readmission he shall have purchased a nomination and registered his name in respect thereof with the Secretary; in all other cases of readmitted Defaulters the right of nomination shall not be exercised within Four years of the date of readmission, but in the event of the decease of a readmitted Defaulter prior to such time his legal personal representatives may exercise the right of nomination, and in the event of the default of a readmitted Defaulter, prior to such time, the Official Assignees shall have the same right of nomination as in the case of a Defaulter who previous to his failure had a nomination.

The procedure to be adopted if a defaulter seeks readmission is laid down in Rule 43, Clause (1) of which provides—

A notice of every Defaulter, applying for readmission, shall, at the discretion of the Council, be posted without recommenders in the Stock Exchange, at least Twenty-one days, and the Council shall then take the application into consideration, upon the report of a Sub-Committee, appointed under Rule 46.

Clause (2) states—

After a Defaulter has been readmitted by ballot, he shall be placed in the first or second class as laid down in Rule 47 and posted accordingly.

Rule 46 shows that careful inquiry is made into all the circumstances of the failure by a special Sub-Committee. Rule 47 gives the classes under which defaulters may be readmitted, while Rules 48, 49, and 50 lay down obligations devolving on defaulters making such application and obstacles to their reinstatement. We quote the Rules in full—

46. (1) Upon any application for readmission by a Defaulter, a Sub-Committee shall investigate his conduct and accounts; and no further proceedings shall be taken by the Council with regard to his readmission until the Report of such Sub-Committee shall have been submitted, together with a statement as to the Defaulter's estate, signed by himself.

(2) The attention of the Sub-Committee shall be directed, (i) To ascertain the amount of the greatest balance of Securities open at any time during the Account, and at the time of failure: the total amount of his business assets: the current balance at his bankers: and whether the transactions were on his own account, or on account of principals specifying the amount in each case. (ii) To ascertain the total amount paid to his estate, specifying the sums collected in the Stock Exchange, those received from principals and those from the Defaulter himself. (iii) To ascertain the conduct of the Defaulter preceding and subsequent to his failure; and to inquire of the Official Assignees whether any matter, prejudicial or otherwise to the Defaulter's application, has transpired at any meeting of creditors, or has officially come to their knowledge elsewhere. (iv) To ascertain whether the Defaulter has violated Rule 50.

47. The readmission of Defaulters shall be in one of two Classes—
The First Class to be for cases of failure arising from the default of principals, or from other circumstances where no bad faith or breach of the Rules and Regulations of the Stock Exchange has been practised; where the operations have been in reasonable proportion to the Defaulter's means or resources, and where his general conduct has been irreproachable.

The Second Class, for cases marked by indiscretion, and by the absence of reasonable caution.

48. A Defaulter shall not be eligible for readmission who fails to give up the name of any principal indebted to him, or who has not, within Fourteen days from the date of his failure, delivered to the Official Assignees or to his creditors, his original books and accounts, and a statement of the sums owing to, and by him, in the Stock Exchange, at the time of his failure.

49. A Defaulter shall not be eligible for readmission, who shall not have paid from his own resources, independently of his security-money, at least one-third of the balance of any loss that may occur on his transactions, whether on his own account or that of principals; or who, in the event of his debts being less than the amount which his sureties may be called upon to pay, shall not have refunded to the sureties at least one-third of the amount paid by them.

50. A Member who issues or retains a Ticket for Securities, whereby loss is incurred or increased, and who shall be declared a Defaulter in that Account, shall not be eligible for readmission for at least One year from the date of such default, provided it be proved to the satisfaction of the Council that he knew himself to be insolvent at the time of issuing or retaining the Ticket.

It needs only to be stated further that Rule 43, Clause (3), provides that—

A Defaulter may be readmitted without the above notice [that contained in Rule 43, Clause 1] in any case where upon the report of the Sub-Committee it is proved that all liabilities have been *bona fide* discharged in full. In such case his name shall be posted as having paid 20s. in the £1.

From the foregoing it will be seen it is possible for Members to return to the Stock Exchange despite the very distinct set-back which failure brings in its train. Notices appear from time to time in the "House" showing dividends or amounts distributed by the Official Assignee on the estates of defaulters. Sometimes the amounts are of minute proportions; at other times they are meagre; occasionally, but not often, distributions are of substantial character. Cases have occurred where after many years creditors have been paid out in full, and this ability finally to discharge one's obligations must be a supreme satisfaction to all men of character who in the course of their

business career have found themselves unwittingly involved in difficulty.

Sufficient has been said, we hope, to show the work of the Official Assignee's Department. This section does not purport to be an exhaustive treatment of failures, which is a very involved subject, but is simply a survey of the duties of the Official Assignee. It is to be hoped that no reader will ever have occasion personally to experience from a standpoint of necessity the intricate workings of the department. One can, however, study the subject without being personally involved, and students requiring still more information on the subject can learn much from *Schwabe and Branson on the Law of the Stock Exchange* and *Poley's Law and Practice of the Stock Exchange*. Members who may be involved through having an account open with a defaulter will find that every possible assistance and advice will be forthcoming from the Official Assignee and from the department which exists for that purpose.

CHAPTER XVI

AN EXAMINATION OF THE OFFICE RECORDS

BOUGHT Journal—Sold Journal—Checking Book—List Book—Clients' Ledger—Jobbers' Ledgers—Contango Journal—"Backwardations"—Tickets Passed Book—Tickets Received Book—"Make-ups"

THE books and forms which are used in the recording of Stock Exchange transactions are, in the main, unlike those used in any other business. Within the profession itself there is no uniformity of book-keeping method, and accountants called in to render assistance sometimes find it difficult to reconcile the varying methods of bringing entries to account. The principal books, however, can be identified by their title, and are designed to be a permanent record of the important details which they contain. In order of approximate importance to a Stockbroker are Cash Books, Bought and Sold Journals, Clients' Ledgers, Jobbers' Ledgers, Private Ledger, Sundries Ledger, Contango Journal, Tickets Passed and Tickets Received Books, Transfers Delivered and Transfers Received Books, Bonds or Scrip Book, Dividends and Splits Books.

The foregoing may be considered books necessary for proper accounting of Stock Exchange bargains, and also for preservation of the particulars as permanent records. Following come a number of subsidiary books, valuable for departmental detail, but not possessing the degree of permanence required by those referred to above. Among these we would mention Jobbing Books, Checking Books, Limit Books, List Books, Number Books, Clearing House Books, Contract Books, Stamp Books, Name Books, Agency-commission Books, Petty Cash Books, Claim Books of various descriptions, and others required as the needs of the business demand. Supplementing these books, and vitally necessary for a well-organised office, come filing cabinets, statistical cards, and carefully indexed records of varying description which can be consulted without delay. The main books which we illustrate in the following pages are set out in Part II of a little work entitled *Stock Exchange Accounts*, published nearly fifty years ago by the late Sir Stephen Killik. While more elaborate systems of Stock

Exchange book-keeping may be in existence, the one referred to can be recommended for comprehension, simplicity, and practical efficiency.

The first book entry to be made in connection with a Stock Exchange transaction is the bargain in the Jobbing Book. This book is dealt with on page 221, and is in the possession of the partners or authorised clerks, who alone are allowed to deal. The Jobbing Books are collected towards the close of business each day and taken to the office to be entered in the records. Large firms of Brokers find it more convenient to enter transactions on market slips on which can be given all the necessary information. These slips can be taken to the office in advance of the Jobbing Books, and will enable contracts to be prepared in readiness for the principals' signature on their return from the "House." Whether from slip or Jobbing Book, the various transactions are usually entered in the following books which we will examine.

Bought Journal

All purchases are recorded in this book, which is ruled up to include the transactions for a given Account. Where firms deal frequently for cash and practically all Stocks dealt in in the Gilt-edged market are for cash, it may be found convenient to have more than one Bought Journal, but the ruling need not be varied. One example of this book, which extends to both pages, is as given on page 354.

A glance at this ruling will show that all particulars are provided for, and the total cost is dissected to indicate each of the separate charges connected with a purchase. As twelve columns are here provided for, a simple division can be adopted, say, Date, Stock, Price, Amount, Commission, and Contract Stamp on the left-hand side of the page, and the remaining columns on the right-hand side. The columns are self-explanatory. It will be noticed that "Contract Stamps" are kept distinct from "Government Stamp Duty and Transfer Fee." It will also be seen that just as each Gross Amount plus "Commission," "Contract Stamp," and "Stamp and Fee" equals "Total Cost," so should the totals agree across when at the end of an Account's trading the line is drawn and all the columns are added up.

It may be pertinent here to remark that the "bought and

BOUGHT JOURNAL

10TH APRIL A/C 194.

Date	Stock	Price	Amount	Commission	Contract Stamp	Stamp and Fee	Total Cost	Client	Jobber	Client's Ledger Folio	Jobber's Ledger Folio

sold" contract notes which are rendered to clients contain the same particulars that are entered in the Bought and Sold Journals. Contract notes and Journal entries should be made out independently. This ensures a complete check when they are agreed, as they should be before the contract is dispatched. The contract may be made out in a book in which a counterfoil is kept, or may be prepared on a separate form which is either copied or duplicated. It will not be found necessary to give the full title of the security in the Journal in the way it is set out on the contract, as abbreviations are commonly in use in Stock Exchange offices where such contractions are understood. It is not the practice of Brokers to send to clients contracts for "Bats," "Imps," "Johnnies," or "Emmies," but in busy offices the Shares receive no more dignified description. Great care should be given on the contract note to describe the security fully in order that there can be no possibility of mistake. Confirmations of business between Country Brokers and London, however, frequently rely for their description on accepted Stock Exchange vernacular.

The total or net cost of the purchase shown in the Bought Journal is in due course posted to the debit of the client's account in the Clients' Ledger, the folio of the Clients' Ledger being entered in the appropriate Journal column. The gross amount of the purchase—that is, the bargain price extended without the additional charges, with which the Jobber is not concerned—is later duly posted to the credit of the Jobber in the Jobbers' Ledger, as this sum is due to him. This entry is also folioed. If the items totalled in the other columns, namely, "Commission," "Contract Stamp," and "Stamp and Fee," are carried to the credit of other accounts, as we shall show that they are, it will be seen that this Bought Journal is a self-balancing record.

Sold Journal

All sales are recorded in this book, which is headed with the date of the current Account, as in the case of the Bought Journal. The Sold Journal is similarly ruled to the Bought Journal, but the column relating to stamps and fees is omitted, as these charges apply only to the purchaser. A column for the contract stamp, however, is included, as this amount

SOLD JOURNAL

10TH APRIL A/C, 194.

Date	Stock	Price	Amount	Com-mission	Con-tract Stamp	Net Proceeds	Client	Jobber	Client's Ledger Folio	Jobber's Ledger Folio

must be charged. The commission and the contract stamp in this case are deducted from the gross amount instead of being added.

As with the Bought Journal a separate book can be kept for Sold Cash transactions.

The total or net proceeds of a sale shown in the Sold Journal is of course duly posted to the credit of the client's account in the Clients' Ledger, as this is the amount he or she is due to receive when the transaction goes through. The folio of the Clients' Ledger is then entered in the appropriate Journal column. The gross amount of the sale—that is the bargain price extended without the deduction of charges, with which again the Jobber is not concerned—is posted to the debit of the Jobber in the Jobbers' Ledger, as this is the sum due from him. This entry is duly folioed. If the total of the two columns Commission and Contract Stamps are carried to their appropriate accounts, this Journal, as with the Bought, will be seen to be a self-balancing record.

The dealer's Jobbing Book, with the transactions of the day, is further required for the purpose of two other books, both of which come under the heading of the subsidiary class. First comes the

Checking Book

The ruling of the Checking Book is simply a copy of the Jobbing Book. This book is required in order that a clerk may attend the following morning in the Settling Room, and check over all the bargains done on the previous day. We referred to this useful practice on pages 220–2. In cases where firms are doing a large business it is usual to split up the Stocks or Shares into whatever division best assists a speedy check of transactions. One clerk may take the sales and another the purchases, or one "bearer" and another "registered" transactions. Whatever division is made, the particulars of the bargain in the Checking Book are identical with the original entry in the Jobbing Book, and any dissimilarity which is material must, as pointed out, be brought at once to the notice of the dealers who did the bargain. The other book for which the Jobbing Book is required, and which should be entered up as soon as possible, is the

List Book

This is the first time reference has been made to this book, which plays an extremely important part in the Settlement. With the List Book entered up, it is possible at once to see how the firm or the firm's clients "stand" in any particular Stock or Share at any given moment. The List Book is simply an indexed record of all transactions entered up under the letter of the security in question, and this book is probably more in demand than any other during the period of the Account. The date of each Account is entered clearly on the cover of the List Book. It is this List Book or a copy of it that the dealer used in the Stock Exchange in order to arrange his contangoes. It is also the List Book, or a duplicate of it, that a clerk will usually take to the Name Room in order to pass or receive the necessary Tickets. The Clearing Sheets are prepared from the List Book. The List Book can be compiled or entered up from the Checking Book or from the Bought and Sold Journals, but it is probably more reliable if entries into it are made direct from the Jobbing Books. Any alterations after checking the bargains must be made in the List Book to avoid confusion.

The ruling of the List Book is simple, and the indexing of letters imperative. Prices are not entered; quantities only are wanted. All that is required is a line dividing the "bull" position from that of the "bear," or buyer from seller. It is usual to enter up the Stock or Share as a heading, placing the name of the purchaser on the right-hand side, removed and well below the name of the seller, who figures above on the left-hand side of the page. The procedure is reversed in the case of sales for clients (see page 357).

This is an example taken at random from the letter "S" of an ordinary List Book showing how the Stocks are divided, and how the bargains are entered up. Clients have bought Sudan Plantations and Salt Union and sold Canadian Pacific Debenture, the 1/- meaning £1,000 Stock. In the case of an active Share such as Shell Transport, it is necessary to leave more space. This is but one page of the List Book; Schweppes, Spillers, Spratts, Slaters, Steels, Shawinigan, and a host of other securities are probably overleaf. If further purchases of Shell are made, these will be entered below Evans' purchase, unless

SUDAN	PLANTS	SHELL	
500 Spinner, B.		50 Bore & Co.	
		150 Field & Co.	
		500 Gusher & Co.	Gusher & Co. 25
		100 Crude & Co.	
	Cotton, A. 500		
SALT	UNION		
50 Cellar, B.		100 Robinson, D.	Smith, A. 50
		25 Green, E.	Brown, B. 250
			Jones, C. 500
			Evans, F. 100
	Grain, A. 50.		
CAN.	PAC. DEB.		
	Pullman, O. 1/-		
1/- Sleeper, A.			8

the bargain is for Evans or someone else who has already dealt. Then the number bought will be added to show the client in question a larger "bull" position. If a sale is to be recorded the details will be entered on the lower left side for the client and on the top right-side for the Jobber to whom the securities are sold. It may be that securities purchased for a client during the Account, or part of them, are sold; that being so, the number or amount on the right-hand side is reduced or cancelled, the same applying to the Jobber with whom the transaction is carried out. For this reason amounts are usually entered in pencil.

At all times it is imperative that the two sides of the list should add up and agree, otherwise there is a mistake. In the Shell list we have given, Brown's 250 Shares were originally bought of Field & Co., but, as Robinson's sale of 100 Shares was made to Field, this accounts for the reduction in the number on balance with this Jobber, namely, 150 Shares. It is noticeable also that, although 500 Shell Shares were bought for Jones from Gusher & Co., the sale to Gusher of Green's 25 Shares is recorded separately. This bargain is isolated by design, as a separate name for the 25 Shares is required at the Settlement, and it is wise to keep the two transactions apart. The recording of the business done each day in this book is known as "altering the list," and, as a reference to this record

may be made at any moment before closing or adding to a position, it follows that all alterations in the List Book should be made with care. When a contango was arranged this List Book was affected, and if, in the case of Shell Shares, Jones had arranged to "carry over" his "bull" position by giving a rate on his 500 Shares, the entry would be made on the left-hand side, "Jones 500," charging him, say, 6 per cent, while at the top of the List Book on the right-hand side would be entered, say, "Gusher & Co. 500" at 5 per cent, or whatever may have been the agreed rate.

The first entries to be made in this List Book if they are permitted are the contangoes of the preceding Account. Thus in Shell Jones would still be a "bull" of 500 Shares brought in from the last Account, and they would be "open" with Gusher & Co. Following contangoes come the bargains done each day. At the end of each Account it is the practice to call over the List with the Clients' Ledger and Jobbers' Ledgers. This ensures that all entries are made, and is an effective check both on the securities which are open and the accounts in which they are entered. It is common practice when calling over the List to refer to "bulls" as "takers" of Stock or Shares, and "bears" as "deliverers," which is in fact what they are. To keep them distinct, clients' names are often entered in red ink, while Jobbers' names are recorded in black. On the Making-up Day it is wise to go through the List with the Clearing Sheet, and mark distinctly all the securities that clear. This will save constant reference when the time comes to prepare the lists for the Clearing Department. All the entries made in this List Book find their way into what we have described as the permanent records, and, therefore, when the Account is concluded the usefulness of the List Book is finished.

Clients' Ledger

This ledger is the main record of a Stockbroker's business, as in it is entered every item affecting his principals. The size and shape of the ledger are matters of convenience. Some firms divide their Clients' Ledger into Country Brokers' Ledger and ordinary Clients' Ledger, the latter category being subdivided into "A" to "C," "D" to "G," and so on, while others employ special ledgers for particularly large accounts.

A development of recent years in office recording is the introduction of loose-leaf systems, their economy and adaptability having overcome the objection that on legal grounds such records were unacceptable. In practice the loose-leaf system is most useful, as the method of removing filled pages to a transfer volume enables a live volume to be always in use. With this loose-leaf system, all clients' accounts are given a folio number, which number should not be displaced. All sheets are numbered, and when one is filled it is simply removed to the transfer volume, where it is permanently preserved in a form which constitutes a complete record of every transaction in chronological order. Sheets, however, should not be removed to the transfer volume until the Trial Balance has been taken out. With such a system it is wise to have a vowelised index such as "BA," "BE," "BI," "BO," "BU," as in course of time the names entered under any one index letter become unwieldy. An extremely useful method which can be employed equally well with loose-leaf ledgers is the introduction of small supplementary ledgers ruled in the ordinary way. These small ledgers can be used for all the multitudinous entries connected with the business, the balances shown at the end of the Account being transferred into the larger ledger. The more substantial the principal's account, the more useful in practice will the supplementary ledger be found. It is particularly valuable for Country Brokers' accounts, the only entries then appearing in the larger ledger being the cash which passes from time to time.

The client's name is entered at the top of each sheet in the Clients' Ledger. Under the date of each Account all entries are made as nearly as possible according to date. The first entry is the balance (if any) brought down as outstanding from the preceding Account. On the debit or left-hand side are then entered contangoes and the contango rates (where the principal is a "bull" or "giver"). Then purchases and charges of all kinds are posted, including cash either sent to the principal or paid away on his or her behalf. On the credit or right-hand side of the ledger are entered contangoes and the contango rates (where the principal is a "bear" or "taker"), sales and credits of all kinds, including cash received from the principal or on his or her behalf. When posting, the source of

Sheet No. 10 C. JONES *A/c No.* 75

10TH APRIL A/c 194.

194.							194.					£	s.	d.
27 Mar.	To 500 Shell Transport .	2 C.D.	C22	1,000	–	–	27 Mar.	By Balance brought down .				10	15	3
	Ctgo. 5% & Stp.		,,	2	–	4	7 Apl.	,, 500 Shell Transport .	$2\frac{1}{32}$ EX.D.	C25		1,015	9	6
2 Apl.	,, 1,000 United Dairies .	52/6	,,	2,625	–	–								
	Ctgo. $5\frac{1}{2}$% & Stp.		,,	5	16	8		,, 1,000 United Dairies .	50/– less	,,		2,499	16	–
	,, 1,000 Maypole Dfd. .	5/–	B98	256	16	10		,, Dividend 500 Shell .	stp.	DB30		18	15	–
	Com. Stp. Fee							,, Balance C/D. . .				344	18	1
				3,889	13	10						3,889	13	10
	To Balance B/D. . .			344	18	1		*Take* 1,000 Maypole Dfd.						
							E. O.E.							

each entry should be entered in the folio column provided. From this ledger a statement of account is prepared and rendered at the end of each Settlement, showing the amount due to or from the principal on balance. At the end of each Settlement all accounts should be ruled off. The ruling of the Clients' Ledger is that commonly used in all businesses, but we give an illustration (page 362) to show how an ordinary account appears. We will assume in this illustration that Mr. Jones has carried over the "Shells" we saw in the List Book, and that he has had several transactions in addition.

The statement sent to Mr. Jones, which is an exact copy of the account in the ledger, will show him owing the sum of £344 18s. 1d. This amount is partly due to loss on the 1,000 United Dairies "open" on contango account, which loss is in some measure offset by a profit on the 500 Shell Transport. The main reason for the debit balance, it will be seen, is the purchase of 1,000 Maypole Deferred which Mr. Jones is going to pay for. On the statement will therefore appear an entry on the right-hand side opposite the balance shown "Take 1,000 Maypole Deferred."

This extraction of the Stocks that have to pass is of importance when rendering a long statement of account to, say, a firm of Country Brokers, in which statement contangoes and Stocks which will be paid for are all entered together. It will be apparent that the balance of a statement—either credit or debit—shown as a result of a busy Account's trading will bear no resemblance to the actual *difference* which is required, such balance being merely an amount which will largely adjust itself after all Stocks have been delivered and paid for. It is the practice with Country Brokers to pay for all Stocks on delivery. If part only of one bargain is delivered, then payment is made *pro rata*, round amounts being used instead of shillings and pence. To find the amount due on *difference*—that is, profit or loss in respect of securities open on contango account, and securities which have been closed during the Account—simply carry the balance shown by the Ledger Account to a separate statement, on which statement all securities that have to pass are entered on the side opposite to which they appear in the Ledger Account. As with Mr. Jones' 1,000 Maypole Deferred, all purchases that are to pass

will, therefore, appear on this statement on the right-hand side under the heading of "Stocks to take." All sales that are passing will be shown on the left-hand side of the statement under the heading of "Stocks to deliver." The price at which these Stocks to pass are extracted can be either the bargain price or the "making-up" price. This is simply a "reconciliation" statement, and the difference that this statement reveals is obviously the amount that is owing independently of any payment required for Stocks as and when they are delivered. A point to be remembered is that, if the making-up prices are used for the reconciliation statement, Stocks must be paid for at those prices.

If the difference as shown above is paid and the various securities "go through" at the prices agreed upon, it is obvious that the account will be kept square. In practice it will be found helpful to render a supplementary account to Country Brokers, as, apart from the main account, there are always numerous adjustments to be made, such as dividends, stamps, "splits," and other incidental items, which must be settled to enable the accounts to be kept in order.

Jobbers' Ledgers

The second set of books which are posted from the Journals are the Jobbers' Ledgers. In a small office one book may suffice, but most firms find it advisable to subdivide their Jobbers' Ledgers into sections, a popular division being "A" to "L" and "M" to "Z." The ledgers comprising these subdivisions, small by comparison with the Clients' Ledgers, are indexed in a way similar to that adopted with the List Book mentioned on page 358, but the index letters this time refer to the Jobbers' names and not to Stocks. The usual size of a Jobbers' Ledger is 9 in. by 6 in., but there is no reason why it should not be larger. The ruling of the Jobbers' Ledger, however, is unusual and quite unlike any other book used in the Stockbroker's office. The divisions at the top of the Jobbers' Ledger pages are designed to take the names of the securities dealt in, and all transactions in the same security on whatever date, or at whatever price, are entered in the same column. It will be appreciated that in a normal Account Jobbers deal many times in the same security. Similarly with

JOBBERS' LEDGER

Dr.

Date										Shell Transport		Price	Folio	Amount		
24 Mar.										500		4	22	2,000		

Cr.

GUSHER & Co.

Date										Shell Transport		Price	Folio	Amount		
24 Mar										500		4	22	2,000		
										Ctgo.		4%	"	3	1	4

Brokers. What this ledger ruling provides is an analysis, so that, by the simple method of adding up, the total of each security can at once be seen. Both sides of the Jobbers' Ledger are used for each individual Jobber's account, the ruling being shown on page 365.

The life of the Jobbers' Ledger is usually one Account. When all commitments shown in the ledger are settled either by cheque or by an agreement to carry forward the balance, the volume is put aside to stand as a record. For several reasons the loose-leaf system is again advisable in the case of Jobbers' Ledgers. Firstly, the number of pages required for any individual firm is unknown when the account in the ledger is opened. Secondly, the loose-leaf system is economical. With a bound volume large numbers of blank pages of a Jobbers' Ledger are wasted. A well-printed series of initial index tabs will do service for years for the current loose leaves, while the used Jobbers' Ledger sheets can be neatly packed in alphabetical order between light board covers and stored away with the date of the Settlement plainly marked.

The method of posting in the Jobbers' Ledger is as follows. The Jobber's name is entered on the right-hand sheet, on which side all bargains from the Bought Journal are entered and folioed. The heading for the security having been opened, the entry is made immediately beneath. A similar heading is opened on the opposite page, as an entry will later appear here in the form of a Ticket, cash, or other compensating item. Entries from the Sold Journal are posted to the debit, new headings being opened whenever a fresh security is dealt in with this Jobber. The Jobber is credited with a security which the Broker buys, as in due course the Jobber will require payment for it. In the same way a Broker will debit the Jobber when he, the Broker, sells, because the Broker will hand over securities in due course and require payment. The account in the Jobbers' Ledger thus stands until Settlement week, when contangoes, if any, and the passing of Names for registered Stocks offset these Journal entries, while cash will provide a similar *contra* entry where bearer Stocks are concerned.

All Jobbers' Ledger accounts are made up and differences paid on the Settlement or Account Day. These differences, which may be made up of contangoes, bargains, dividends,

"splits," etc., if not agreed, are checked without delay. The ledgers are of small and handy size to assist in carrying them backwards and forwards for this purpose. A small Profit and Loss Account is kept at the end of each Jobbers' Ledger for the adjustment of pence which disagree. These pence differences are not queried unless they are noticeable. If a large difference is claimed on Account Day, and a disagreement makes it necessary for the firms to call over the individual entries, it is usual to pay a round sum on account. In connection with the subject of differences, Rule 130 is of interest—

> On the morning of the Account Day all unsettled bargains shall be brought down and temporarily adjusted at the making-up price of the Contango Day.

Before Clients' or Jobbers' Ledger accounts are made up for agreement, the contango position (if any) must be posted. The meaning of a contango is explained on page 124. Briefly, a contango means that payment for securities purchased and delivery of securities sold are both deferred. Contangoes, as laid down in Rule 108, are bargains, and these bargains must be recorded. The Journal in which they are first set out is known as the

Contango Journal

The ruling of this Journal is again unusual, but light will be thrown on the entries if it is remembered that with a contango the security sold for one Settlement is bought for the next, or the security bought for this Settlement is automatically sold for the next. A contango is purely a temporary arrangement, having the effect of bringing each transaction to a definite settlement at short intervals. These contango arrangements are not always easy to effect, and the Broker's remuneration is usually obtained by a "turn" taken from the rate charged for the accommodation. The columns in the illustration (page 368) of a Contango Journal page make provision for the two rates, namely, "Gross" and "Net," the "Profit and Loss" column being equal to the difference shown between the two.

In this page taken from the Contango Journal will be seen entered two "bull" transactions, Mr. Jones having "given on" 500 Shell Transport and 1,000 United Dairies. The opening entries for these two contangoes were made on the Contango

CONTANGO JOURNAL

SOLD FOR 27TH MARCH A/C — BOUGHT FOR 10TH APRIL A/C

Date		Stock	M/U. Price	Amount	Gross Rate	Net Rate	Profit and Loss	Contract Stamp	Client	Jobber	Client's Ledger Folio		Jobber's Ledger Folio	
											10/4/4. *Dr.*	27/3/4. *Cr.*	27/3/4. *Dr.*	10/4/4. *Cr.*
Mar.	24	500 Shell Transport	4	2,000	4% 3 1 4	5% 3 16 8	5 4	8/-	Jones, C.	Gusher & Co.	75	75	2	
		1,000 United Dairies	52/6	2,625	4½% 4 10 7	5½% 5 10 8	1 1	12/-	Do.	Pasture Lands	75	75	3	
			Bought for 27th March a/c				Sold for 10th April a/c							
Mar.	24	1/- Central Uruguay	25	250	3⅓% 6 8	2½% 4 9	1 11	1/-	Sleeper, A.	Pullman	27/3/4. 23	10/4/4. 23	10/4/4 6	27/3/4. 6

Day of the 27th March Account, namely, the 24th March, when the contangoes were arranged. The capital sums involved, which are seen in the column headed "Amount," were then posted to the credit of Mr. Jones' account in the Clients' Ledger, and to the debit of Gusher & Co. and Pasture Lands & Co. in the Jobbers' Ledger, both for the 27th March Settlement. In order that it shall be clear we have marked the date over the folio columns. These were then closing transactions for the 27th March Account. During the 10th April Account the rates were worked out: 4 per cent, 5 per cent, etc., on the capital sums involved for 14 days. After the calculations were checked, the capital sums involved were again posted in the Clients' Ledger to the debit of Mr. Jones, together with the net amount for the rate, while the Jobbers' Accounts, Gusher and Pasture Lands, were credited with the capital sums, together with the amounts shown in the column headed "Gross Rate." During the same period Mr. Sleeper requested his Broker to "take in" a £1,000 Central Uruguay, which contango was also arranged. This required a separate entry in the Contango Journal which we give beneath the two "bull" contangoes. Here it will be seen that the same ruling could be used, and if the number of such entries was small the same page of the Contango Journal could be utilised. As this "bear "contango was the reverse of the other two, the heading should be noticed, and also the folios, which differ from those we have given in the case of the "bull" contangoes. When, on the 24th March, this contango was arranged, Mr. Sleeper buys back the £1,000 Central Uruguay he had open; therefore the entry for the 27th March Account was to his debit. When the rates were worked out, his account for the 10th April would be credited with the capital amount involved, together with the net contango rate. The Jobber's position was just the reverse; the first entry for the 27th March Account, without the rate, was to Pullman & Co.'s credit, while for the 10th April Account they were debited with the capital amount and the gross rate which they had agreed to give.

These were the "positions" of the clients as far as contangoes were concerned up to the Account week of the 10th April Settlement. During this Account period Mr. Jones may have sold his holdings, and this will make further contangoes

unnecessary. If Messrs. Jones and Sleeper, however, desired again to "continue" their securities, the procedure was repeated if possible. Otherwise, Mr. Jones made arrangements to pay for his "Shells" and United Dairies, and Mr. Sleeper, not having bought his Stock back, decided to deliver his Central Uruguay, for which in due course he would receive payment.

Loose leaves may be used with advantage for this Contango Journal. The Profit and Loss column total should equal the difference between the "Gross" and "Net" columns. This sum represents the commission the Broker receives for arranging the contangoes, and the total of the Profit and Loss column is taken, in due course, to the credit of the Commission Account. Losses are rare, but, should they arise, they can be entered in red ink.

"Backwardations"

There are occasions when a "giver" is paid a rate to lend his security or when a "taker" has to pay a rate instead of receiving it for the privilege of borrowing the security required. These instances do occur, but, as the occasions are rare, special provision for them is not necessary. A red-ink entry in the Contango Journal would draw attention to the fact that the rate was the opposite from that usually entered, namely, the "bull" or "giver" being credited and the "bear" or "taker" being debited—the reverse to the usual procedure. Contangoes were not always arranged with Jobbers, it frequently happening that Brokers were able to accommodate one another's requirements in the same way that Jobbers may deal one with the other.[1] The column in our Contango Journal "Jobber's Ledger Folio" is thus headed to indicate the firm with whom the contango was arranged. The column was used for Brokers' folios when a Broker took the place of the Jobber, and this applies to all books when similar conditions are present.

The next step in the course of the Settlement is the passing of Names or Tickets for registered securities that have been bought and which have in due course to be paid for. These Tickets are usually made out in a book containing a counterfoil, each Ticket being numbered. A specimen Ticket relating to 500 Courtaulds is shown on page 223. On these Tickets are given, if possible, the full registration particulars of the buyer,

[1] Now precluded by Temporary Regulations. See page 125.

TICKETS PASSED

Date	Delivered by	Stock			Cash Book Folio	Cash Paid	Date	Passed to	Stock			Price	Jobber's Folio	Stamp	Amount
		Ticket No.	Nom. Amt.	Description					Ticket No.	Amt.	Description				

but only details regarding the security are relevant in the book we approach. After the Tickets are torn out and in due course distributed in the Name boxes as explained on page 224, the particulars are extracted from the counterfoils of the Ticket Book and entered to the credit of the

Tickets Passed Book

This Tickets Passed Book, it should be explained, does not affect the client, the entries relating only to the Jobber to whom the Ticket is issued, and the firm which ultimately delivers the security. One ruling is given on page 371.

The headings of the columns of the Tickets Passed Book explain themselves, but the destination of the entries requires a few words of explanation. From the credit side of the Tickets Passed Book the items are posted from the "Amount" column to the debit of the respective firms to whom the Tickets have been passed, the folios being entered in the column provided. At the end of the Account the total of the stamps is posted in one amount to the debit of a Stamp and Fee Account, which entry receives a *contra* from the credit posted from the Stamp and Fee total in the Bought Journal. In this form the Tickets Passed Book remains in the early stages of the Account until the securities begin to come in on the Settlement Day. As payments are made for the transfers that come in, they are entered to the credit of the Cash Book, and to the debit of the Tickets Passed Book, the entries on this side of the Tickets Passed Book remaining blank until such time as the securities are delivered.

Assuming all securities purchased to have been delivered, and all the entries to have been posted, the total of the "Cash Paid" column on the debit side of the Tickets Passed Book should agree with the totals of the "Stamp" and "Amount" columns on the credit side. In practice, however, many entries will disagree, as transfers will not always be delivered in the form to meet the original Ticket. Where a larger payment is made, due to loss on "splitting," the Stamp column will be credited and the amount taken to the debit of the account of the Jobber responsible. Dividend deductions will also have to be brought to account, together with minor adjustments for pence which disagree owing to calculations on broken amounts.

TICKETS RECEIVED

Date	Received from	Stock			Jobber's Folio	Stamp	Amount	Date	Delivered to	Stock		Cash Book Folio	Cash Received
		Nom. Amt.	Description	Price						Nom. Amt.	Description		

Then the two sides of this Tickets Passed Book will balance. It is a helpful practice, when taking out the Trial Balance, to enter undelivered securities in red—these entries to be carried forward as outstanding *credits* to the opening pages of the new Account. The amount carried forward will, of course, be the total value as extended in the Tickets Passed Book plus the transfer stamp.

Tickets Received Book

This is a similar book to the Tickets Passed Book, but is designed to record the Names which are accepted for securities sold. The ruling is practically the reverse of the Tickets Passed Book, the various entries again affecting only the Jobbers and the Cash Book. On page 373 is a specimen ruling.

When Names or Tickets are received for which transfers have to be prepared and delivered, they are collated and entered alphabetically on the debit side of the Tickets Received Book. It makes for efficiency to enter them thus under the index letter of the security; also, if possible, to keep together Names which come in at different times in respect of one sale. All entries are worked out and posted from the debit of the Tickets Received Book to the credit of the account of the Member from whom the Ticket is received. The name of the Broker or Jobber who will pay for the security when it is delivered is not wanted for this book in the early stages. The person whose account is credited is the one to whom the security was sold and who has issued or passed on the Ticket, on which payment for the security will be obtained. That is why credit is given for the amount represented by the Ticket. The total of the "Stamp" column on the debit side of the Tickets Received Book is posted, when all Tickets are received, to the credit of the Stamp and Fee Account, the compensating entry for this item being the amount paid away to the Inland Revenue for transfer stamps paid through the Cash Book and debited to the Stamp and Fee Account. As the transfers are delivered to the various buying Brokers, cash is received through the Cash Book and is posted to the credit of the Tickets Received Book. Assuming that all transfers are delivered and paid for, the totals on the credit side for cash received should agree with the joint totals of the debit "Stamp" and "Amount" columns. Again,

in practice, will appear differences due possibly to dividends deducted by the buyers, occasional "splits" and minor amounts, which will be adjusted, as in the case of the Tickets Passed Book. Undelivered securities can be entered in red ink for purposes of the Trial Balance, the amounts for which they are outstanding being brought down as *debits* in the new Account.

There are two important points to be mentioned here. The first is that all Names or Tickets that are received are not required by those who take them for the purpose of delivery. Many Tickets have to be passed on. A simple instance is where a client buys, say, 500 Shares, which are sold during the same Account. Unless the Shares are sold to the same Jobber from whom they were bought, or these Shares "clear," it is necessary to take the Names from the Jobber to whom they are sold and pass them to the Jobber from whom they were purchased. This passing of Names is largely carried through in the Name Room. It is essential to keep a careful note of all such Names or Tickets: from whom they are received, to whom they are passed, and the price on the Ticket. These particulars are entered in the duplicate List Book which is taken to the Name Room, and which is referred to on page 358. The entries are then worked out, and the Accounts credited where Names have been received and debited when Tickets have been passed, in a similar way to their treatment when entered in the Tickets Passed and Received Books.

The unnecessary passing of Names is sometimes avoided by means of what are termed

"Make-ups"

A "make-up" is effected where, for example, a Ticket is awaited from Member "A" in order that it may be passed to Member "B," who in turn owes this Ticket to "A." In other words, the Ticket may go round in a circle. Where this is the case the security is "made-up," that is, entered to all parties as if in fact the Ticket had actually passed. The price used in this connection is the "making-up" price, or in its absence a price which is agreed upon. "Make-ups" used to be common in busy times between the Provinces, the Continental Bourses, and London. That the method of making them up was extremely useful in short-circuiting unnecessary movements in securities will be seen by quoting two examples.

(*a*) A Paris arbitrage firm which had bought 5,000 Mexican Eagle Shares through its London Broker was informed that the client had sold these Shares to London through another Paris firm. The journey of the Shares in question across the Channel and back again was, under such circumstances, a fruitless one, and could be avoided if the Shares were "made-up" at an agreed price. The Shares would then pass from one London firm to another.

(*b*) A Liverpool firm of Brokers sells £5,000 Canadian Pacific Preference Stock in London. This Stock, it is found, has been sold back to Liverpool. If the parties to these transactions are willing, the transit through various hands is avoided by the delivery of the Stock direct from the seller in Liverpool to the buyer in that city. These transactions are what are known as "make-ups," or "mops." An important point to be remembered here is that all securities subject to arrangement by the Settlement Department as mentioned at the end of Chapter XI are brought to account at the making-up price and not at the price on the Ticket.

This practice affects the two books we have just examined, the Tickets Passed and Tickets Received Books, and almost warrants the insertion of an additional price column in each. The difficulty can be overcome by entering the "making-up" price in red, either by the side of or underneath the Ticket price in the respective books. The reason for entering up the Ticket price is that Government stamp duty is payable at the price of the bargain, and not at the "making-up" price. It is, therefore, necessary that the Ticket price should be recorded in the price columns of the Ticket Books in order to arrive at the correct stamp duty for each bargain. The actual extensions, however, are worked out in each Ticket Book at the "making-up" price in every case which comes under the headings mentioned in Temporary Regulations 3 (11)—that is, all securities that "clear."

It should be mentioned that the posting to the Jobbers' accounts of all the above Tickets at the "making-up" prices results in differences which have to be collected in cash. These differences which are paid away through the medium of the Jobbers' Ledgers are all recovered as the securities pass, and all amounts that are collected in this way are duly disbursed as the various securities are paid for.

CHAPTER XVII

AN EXAMINATION OF THE OFFICE RECORDS—(*continued*)

CASH Book—Private Ledger—Sundries Ledger—Stamp and Fee Account—Dividend Book—Splits Book—Clearing Book—Petty Cash Book—Trial Balance—Transfers Delivered and Transfers Received Books—Registration and Certificate Book—Scrip Book—Jobbers' Books

THERE are several other important books to review which, like most of those examined in the previous chapter, are necessary to the accountancy side of Stock Exchange business. Probably the most important is the

Cash Book

Cash Books are common to all businesses, and, as those used in Stock Exchange offices are similar to those used elsewhere, it is not necessary to reproduce the ruling. In practice many firms find it convenient to have one Cash Book for "Receipts" and another for "Payments." This method allows greater freedom for posting, as the Cash Book is usually in great demand in an office. In no business are so many banks simultaneously employed. It is not unusual for Stock Exchange firms to have current accounts with most of the well-known banks. The method of using these various current accounts must be left to individual requirements, but the system of recording the transactions is practically identical. If a firm has a number of banking accounts in active use, and also employs separate books for "Receipts" and "Payments," it will be clear that great care must be exercised to see that cheques drawn on or paid to a particular bank are duly recorded in that particular bank's Cash Books. If five banks are used, no less than ten separate Cash Books may be in evidence. Cash Book bindings, therefore, should clearly indicate both by colour and print to which institution they belong. There appears little reason why loose leaves should not be used for Cash Books, particularly as the banks themselves have adopted this system for their Pass Books; but many firms prefer to keep to the old bound Cash Book, and often have only one in which are recorded cash movements, both in and out.

The elementary rule of book-keeping holds good—debit all incoming cash in the Cash Book, and credit all cash which goes out. Although perhaps a good deal of space will be wasted, it will probably be found best to employ double cash columns. This will enable a cheque to be dissected where a payment is made for more than one item. For instance, it is not unusual for several transfers to be delivered to or received from an individual firm in one day, and for one cheque to be drawn in payment for all. In such a case the individual items would be entered in the first of the cash columns, the total of the cheque being carried out to the second column.

All entries in the Cash Book should be legibly and carefully recorded. Cash receipts should be added up to agree with the totals of each "paying-in" slip to the bank, and this amount (which is not wanted for posting purposes) recorded at the side, say, in red at the line where the cheques comprising the total finish. This cash total is important, and will be required when in due course an agreement is sought with the Bank Pass Book. Country cheques should be entered separately, the total of these being kept distinct from those of Metropolitan and Town clearing cheques. A "C" entered on Country cheques will distinguish them from Town and Metropolitan clearing cheques. All entries in the Cash Book, as with other books, should be in ink, and, although daily totals or "carry forward" figures may be temporarily filled in in pencil, these should be replaced by ink as soon as possible. Cash payment entries should be cast up at the end of each day, and a balance struck between receipts and payments to ascertain the cash position with each individual bank at the close of every day. It will be found a useful practice to keep a careful record of these daily balances, as, although they will not agree exactly with the position at the bank owing to "uncleared" amounts, the aggregate over a period will be found to be approximately correct.

The entries that make up the cash receipts will be posted in due course to the credit of various accounts. Clients' cheques or cash will be credited to the Clients' Ledger. Cash received for registered Stocks delivered will be posted to the credit of the Tickets Received Book. Differences will be posted to the credit of the respective accounts in the Jobbers' Ledgers.

Other amounts, such as commissions, brokerage, and dividends, will be taken to appropriate accounts in the Private Ledger and Dividend Book. It is as well to note where short payments are made for securities delivered. If the cause of such short payment is a dividend or other legitimate deduction the difference can be agreed, and the entry made later in the Dividend or other Book. If the short payment is due to an error an adjustment can be claimed.

The posting of the entries from the cash payments or the credit side of the Cash Book is similarly dealt with. Cheques sent to clients or paid to their credit are debited to their respective accounts. Cash paid away for registered securities is debited to the Tickets Passed Book. When payment is being made for registered securities the number of the Ticket should be entered on the cheque counterfoil. This Ticket Number, when copied into the Cash Book, enables a rapid trace to be made when the item is posted, and a column will be found in the Tickets Passed Book for this number. Payments for differences will be debited to the various principals, and amounts paid away for dividends, stamps, half-commission, and numerous other distributions will be taken in due course to the debit of individual accounts affected.

Periodically an agreement should be made with each bank, and at least once an Account a "Reconciliation Statement" entered at the foot of the Cash Book. The method of arriving at this reconciliation is to "close" the cash on a given date. After this date no further entries are made for this particular period. The Pass Book or the Pass Book sheets should then be sent for and each individual item ticked over with the Cash Book. When all the entries in the Bank Pass Book are verified with the Cash Book, an extract can be made of (1) cheques or cash entries for which credit has not yet been received, and (2) a list of cheques which have been drawn, but which have not yet passed through the bank. The main source of the items falling under (1) will be Country cheques which take about three days to clear, while under heading (2) will appear cheques sent away to the country, or amounts drawn but kept back for a special purpose. The reconciliation in the Cash Book will read thus, presuming the cash to be closed on this date:

1949		£	s.	d.	£	s.	d.
20th April	To Balance as per Cash Book				11,251	5	2
	Add cheques not yet presented—						
19th April	Ambrose, J.	1,330	10	–			
	Forbes, F.	268	5	3			
20th „	Manning, W.	1,019	5	–			
	Ritchie, R.	333	14	5			
					2,951	14	8
	Total				14,202	19	10
	Deduct amounts not yet credited						
18th April	Horniblow & Co.	550	10	–			
	Macintosh & Co.	23	13	3			
	Murphy, J.	103	2	6			
					677	5	9
20th April	To Balance as per Pass Book				13,525	14	1

When this reconcilation has been made, it can be taken that there is agreement between bank and principal. Cheques that have been cleared can then be put away, care being taken to see that they are carefully collated, that is, reassembled numerically in order that reference can be made to them in case of need with a minimum expenditure of time.

Private Ledger

This is an ordinary ledger kept for the purpose of recording the private details of the business. Usually the volume is under lock and key, the latter being in the partners' keeping. The entries in the Private Ledger are usually made by one of the principals or the manager, and relate to matters such as Partners' Capital, Partners' Drawings or Stock accounts, Profit and Loss, Income Tax, Salaries, General Expenses, and other accounts of a similar nature. The ruling of this book is in all respects identical with that of an ordinary ledger, and it is therefore not necessary to illustrate the pages. Entries that will be posted here at the end of each Account will be the totals of commissions from the Bought, Sold, and, when in use, the Contango Journals. If accounts relating to stamps and fees and contract stamps are kept in this ledger, then the respective amounts from these journals are credited to each account, the *contra* entries being the sums paid out through the Cash Book. Stamp and other such accounts of less personal a character are often kept in a subordinate book, which may be known as a

Sundries Ledger

In this book can be entered, in addition to stamps and fees, etc., accounts relating to commission returned to agents. The many small items which make up the general expenses total, such as postage, printing, stationery, and other headings can also be posted here to be later transferred to the General Expenses Account in the Private Ledger. As the ruling is uniform with other ledger accounts, it is not necessary to give an illustration, but a few words are necessary on the subject of the

Stamp and Fee Account

It was probably noticed that the total amount which goes to the debit of clients' accounts through the Bought Journal is not posted to the credit of the Jobbers. The difference between the gross and net totals of the Bought Journal consists of three items: (1) commissions, (2) stamps and fees, (3) contract stamps. The first-mentioned is taken to the credit of the Commissions Account in the Private Ledger, and the third to the credit of a Contract Stamp Account, preferably in the Sundries Ledger. The second is similarly posted to the credit of a Stamp and Fee Account, and also kept in the Sundries Ledger. This credit entry from the Bought Journal is nominally balanced by the debit which is posted from the total of transfer stamps in the Tickets Passed Book. In simple terms it is the amount collected for stamps from clients through the Bought Journal and paid out to the sellers who deliver the deeds, who have temporarily paid out the sums for those stamps. There remain the fees which are paid out through Petty Cash when the deeds are registered with the respective companies. These payments for fees are debited to the Stamp and Fee Account when the Petty Cash Book is ruled off.

Another large amount which is taken to the Stamp and Fee Account is the total of transfer stamps from the Tickets Received Book. This amount is taken to the credit of the Stamp and Fee Account, to be offset by the sum paid usually by cheque to the Inland Revenue for transfer stamps. This amount again is cash temporarily paid out when the deeds are prepared, and it is collected from the buyers as and when the deeds are delivered and paid for.

Other large items which are posted in this account are the transfer stamps on transactions for country Brokers and other agents. No provision is made for levying stamps when "net" contracts are rendered, and it is necessary therefore—

(1) To debit country Brokers' stamps in respect of all registered securities finally "taken up."

(2) To credit them with stamps where registered securities are delivered.

With regard to item (1), these are sums paid out by the sellers and claimed from the buyer on delivery. As the sums are paid out on the country Broker's behalf, they should be debited to his account and the sum posted to the credit of the Stamp and Fee Account.

With regard to item (2), these are sums actually paid away by the country Broker when the transfers are prepared, and are collected from the buyer on delivery. The amounts should therefore be credited to the country Broker and the corresponding debit posted in the Stamp and Fee Account. The question of fees does not arise, as country Brokers usually do their own registration.

The Stamp and Fee Account will usually have a floating balance, as, apart from the entries just referred to, numerous fee adjustments from the Ticket Books find their way into this account.

Dividend Book

This is a book drawn up in ordinary ledger form, but is smaller and more easy to handle. With the exception of entries for "calls," it is kept strictly to the title which it bears. In the Dividend Book are entered all dividends, the two sides denoting the source and the destination of the amount. Headings are opened with the name of the Stock or Share, and, as the object is to complete all amounts which arise for settlement, it is wise to give brief details following the heading which points to the dividend in question. The dividend required for the credit of Mr. Jones's account on 500 Shell Transport (see page 362) would be debited to Gusher & Co. through the Dividend Book at the Settlement during which the price goes "ex," and the amount is credited to the client mentioned. If the purchase of the 1,000 Maypole Deferred was made for

Mr. Jones "cum dividend," and when the transfer was delivered the dividend was deducted from the seller because Mr. Jones could not be registered in time to receive it direct from the company, this amount would be taken to the Dividend Book, and thence to Mr. Jones's credit. The actual entry would appear in the Tickets Passed Book, where the payment to the Jobber for the Shares would fall short of the sum on the credit side of this Book by the amount of the dividend. If, when the Maypole Deferred Shares were delivered, it was not possible to deduct the dividend, which, however, was still due from the seller, a claim would be made out and rendered to the latter. In such a case this should be entered in the Dividend Book (a constant reminder that the amount was outstanding) to be finally cleared when the cash was paid. When the cash payment is made, a folio can be given to the entry.

The entries from the Tickets Received Book to the Dividend Book can also be simply explained. If Mr. Jones had sold the 1,000 United Dairies "cum dividend," the buyers, assuming they were unable to register in time, would if possible deduct the dividend on delivery of the transfer. The amount of the cash received which is posted to the credit of the Tickets Received Book would fall short of the amount extended to the debit of this book by the amount of the dividend in question. Instead of taking this sum direct to the client's account, it is taken to the debit of the Dividend Book, folioing against the Tickets Received Book, the *contra* entry in the Dividend Book being taken to the debit of Mr. Jones's account. All dividends are thus brought and kept together in the Dividend Book for easy reference. It follows that, when contangoes are open for principals who are "bulls" or "givers," dividends go to their credit, as they are the virtual security owners. With principals who "take in" Stock—the opposite transaction to "giving"—the dividend entry, should one be necessary, will be to the principal's debit, the *contra* credit being due to the person or firm who are "giving on" the security.

All Dividend Books contain a Suspense Account. To this account are transferred sums which may be in dispute, or items which are awaiting claims. We have previously referred to dividends as being an involved subject, and the fact that it is a simple matter for a dividend claim to be overlooked is

shown by the fact that many firms have a Dividend Suspense Account which, in the aggregate, amounts to a considerable sum.

Splits Book

This is a small book designed, like the Dividend Book, to bring to account the small deductions made, and amounts claimed in respect of loss incurred through the "splitting" of Tickets. The loss brought about by "splitting" has been referred to on pages 226–7, and the manner in which it arises for treatment can be seen by the following example. The Ticket issued through the Tickets Passed Book for Mr. Jones's 1,000 Maypole Deferred is "split" by the Jobber into five Tickets, as the Jobber bought five lots of 200 Shares. When these five transfers are delivered, it is certain that a loss has been incurred, as, apart from the four additional registration fees, the amounts payable for the several transfer stamps will almost certainly outweigh the amount to the credit of the Tickets Passed Book. It will therefore be necessary to credit the Stamp column with the amount of the difference involved, such amount being taken to the debit of the Jobber through the medium of the Splits Book.

When all Tickets relating to one Stock or Share purchase are delivered it is the practice to assemble them and attach a claim showing the amount of the loss. This amount is entered to the debit of the Jobber concerned through the Splits Book, to be offset by the cash when the loss is recovered.

Clearing Book

The purpose and usefulness of the Clearing Department are explained in Chapter XI. It will be easy to see that, if this department intervenes in the process of passing Names, it will be necessary to bring to account all the items with which that department deals. For this purpose, therefore, the Clearing Book exists. In it are recorded all entries which are found on the Clearing Sheet which is sent to the Settlement Department. The simplest way to enter up the Clearing Book is to copy the actual particulars from the Sheet before the latter is sent in, the items in every instance to be entered on the *opposite* side to which they appear on the Clearing Sheet. Bought bargains, therefore, the figures on the left or TAKE side of the Clearing Sheet, are entered on the right of the Clearing Book; sales

are just the reverse—right of the Sheet, left of the Book. The ruling of the book is that of an ordinary journal, and headings are opened with the name of the security concerned. A Ticket for the balance of the Stock or Shares shown by the Clearing Sheet is dealt with through the Tickets Passed or Received Book in precisely the same manner as is the case with a security that does not clear. A simple example will throw light on this book entry.

Mr. Cotton has purchased 500 Sudan Plantations from B. Spinner, and Sudan Plantations is a security which "clears."

This is how the List Book appears (see page 359)—

SUDAN PLANTS

500 Spinner, B	Cotton, A 500

This is how the Clearing Sheet shown on pages 238–9 would appear—

SUDAN PLANTS

To Take Stock of	To Deliver Stock to
Spinner, B 500	

This is the entry in the Clearing Book—

SUDAN PLANTS $2\frac{1}{2}$

7th April, 194.

500	C.H.	T.P.	1,250	–	–	500	Spinner B.	J.L.	1,250	–	–

The price by the side of the Share is the "making-up" price at which all securities that "clear" are worked out. This working out can be done as soon as the "making-up" price is known. A glance will show that the Clearing Book entry will be posted to the debit of B. Spinner's account to meet the credit posted from the Bought Journal when the bargain was done. Mr. Cotton's Name will be passed to the Clearing instead of to B. Spinner, and the Name will be entered to the credit side of the Tickets Passed Book to folio with the debit in the Clearing Book. The Clearing Book entry for Sudan Plantations is thus closed. When the Shares are delivered by the seller they will be paid for through the Cash Book, and the credit in the Cash Book posted to the debit of the Tickets Passed Book, thus closing the entry there.

The entries required to clear the sale of £1,000 Canadian Pacific Debenture, which figure in our List Book, would be simply the reverse of the above in each instance. The final entry in the Clearing Book would show an item to be posted to the credit of Pullman & Co.'s account to meet the debit from the Sold Journal when the bargain was done. The Name received from the Clearing Department would folio from the debit of the Tickets Received Book to the credit of the Clearing Book, thus closing the entry there.

When Mr. Sleeper's Stock is delivered, the cash received will be posted from the debit of the Cash Book to the credit of the Tickets Received Book, thus closing this entry.

All items that are "cleared" are thus treated, no matter how extensive is the List concerned. The Clearing Book is self-balancing, that is to say, no difference should appear when the two sides are added. The extension of broken amounts will sometimes result in pence disagreements, but these can be written off to the Jobbers' Ledger Profit and Loss Account.

Petty Cash Book

It is hardly necessary to give an illustration of this book, various kinds of which are designed to meet requirements. An analytical ruling will be found helpful. In the first column can then be entered the total of or various amounts paid away each day; the other columns being designed to show for what purpose each amount was expended, in other words, for dissecting. The amounts paid away may fall under Postage Stamps, Contract Stamps, Registration Fees, Salaries, or one of the numerous items too small to warrant a cheque being drawn. Differences under £1 are sometimes paid through Petty Cash, in which case each separate payment requires a separate folio. Otherwise, all totals expended under the headings mentioned will be debited when the cash is closed, postages to Postage Account or General Expenses Account, contract stamps to a special account in the Sundries Ledger to be balanced by a credit from the Bought, Sold, or Contango Journals, registration fees, as mentioned, to Stamp and Fee Account, salaries to the appropriate account in the Private Ledger, while the sundry expenses will probably find their way to the debit of an account such as General Expenses.

The total of the first column of the Petty Cash Book will, of course, be posted to the credit of a Petty Cash Account kept in either the Private or Sundries Ledger. The debit entry for the Private or Sundries Petty Cash Account will be cash drawn from the bank for petty cash purposes. As each day's expenditure is analysed, it will be seen that the Petty Cash Book is also self-balancing.

There are other books used for the smooth working of a Stockbroker's office, but the twelve we mention—Bought, Sold, and Contango Journals, Clients', Jobbers', Private, and Sundries Ledgers, Cash, Tickets Passed, Tickets Received, Dividend and Splits Books—are all that are necessary for a proper accounting of the transactions common to the business.

Any of these books can be extended to meet requirements. Some of the books possibly could be amalgamated. It is not claimed that the books outlined are the best designed for all individual requirements. It is claimed, however, that they are simple and efficient. If properly kept, they record the facts and reveal the figures, which is what is required.

From the foregoing books it is possible at any time to prepare a

Trial Balance

In practice, the preparation of the Trial Balance is usually done once each Account. "Finding the Balance" has passed into acceptance as one of the terrors attaching to Stock Exchange existence—a nightmare which turns up with monotonous regularity, to be dispelled only by concentration, excavation, and research. In busy times much midnight oil is burned, and tobacco as well, while books are examined as if great issues were at stake. Sounds of revelry proceeding from Stock Exchange offices, which might easily indicate some epoch-making event, often arise from nothing greater than the location of an elusive penny, which has held a whole staff captive until its discovery. Actually, the balancing of an Account's work should be a simple matter, the human element being always responsible when difficulty is encountered. What throws a Trial Balance out is either an error in posting, which is often due to a bad figure, or carelessness either in addition or in extraction. However simple the system in use, mistakes

do creep in, but accuracy and clear figures make the task of balancing easier and the detection of errors less tedious.

The Trial Balance is simply a "roll call" or stock-taking on a given date to see that all the double entries employed in the books agree. On this given date, usually a week after the Account Day, the cash is closed. This is a signal for all books to be ruled off, no further entries to be included in the period which is to be balanced. Cash Book and other entries, of course, proceed, but these will refer, and be entered, to another accounting period as far as the "Balance" under review is concerned. The period of one week from the Account Day will give fair time for the bulk of securities dealt in to pass, and obviates a large number of balances appearing in the books. Ruling off the books at this period also finds the staff free from the duties involved during the following week, when the details of the next Settlement are in full swing. All accounts having been ruled off, each department extracts on to sheets of foolscap the balances outstanding or items that are unsettled in the various accounts. It follows that all book entries must be posted. For instance, if items appear in the Bought or Sold Journals which refer to the Private Ledger, and at the time the Trial Balance is prepared these are unposted, the unposted items must be taken out as balances. Temporary entries in the Jobbers' Ledger made for the purpose of agreement at time of checking the account must also be properly posted before the balance is taken out. When all entries are posted, totals such as Commissions, Stamps, Fees, and Contract Stamps must be taken from the Bought, Sold, and Contango Journals to the Ledgers. The totals of Stamps are also carried from Ticket Books and country Brokers' accounts to the Stamp and Fee Account as explained. With all Dividend Book and Splits Book entries completed, the various balances can then be extracted. The balance of cash will appear on the debit side of the Trial Balance Sheet; the balance of the Private Ledger, containing the principals' Capital Accounts, and other items, will appear on the credit side. The total of all the Clients' Ledger balances will appear on the debit or credit side of the Trial Balance Sheet as the case may be, which remark applies equally to the Jobbers' balances. Outstanding balances of the Tickets Passed will figure as a credit,

Tickets Received balances as a debit. Sundries Ledger and Dividend and Splits Books will show their own balances, which also are included. When all the totals of these various balances are brought together on the Trial Balance sheet, the two sides, debit and credit, should agree. If they do not, then the "Balance" is out, and the intensive search begins.

Many firms employ accountants to attend to the matter of balancing their books. Others introduce rulings to the Cash Book which segregate Clients' and Jobbers' items with a view to locating at once the direction of any disagreement at the time of balancing. Most firms rely upon their own staff, and careful checking of totals and calling over of items proceed apace until the balance is found. "Ticking" and "cross-ticking" are terms employed when entries are verified, and varied coloured pencils are sometimes employed where the task of balancing is found to be a stubborn one. "Cross-ticking" is only necessary when an error has been passed, which is not looked upon with favour by the rest of the staff when eventually the mistake is discovered. Finding the "Balance" is always a matter of satisfaction to all, but in busy times it is not unusual for an office to get behind with the process. This is undesirable, as it is necessary to know that all entries are properly made and all accounts accurately kept. Hence the expenditure of time and energy to bring about accomplishment of the "Balance."

Here is an imaginary front sheet of a Trial Balance on which are assembled the balances shown in detail on numerous other foolscap sheets—

10TH APRIL, 194.

	£	s.	d.	£	s.	d.
Cash	15,258	10	9			
,,	14,289	8	3			
,,	12,117	12	10			
,,	5,320	5	1			
Private Ledger				41,888	11	10
Clients' ,,				57,172	17	9
Jobbers' ,,	61,933	13	11			
Sundries ,,				540	14	11
Tickets Passed				39,808	12	5
,, Received	32,152	19	1			
Dividend Book				1,684	15	6
Splits	23	2	6			
Total £	141,095	12	5	141,095	12	5

It will be noticed that the above Trial Balance sheet, which

has four separate banking accounts, is balanced. Were the two totals of debit and credit not exactly alike, the accounts, or the extracts of the accounts, would be unbalanced. Should the "Balance" "come out" at the first trial—that is, without any disagreement—it might still be desirable to check over the individual book entries, if this had not been done, in order to eliminate the possibility of compensating errors. When a "Balance" is "out," the composition of the amount of the disagreement will sometimes give a clue to the whereabouts of the mistake, and an intelligent searcher will concentrate in a particular direction speedily to discover it. It will be found in practice that the amount that a "Balance" is "out" may be composed of several omissions or mistakes. Any error, therefore, that is discovered is a contribution to the final reconciliation, and must be adjusted directly, the new amount that is left being then the object of fresh attention. Ten shillings is a bad amount to be "out" because it may occur anywhere. Odd pence disagreements may be found in almost any account, except that for stamps and fees where items made up of half-crowns will first of all be sought. A common cause of disagreement is through alterations being made after an item has been posted, while the extraction of a balance on the wrong side of the Trial Balance sheet will often prove elusive, unless the amount is large enough immediately to engage attention. Spotting the balance in normal times is judged by all a pastime; in abnormal times, when the search is long and unproductive, it is voted a punishment.

Finding the balance is, however, recognised to be a necessary evil, and when the last disagreement is finally unearthed the finder is as popular with his colleagues as the person responsible for the anxiety and extra work is the reverse.

Transfers Delivered and Transfers Received Books

Other books, like the List Book and Checking Book, which are kept for the process of recording alone and which have no bearing on the accountancy side, are the Transfers Delivered and Transfers Received Books. These are designed purely to record the outgoing and incoming transfers, with columns in which are entered important details, such as names, dates, and Share numbers. The two rulings are given on pages 392–3.

Registration and Certificate Book

To provide for the stages in connection with registration of transfers, and the collection and dispatch of certificates to clients, the Book outlined on page 394 is valuable. It enables a clerk to see at a glance what documents are outstanding, until a bought transaction is finally closed.

Scrip Book

In connection with all forms of bearer securities a Scrip Book is used (see page 395). The column headed "Name" will only be required in cases where the Shares or Bonds are in a registered name. As all bearer securities must now be lodged with an Authorised Depositary the column "To whom delivered" can be used when effect is given to a Client's instruction. Books for New Issues, Underwriting, Postage, Limits, Rights, Coupons, and also for entering up securities held in safe custody for clients (such entries being posted to what may be termed a Box Account), give further assistance in the keeping of proper records. These books, together with statistical cards which can be adapted to embrace every phase of the business, Clients' Card Index, reference books, Comptometers, copying processes, filing cabinets, and the ubiquitous tape machine, all combine with the telephone, cable, and telegraph systems to furnish a well-equipped and up-to-date Stockbroker's office.

Jobbers' Books

Less space is wanted to set out the books that are required for the recording and accounting of a Jobber's transactions. The absence of clients renders unnecessary several books which Brokers keep for their transactions, but most of the books we have mentioned can be and are used in Jobbers' offices. It is just as essential for a Jobber to keep his accounts accurate and straightforward as it is for a Broker to do so. For this purpose the following books are required—

Cash Book,
Private Ledger,
Jobbers' Ledgers,
Ticket Books, and
Journal.

Only one of these calls for mention, and that is the Journal. As far as trading is concerned, this is the Jobber's principal

TRANSFERS DELIVERED

Sent for Signature	Stock (Give distinctive numbers of shares)	Transferor		Transferee	Delivered to	When Delivered
		Name	Address			

TRANSFERS RECEIVED

When Received	Stock (Give distinctive numbers of shares)	Received from	Transferor	Consideration	Transferee		Sent for Signature	Date Returned	Regst. Folio
					Name	Address			

REGISTRATION AND CERTIFICATE BOOK

T.R. Folio	Stock		Client	Date Regd.	Fees			Receipt number	Date Received	Sent to Company	Certificate Received	Sent to Client	Acknowledged by Client

SCRIP BOOK

Date	Security	From Whom Received	To Whom Delivered	Name	Numbers	Coupon

book, and takes the place of the Bought and Sold Journals used by the Broker. The Journal is designed to show, as will be seen in the illustration, the "turn" which is made between the buying and selling prices of all securities in which a Jobber trades. Separate journals can be kept for separate Stocks or separate pages reserved in one book, whichever in practice is more useful. Entries are similar to the Jobbing Book, purchases being entered on the left-hand side and sales on the right. Entries are then posted to the Jobbers' Ledgers, to be balanced by entries from the Ticket Books or bargains entered from the other side of the Journal. On page 397 is a simple form of Journal ruling.

Bargains are entered in the Journal either from the Checking Books or the Jobbing Books. If necessary the Journal can be used to enter up contangoes. This can be done by posting the contango from the List Book first in the current Journal to close an open position before Tickets have been passed, and, secondly, on the opposite side of the Journal in the new Account with the addition of the rate agreed upon.

At the close of the Account each side of the Journal should agree so far as securities are concerned. If the sides do not agree, it means that the Jobber is either "long" or "short" —a "bull" or a "bear." In such a case it is necessary to carry forward the uneven position at a price which offers protection. In other words, securities that have depreciated are written down, and those that have appreciated are taken at a reasonable or realisable figure. For this purpose the "making-up" price provides the fairest medium and is usually adopted when such price is in existence.

The difference between the two "Amount" columns of this Jobber's Journal will then represent the profit or loss resulting from the Account's trading, and this will be taken to the firm's Private Ledger.

The Trial Balance is taken out at intervals, the same intensive search being instituted as in the case of Brokers if it is found that the "Balance" is "out."

As stated, the books necessary to a Jobber are probably less elaborate than those needed by Brokers, but others will be required for recording numbers and other important particulars. Those we have indicated will probably be found sufficient

JOBBER'S JOURNAL

Date	Nom. Amount	Name	Price	Folio	Amount	Date	Nom. Amount	Name	Price	Folio	Amount

for a Jobber's ordinary requirements, and can be adapted if additional information is to be recorded.

A final word on the subject of recording and accounting of transactions will apply with equal force to Broker and Jobber alike. The work of the office is tremendously important. A Broker may have good connections disturbed by shoddy recording, and unbalanced accounts are a menace and an anxiety. The large business done by important firms of Jobbers could never be carried through without disaster if similar high standards of efficiency were not recognised. All details of an office should be under careful supervision. A set of books well kept is an insurance against costly mistakes. Principals are better satisfied when documents reach them fully and neatly addressed with instructions clearly set out and easy to follow, making all such communications a pleasure to handle. These and similar details are possible only when proper machinery exists for use. But, even so, there enters the all-important factor, THE MACHINIST, on whose craftsmanship or lack of it, after all, depends whether the machinery runs with smoothness or breaks down through absence of interest or want of personal pride.

CHAPTER XVIII

PAST AND PASSING

COFFEE Houses—Old Royal Exchange—Denunciation of Stockbrokers—Some Strange Promotions—Early Price Lists—Brokers' Medals—Foundation Stone of the Stock Exchange—Original Deed of Settlement—First Committee—List of Trustees and Managers—List of Chairmen—The First Rules and Regulations—Royal Commission of 1877

THE roots of this strange profession go down deep. Although in 1801 the Foundation Stone of the present building was laid in Capel Court opposite the Bank of England in Bartholomew Lane, the business of dealing in Stocks and Shares was well established long before that date.

Coffee Houses

It is known that dealers used to foregather in the coffee houses of Change Alley, Cornhill. Indeed, one of them—"New Jonathan's"—was actually called The Stock Exchange, the name being "wrote over the door," and sixpence daily charged for admission. This was in 1773, a date adopted by reference books as the year the Stock Exchange was founded. Here was conceived the idea to establish a more commodious meeting place where these merchants could deal in the values in which they traded. Here, probably, it was that "waiters," plying their trade, and seeking out from the interior fastnesses of these refreshment rooms some particular Stock-jobber wanted by his client, gave the name to the uniformed "waiter" who calls the Members within the walls of the present Stock Exchange. We know not when coffee was introduced for the delectation of London's citizens (probably it was about 1666, when at least we can be sure that it was well roasted), but this much can be said: the coffee tradition has been maintained, for, despite the competition of stronger beverages, it still holds sway among Stockbrokers. There is still a "bar" within the precincts of the Consol market, an echo of the place at which Stock dealers could usually be found, but on it no liquor stains can now be traced, and the only people "called" to it are claimants for lost property, registered letters, etc.

This book is not a "history," but the student will sooner or later develop, if he does not already possess it, an intense interest in all matters touching the historical life of London. He will have a rich field for exploration, as in few cities of the world are ancient customs so revered, institutions so carefully preserved, and traditions so held in veneration. In his search among the valuable blue enamel plaques which the Corporation with commendable foresight have dotted over the City, giving location to historic spots, the student may light upon one on the front of the Mansion House, the wording of which is as follows—

Adjoining this Spot stood the
Stocks market
1282–1737

and while he may be sure that in those days products of the soil and works of the hand were the "Stocks" which then were marketed, he may not be far from the derivation of the word which has come in later centuries to be applied to the securities in which investors and others now deal.

Old Royal Exchange

The coffee house era for Stock dealers was roughly 1700 to 1800. Prior to this they met in the old Royal Exchange—not the present one so often mistaken for the Stock Exchange. This, we will say, was in 1600, but records show that Brokers were known as early as the reign of Edward III, 1327–1377. Towards the end of this period a Parliamentary statute laid down that "No stranger merchant, nor other stranger shall use or exercise the occupation of 'Brocage' within the City of London," but just what this occupation implied it is difficult precisely to define.

As is probably well known, there have been three Royal Exchanges in London, and the home of Stockbrokers and Jobbers has never been far removed from this base. Indeed, the first and the second buildings each in turn housed, among other traders, those whose business was the exchanging of Stocks and Shares. Whether the place was too "hot" for Stockbrokers we are not told, but we do know that both buildings were

completely destroyed by fire. In the second Royal Exchange opened in 1669, these early merchants appear to have rubbed shoulders with all and sundry, for we find in the late Mr. Duguid's intensely interesting history written for the Stock Exchange Centenary souvenir, and printed separately as a book under the title of the *Story of the Stock Exchange*, a reproduction from an old print showing how the building was divided up into separate "walks," much the same as our modern Stock Exchange is divided into separate markets. Thereon are seen on the north side amongst others an Irish Walk, a Dutch and Jewellers' Walk, a Scotch Walk, a Clothiers' Walk, and a Salters' Walk; on the south, Virginia, Jamaica, Spanish, and Jews' Walks; on the west, Norway, Silkmen's, East India, and Grocers' and Druggists' Walks; while on the east can be seen French, Italian, American, Portugal, together with "Brokers, etc., of Stocks" Walks. "We are told," proceeds the narrator mentioned, "that the Stockbrokers caused the walls of this Royal Exchange to resound with the din of new projects, and that no more striking scene could be conceived than that presented in the handsome area. The grave Fleming might be seen making a bargain with the earnest Venetian. The representatives of firms from every civilised nation—the Frenchman with his vivacious tones, the Spaniard with his dignified bearing, the Italian with his melodious tongue—might be seen in all the variety of national costume; and the flowing garb of the Turk, the fur-trimmed coat of the Fleming, the long robe of the Venetian, the short cloak of the Englishman were sufficiently striking to attract the eye of the painter to a scene so varied."

Whether the natural tendency of Stock dealers to lift up their voices in pursuit of their calling was out of keeping with the dignity of the Royal Exchange, or whether they outgrew the "Walk" allotted, we find pressure being brought to bear upon them to seek other quarters. We afterwards find them definitely located in and around Change Alley; later, they were housed in a building at the corner of Threadneedle Street and Sweetings Alley, opposite the present Threadneedle Street Post Office.

Here, it is fair to say, they had a bad Press, if the impression left with a writer who visited them there is any criterion.

According to Mr. Duguid, this is what the writer heard, and the opinion he formed of this fast-growing profession—

> The noise of the screech owl, the howling of the wolf, the barking of the mastiff, the grunting of the hog, the braying of the ass, the nocturnal wooing of the cat, the hissing of the snake, the croaking of toads, frogs, and grasshoppers—all these in unison could not be more hideous than the noise which these beings make in the Stock Exchange. I know not what species they belong to, whether fish, men, birds, or beasts. A Stock jobber is called a bull and he is also called a bear. . . . I know not why the jobber who contracts to buy is styled a bull, except that he appears, when a loser, as surly as that animal: the term can have no classic origin, as these beings are in general illiterate and have never heard of the bull offerings to Apollo. From the structure and aspect of the bear as described by the French academists, this creature may somewhat resemble the unsuccessful Stock jobber, by the heaviness and gloominess of his appearance.

The Denunciation of Stockbrokers

This provides an interesting study, particularly as some misunderstanding as to their function and practice persists till to-day. It seems hard to believe that in the City of London a Member of the Stock Exchange could in these latter days be seriously introduced as "one who regulated the price of bread," or that a client could look steadily at his contract note and innocently remark, "I wonder what they really did buy them at!" The writer can vouch for these happenings, and still remembers the drawing of "Cynicus" depicting the City man playing a harp, bearing the inscription underneath: "The Stockbroker in Heaven—He plays the Lyre still." This we do know, that early on Stockbrokers were the butt of abuse and criticism. We find Sir Robert Walpole roundly denouncing them in the House of Commons, at which time, early in the eighteenth century, the people believed Change Alley responsible for the increase in the National Debt, because Change Alley found the money. Like the tendency in uninstructed quarters to-day to ascribe financial setbacks to the machinations of Throgmorton Street, so was Change Alley then held responsible for a fall in Government Stocks, when the inward reason was some national misfortune. The explanation probably lay in the easy subject provided for censorious articles on the immorality of speculation, and the horrors of gambling,

which ready material was seized on by such writers as Pope, Steele, Swift, and Addison, who showered upon the unfortunate Brokers of that time their full invective. During this period appeared a work entitled *The Villainy of Stock Jobbers Detected*, to be followed by *The Anatomy of Change Alley*, "proving that scandalous trade, as it is now carried on, to be knavish in its private practice and treason in its Public." A further opinion of Stock-jobbing and Stock-jobbers expressed about 1715, it will be conceded, is certainly to the point—

> It's a complete system of knavery, founded in fraud, born of deceit and nourished by trick, cheat, wheedle, forgeries, falsehoods, and all sorts of delusions; coining false news, whispering imaginary terrors, and preying upon those they have elevated or depressed.

Present-day Stockbrokers we are afraid cannot console themselves with the thought that Jobbers only are thus pilloried, as in those early days no division of Broker and Jobber existed, and all dealers were then known as Stock-jobbers. Whether the dealers of those days deserved such flagellation it is not possible to say, but it must be remembered that it was then easy for rumour and panic to be engineered, as no public news service of any kind comparable to present-day facilities was then in existence. Rich was the reward in those days of persons possessed of early information, and great the temptation to make money without work, which vocation will always command an unscrupulous and eager following.

Some Strange Promotions

That opportunity for cynicism existed in those days can be seen by a glance at some early efforts at company promoting. The titles of these strange, and in some cases prophetic, companies are extracted from lists published about 1725 under the title of *The Bubbler's Mirrour of England's Folly*, and a fuller recital, together with the highest prices touched, is given in the volume of Mr. Duguid's book we have quoted. Among others we find quotations for—

Furnishing of Funerals.
Bleaching of Hair.
Insurance of Horses.
Radish Oil.
Fitting Ships against Pyrates.
Curing the Gout and Stone.

Italian Padlocks.
Extracting Butter from Beech Trees.
Japanning of Shoes.
Flying Engine.
Insurances of Marriage from Divorce.
Air Pump for the Brain.

A million pounds was said to have been asked for "to provide a wheel of perpetual motion," while another was for "trading in human hair," another to manufacture "square cannon balls," while still another was for the purpose of "importing jackasses from Spain to improve the breed of mules." Perhaps the crowning effort was that of the promoter who brought out a flotation whose object was "to carry on an Undertaking of Great Advantage, but Nobody to know what it is." The history of this unique offer was that a prospectus appeared asking for £500,000 in 5,000 Shares of £100 each, each Share subscriber to be entitled to £100 per annum on payment of £2 per Share application money. The lists appear to have been open long enough for £3,000 to be subscribed, after which they were peremptorily closed, together with the office of the unscrupulous promoter, who chose that juncture to decamp.

While we may smile at the titles employed in those early days, the effrontery of the vendors, and the cupidity of the then investing public, it is interesting to glance at some modern efforts at flotations. How, we wonder, will posterity regard the following companies, which have been brought out during recent years—

Waste Food Products.
Consolidated Fur Farms.
Blue Bird Holdings.
Anti-Dazzle Screens (Canada).
Seagoing Factories.
Harwood Self-winding Watch.
Catseye (Parent).
Greyhound Training and Breeding Kennels.
World Echo Records.
Colour Snapshots (1928).
Irving's Sea Vitoids.
Monolithic Concrete Houses.

It should be mentioned that some of the foregoing may have embodied exceptionally brilliant ideas, but as financial undertakings they have not proved successful.

Early Price Lists

The earliest List in the keeping of the Stock Exchange is dated 26th March, 1697. Since that date a continuous record has been kept. This original List is interesting; its style runs thus—

> The course of the Exchange—and other things. London. Fryday. 26th March, 1697.

and was printed for J. Castaing, a Free Broker at Jonathan's Coffee House. This List is on a single sheet about 10 in. long by 4 in. wide. It is clearly printed and contains in its couple of dozen price quotations two familiar names, "India Stock" and "Hudsons Bay." Quotations there are also for gold (not far removed from the standard price of to-day), silver, wheat, red and white rye, barley, oats, and cochineal. Lists were issued on Tuesdays and Fridays. The publisher, John Castaing, appears to have been the recognised *Official List* purveyor, despite an effort by one John Freke who in 1715 appears to have butted in, in an attempt to capture the custom of the day. His sheet was a broader one with a few more particulars, and runs as follows—

> Printed by H. Meere in Black Fryers for John Freke, Broker, at his Office over against Jonathan's Coffee House in Exchange Alley, who buys and sells Stocks and all Publick Securities and lends money on the same. He buys and sells any odd sum in Bank, East India, and South Sea Stocks.
>
> Any Gentleman on Notice may have this Paper left at his House every Tuesday and Friday for Half a Crown a Quarter.

Despite his enterprise, Mr. Freke does not appear to have been successful in ousting Mr. Castaing from his pitch, as about 1750 we find George Shergold, Broker, and the sister of the late John Castaing in partnership, issuing the Lists from an office in Popes Head Alley, Cornhill. John Castaing's sister seems to have valued her connection with the List business, as we find her next in partnership with Peter Smithson, Broker, and sending out their "Course of the Exchange, etc.," from the stationer's next to the General Post Office.

The date of this List coincides with the date of the introduction of

Brokers' Medals

Under the Act 8 and 9 William III, 1696–7, the Corporation of London were given control of persons acting as Brokers, who were licensed by the Court of Aldermen. The Broker had to produce on request a medal of silver with the Royal Arms engraven or stamped on one side, and the Arms of the City, with his name, on the other. The medals were the work of two well-known medallists, John Milton, Assistant Engraver to the Mint, whose designs were circulating till about 1802, and Benjamin Wyon, Chief Engraver of the Seals to George IV, William IV, and Queen Victoria, whose work was in evidence from 1802 onwards. To obtain a licence and one of these medals a bond for £1,000 and two sureties of £250 were required. This control was finally abolished in 1884 by—

> "An Act for the Relief of the Brokers of the City of London," 47 Vict. Cap. 3.

Two of these silver medals were presented by the Court of Aldermen of the City of London to the Stock Exchange in March, 1931, and at present hang in the Stock Exchange Council Room.

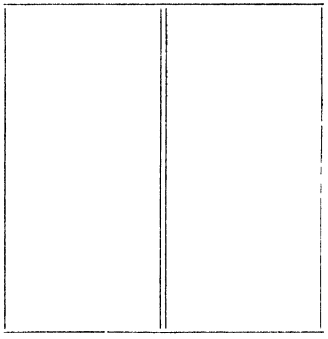
Foundation Stone of the Stock Exchange

While we are taking a backward glance at medals and the earliest List, we may mention that later, as we shall see by a visit to the foundation stone, Government Loans outstanding amounted to five hundred and fifty-two million pounds. In this connection it is of interest to note that the first forty-nine quotations of our present *Official List,* which give the larger part of our present outstanding internal Government Loans, show a twenty-threefold increase at a figure approximating to thirteen thousand million pounds.

Beneath the floor of the Consol Market, midway between the Boer War Memorial on the south wall and the Great War Memorial on the west wall, are stairs leading down to the Stock Exchange strong rooms. It was during the construction of these vaults that the original foundation stone was discovered. The history of the stone can best be learned from a reproduction of the words it contains. It was replaced in the

wall after a copper plate which it contained had been photographed. This is how the stone now appears—

FOUNDATION STONE OF THE STOCK EXCHANGE
Laid 18th May, 1801.



DISCOVERED APRIL, 1883 in this Wall, and found to contain only a Record Plate, which was replaced.

The division in the centre of the square stone is the metal-plate record which still rests in the original foundation stone. The words, copied from the photograph of this plate, read as follows—

On the 18th May in the Year 1801 and the 41st of the Reign of George III

THE FIRST STONE OF THIS BUILDING
Erected by Private Subscription
For the Transaction of Business in the Public Funds
was laid
IN THE PRESENCE OF THE PROPRIETORS
and under the Direction of

WILLIAM HAMMOND	*Managers.*	ISAAC HENSLEY
WILLIAM STEER		ROBERT SUTTON
THOMAS ROBERTS		JOHN BRUCKSHAW
GRIFFITH JONES		JOHN CAPEL
WILLIAM GREY		JOHN BARNES.

JAMES PEACOCK,
Architect.

At this Æra Being the first year of the Union between Great Britain and Ireland The Public Funded Debt had accumulated in five successive Reigns to £552,730,924.

THE INVIOLATE FAITH OF THE BRITISH NATION
AND THE PRINCIPLES OF THE CONSTITUTION
SANCTION AND SECURE THE PROPERTY
EMBARKED IN THIS UNDERTAKING.
May the Blessings of that Constitution
BE
Transmitted to the latest Posterity.

The Stock Exchange was opened in March, 1802, with a list of about 500 subscribers who were elected by ballot at a yearly subscription of ten guineas each.

The ten whose names are inscribed on the record plate can be called the Founders of the Stock Exchange. The last-named, John Barnes, was its first Chairman, which position was later held by two others whose names are found there, William Hammond and John Capel. The ten were also the first Trustees and Managers, with the exception of William Grey, who did not live long enough for his name to be included in the original Trust Deed of 27th March, 1802, as one of them who "shall hold the said office of Trustee and Manager during his life or unless or until he shall resign or refuse or shall by any of the ways hereinafter mentioned become disqualified to act therein."

Original Deed of Settlement

This Deed of Settlement of the Stock Exchange, dated 27th March, 1802, thus appointed nine Trustees and Managers. These were the pioneers who, according to the words of the opening page of the Deed, found that—

> Whereas the Stock Exchange in Threadneedle Street where the Stock Brokers and Stock Jobbers lately met for the transaction of their business having been found to be very inconvenient the said (then follow the names as above) came to a resolution to erect a more commodious building for the purpose.

Pursuing the wording, which is no more free from legal repetition because it was written over one hundred and thirty years ago, we light on the recitation of how the Trustees pulled down the old houses purchased by them in order to erect the Stock Exchange. The Trustees whose names are laid down as above

> . . . caused the greatest part of the messuages and buildings so by them purchased or agreed to be purchased, as hereinbefore is mentioned to be pulled down and upon the scite thereof and the ground belonging thereto caused to be erected a spacious building for the transacting of buying and selling the public Stocks or Funds of this Kingdom, and the same is now nearly finished and is called The Stock Exchange, and is intended to go under that appellation.

The original purchases of these Trustees appear to have been—

> three freehold messuages or tenements in or near New Court

in Throgmorton Street in the City of London and the pieces or parcels of ground held with the same respectively;

and

a piece or parcel of ground at the bottom of Capel Court;

together with

a good and sufficient lease of all that messuage or tenement and premises situate and being in Shorters Court in the said City of London;

and that the foundations were well and truly laid for posterity appears from the following extract from the early pages of the Deed, relating to part of the property acquired—

Now this Indenture Witnesseth that it is hereby mutually covenanted agreed and declared by and between all the said parties to these presents that [here follow the Trustees' names] their executors administrators and assigns shall stand seised and possessed of and interested in the freehold hereditaments limited to them the said [Trustees] their executors administrators and assigns for the said term of three thousand years as hereinbefore is mentioned and of and in their respective appurtenances for and during the said term of three thousand years.

During the one hundred and forty-seven years since those original purchases, extensive acquisitions have been made until, as mentioned in Chapter II, the undertaking now embraces practically the whole island site with Throgmorton Street, Old Broad Street, Threadneedle Street, and Bartholomew Lane as boundaries, the total area being roughly one acre.

First Committee

The Deed of Settlement we have quoted brought into being the Committee for General Purposes, and the names of the first Committee are therein laid down. In this connection it is interesting to notice that the first Committee for General Purposes appointed *included* the names of the Trustees and Managers.

That for the management and transacting the concerns of the said undertaking, the said

William Hammond	William Steer	Griffith Jones
John Bruckshaw	John Capel	Thomas Roberts
Robert Sutton	Isaac Hensley	John Barnes
	together with	
Philip Antrobus	John Bagwill	Thomas Cotton
Thomas Ellis	William Edwards	Thomas Halford
Charles Hiett Hancock	John Lambert	Charles Lawrence Lachlan
Robert Macintosh	Robert Podmore	James Pilliner
David Ricardo	John Spicer	Charles Steers

James Steers, Richard Smales, William Wood, George Walker, David Walters, Christopher Terry being thirty of the parties to these presents of the first and third parts and chosen by ballot at a General Meeting of the Proprietors held on the 8th day of the month of February last past shall be a Committee for General Purposes.

The distinction of being the first Chairman of the Committee for General Purposes fell, as mentioned, to John Barnes. He held office for three years. During this period he was also a Trustee and Manager, a position he held for thirteen years.

Since then the line of succession has been preserved until the merging of the Trustees into the Council of the Stock Exchange in 1948.

List of Trustees and Managers

The full list, giving the dates during which the office was held, is appended—

TRUSTEES AND MANAGERS

William Hammond	1802–1833	Edward Routh	1870–1881
William Steer	1802–1824	Sidney Vardon	1870–1881
Griffith Jones	1802–1809	Samuel G. Sheppard	1874–1894
John Bruckshaw	1802–1810	William Trotter	1874–1908
John Capel	1802–1833	Robert H. Bristowe	1874–1887
Thomas Roberts	1802–1823	Andrew K. Hichens	1881–1906
Robert Sutton	1802–1848	Lawrence J. Baker	1881–1887
Isaac Hensley	1802–1833	Alexander J. Scrutton	1881–1908
John Barnes	1802–1815	H. Doughty Browne	1887–1907
Francis Baily	1824–1833	Alfred L. Cohen	1887–1898
Charles Gibbes	1824–1846	Richard Winch	1887–1914
Robert Podmore	1824–1830	Edward Clark	1887–1915
Charles Laurence	1824–1833	Herbert W. Symes	1895–1919
Thomas Greenwood	1824–1842	Frederick G. Banbury	1895–1907
John I. Hensley	1833–1855	S. Ernest Kennedy	1900–1933
Robert Sutton, Jnr.	1833–1863	Edward Cazenove	1907–1924
Francis Wakefield	1833–1841	A. St. G. Mac. A. Laurie	1907–1910
Antony Hammond	1833–1843	Henry W. Henderson	1908–1931
John F. Maubert	1833–1849	Charles W. Trotter	1908–1927
William Amory	1833–1848	Alfred J. Waley	1910–1941
Harry W. Hitchcock	1843–1863	John A. Mullens, Jnr.	1910–1931
Robert Field	1843–1855	William H. Askew	1915–1924
James Capel	1843–1873	James A. Ross	1915–1920
Robert Hichens	1843–1863	William A. Barron	1920–1927
Henry Tudor	1851–1873	Edward L. Gosling	1920–1938
William H. Mullens	1851–1869	Eustace C. Mordaunt	1924–1938
George J. Steer	1851–1873	Sidney H. Ricardo	1924–1942
George Peckett	1863–1866	A. Ernest Baker	1927–1945
Percy Ricardo	1863–1870	Arthur G. Greig	1927–1947
Frederick Harrison	1863–1869	Hon. A. P. Henderson	1931–1931
Conrad Wilkinson	1863–1870	Sir Edward S. Cripps	1931–
Charles J. Brown	1863–1869	H. L. Urling Clark	1933–
Lawford Richardson	1869–1870	R. H. Twining	1933–
Thomas Biehl	1869–1881	W. R. Simpson	1938–
Edwin H. Lawrence	1869–1887	L. Smithers	1938–
Lionel Cohen	1870–1887	C. H. Frisby, V.C.	1942–
James H. Renton	1870–1895	L. Whittington	1942–

List of Chairmen

Following will be found the complete LIST OF CHAIRMEN together with the Deputy-Chairmen, the dates during which this important office was filled being also given—

COMMITTEE FOR GENERAL PURPOSES

Chairmen	*Year*	*Deputy-Chairmen*	*Year*
J. Barnes	1802	F. Baily	1811
S. Bilke	1805	M. Langdale	1815
W. Hammond	1806	I. Hensley	1815
S. Bilke	1807	W. Williams	1819
C. Laurence	1811	G. Wheeler	1820
S. Bilke	1815	F. Wakefield	1821
L. A. de la Chaumette	1815	C. Gibbes	1822
John Capel	1817	A. Baily	1823
J. Ricardo	1820	W. Hammond, Jun.	1827
C. Laurence	1821	G. Giles	1828
John Capel	1822	C. Corthorn	1832
C. Gibbes	1822	W. Hammond, Jun.	1833
F. Wakefield	1836	C. Corthorn	1835
C. Corthorn	1837	James Capel	1836
R. Hichens	1838	R. Hichens	1837
C. T. Pearce	1842	C. Hensley	1838
J. Hutchinson	1847	J. Hutchinson	1841
J. Norbury	1859	C. Cancellor	1847
F. L. Slous	1864	F. L. Slous	1853
G. Peckett	1865	J. Norbury	1853
M. Flower	1866	F. L. Slous	1859
S. H. de Zoete	1872	M. Flower	1864
S. R. Scott	1877	S. H. de Zoete	1866
J. N. Scott	1882	S. Underhill	1872
H. R. Price	1890	H. R. Price	1884
J. K. J. Hichens	1897	S. Underhill	1890
Sir R. W. Inglis	1907	E. A. Smith	1893
O. C. Quekett	1917	O. C. Quekett	1913
Sir Wilfrid Atlay	1918	E. W. Atlay	1917
Sir Archibald Campbell	1923	A. H. Campbell	1918
Sir R. B. Pearson	1936	H. F. Chamen	1923
		Sir R. B. Pearson	1933
		Sir R. P. Wilkinson	1936

COUNCIL OF THE STOCK EXCHANGE

Chairmen	*Year*	*Deputy Chairmen*	*Year*
Sir R. B. Pearson	1945	Sir R. P. Wilkinson	1945–46
H. L. Urling Clark	1947	H. L. Urling Clark	1945–47
J. B. Braithwaite	1949	J. B. Braithwaite	1946
		F. H. Doran	1947
		R. H. Twining	1949

The First Rules and Regulations of the Stock Exchange

to be recorded in permanent form were the result of the work of a sub-committee who were appointed—

To inspect the journals and papers of the Committee for General Purposes to make extracts of those rules and regulations there inserted, which they may think worthy of being preserved as the fundamental laws of this House, and to propose such new rules, or such alterations in any old rules as they may think ought to be adopted for the good Government and safety of the Members of this House.

This sub-committee, "in the execution of the trust delegated," immediately directed attention to a careful examination of the Deed of Settlement, from which they extracted all "such clauses as related to the subject under consideration." "These clauses have been retained in their original form," proceeds the report of the sub-committee, "and have been made the foundation of all the subsequent proceedings of your sub-committee." They next carefully examined all the minutes and records of the old Stock Exchange in Threadneedle Street, as far as the same were known to exist, viz. from the 19th December, 1798, to the close of that House in March, 1802, and likewise all the minutes and records of the present Stock Exchange. From these papers they extracted and collected all the Resolutions that could possibly be found, together with all Decisions of Cases which either appeared to them as fit and proper to be considered as precedents for the decision of similar cases in future, or which might suggest the advantage and propriety of some new Laws upon those subjects that seemed to have been too frequently discussed and litigated.

The newly-constituted Stock Exchange appears to have been unfortunate with its first Secretary, as the sub-committee found it necessary in their Report to the Committee for General Purposes to refer to this gentleman in anything but complimentary terms. This is how his activities are reviewed—

In this branch of their duty your Sub-committee experienced considerable difficulties, owing to the very loose and careless manner in which the minutes of the Committee for General Purposes were kept by the late secretary, Mr. JOHN HEMMING. Not only are the transactions of the several meetings entered in the book in the most slovenly and disgraceful mode, with such frequent interlineations and erasures as to render the subject (intended to be recorded) extremely doubtful and confused but likewise many resolutions appear to have been passed by the Committee which have never been entered on the journals. In some cases indeed your Sub-committee . . . have been totally unable to form even any probable conjecture on the subject then before the Committee, and in all cases the nature and object of the resolutions themselves have completely evaded their strictest research. . . . Many resolutions also notwithstanding they were evidently intended to be acted upon as general rules for the House at large have been drawn up so as to suit some particular case only and thus consequently afford subjects for dispute and cavil if construed according to their literal meaning. Others again however correctly they might have been formed by the Committee at the time, are so absurdly and inaccurately expressed on the journals, as to be inapplicable to any useful purpose.

The shortcomings of the first Secretary appear to have been compensated by the zeal and ability of his successor, for the sub-committee close their Report with the following tribute—

Your Sub-committee cannot close their labours without expressing their high sense of the obligation they are under to their secretary, Mr. ROBERT WATSON WADE, for his voluntary and gratuitous assistance during the time they have been employed in this undertaking. The zeal, assiduity, and abilities of this gentleman as your secretary are well known to and duly appreciated by every Member of the Committee, and any remark which may have been made upon this subject could add but little to the high opinion which each Member has formed of his talents, and of his earnest desire at all times to promote the general interests of the House.

In consequence of the recommendation of the sub-committee, runs the Official Record, the following Resolution was passed unanimously by the Committee for General Purposes on the 17th February, 1812.

That all the Rules and Regulations, relative to the general government of the Members of the Stock Exchange, passed or adopted prior to the 10th of this month by the present or any former Committee for General Purposes be repealed and henceforth considered as null and void.

And

The Resolutions which follow have been adopted by the Committee for General Purposes, on and subsequent to the 10th day of February above mentioned.

Thus the first "Rules and Regulations" came into existence. The recommendations which were adopted were dated the 1st February, 1812, and the names of the sub-committee were as follows—

FRANCIS BAILY, *Chairman*
WILLIAM HAMMOND
CHARLES NAIRNE
FRANCIS WAKEFIELD
CHARLES LAURENCE
BENJAMIN OAKLEY
MARMADUKE LANGDALE

Out of the findings of this early sub-committee has grown the present exhaustive List of Rules and Regulations which govern the Stock Exchange of to-day. We should like to quote from those early Rules at greater length, but will refer to two recommendations only, the first of which had reference to speculation, and the second to conduct—

The Committee for General Purposes earnestly recommend to those gentlemen of the Stock Exchange who transact business on commission for time to regulate the extent of such dealings (unless with sufficient security) as much as possible by their own

ability to fulfil their engagements: being of opinion that every material deviation from this rule (unless for persons of well-known property) is nearly as unwarrantable as if they had entered into such speculations on their own account.

While on the 28th February, 1819, it was resolved—

That the Committee for General Purposes anxious only for the preservation of good order in the Stock Exchange are determined to exercise the authority vested in them to the fullest extent against any of its Members who do not attend to their public recommendation of 2nd February, 1818, respecting the disgraceful practice of knocking off hats.

There have been nine secretaries to the Stock Exchange since its foundation, the respective names and dates being as follows—

J. HEMMING	1802
R. W. WADE	1810
J. VAN SOMMER	1831
G. WEBB	1845
G. LOVELESS	1857
F. LEVIEN	1864
E. SATTERTHWAITE	1897
A. L. F. GREEN	1929
C. D. MORLEY[1]	

So rapid had proved the growth of membership and the size of the undertaking that need arose for a fresh Deed of Settlement. Accordingly, the original Deed which had done duty for three-quarters of a century was replaced by a new one drawn up and dated 31st December, 1875. Important alterations were made with regard to the capital, which, by the original Deed, stood at the modest sum of £20,000 represented by 400 Shares of £50 each. By the Deed of 1875 this was increased to £240,000 nominal value represented by "20,000 Shares, on which the sum of £12 each is at present credited as and deemed to be paid up." Capitalisation of £1 in May, 1911, brought the paid-up value of the Shares to £13. By special resolutions of the 14th and 30th June, 1921, an amount of £240,000 was capitalised, thus adding a further £12 per Share to the paid-up capital, making the Shares £25 paid. On 23rd April and the 11th May, 1928, a further amount of £220,000 was capitalised by special resolution, and the 20,000 Shares in the undertaking are now credited as each £36 paid up, and the capital stands at £720,000. The purpose for which this capital exists is laid down in the 1875 Deed of Settlement under the heading of "Objects of the Undertaking."

[1] This appointment to take effect on the retirement of Mr. A. L. F. Green.

The purposes of the Undertaking are the maintenance of the building called the "Stock Exchange" in the City of London, with its appurtenances, and the erection and maintenance (either on lands already vested in the Trustees and Managers or to be acquired as provided by these presents) of any other buildings in the City of London, and providing the same with suitable furniture fittings and accommodation: and the employing the said buildings already erected or to be erected for the transacting of buying and selling English and Foreign Stocks and Shares in public and other Companies as the said building, called the "Stock Exchange," has heretofore been used, but with, under and subject to, the further powers and modifications introduced by, and the regulations of, these presents, and all Rules and Regulations to be made pursuant to the provisions in that behalf of these presents.

At this juncture one can scarcely forbear plaiting a wreath to the memory of the men of 1801 who banded themselves together to put their financial world on a paying basis. When they purchased they looked ahead, and when they built they did so for posterity. The Deed of Settlement was, and as reconstructed is, a remarkable document, and the passing of the years has but emphasised the soundness of its construction. For over 140 years it has stood four-square, advancing with, and adapting itself to, the requirements of eras of stupendous progress and breathless change. Many feel that it is still capable of improvement because of these changes, but it must be conceded that since those early days the institution has gone from strength to strength. Tribute also is due to those who followed. Those early builders were fortunate in their successors, for few professions have been richer in men of character, integrity, and ability. Subsequent trustees, chairmen, committee-men, and officials have carried on in course of time in accordance with the highest traditions of the business and now, as shown in Chapter III, comes the new Council dedicated to the task of ensuring in the memorable closing words on the foundation stone that "the Blessings of that Constitution be transmitted to the latest Posterity."

In reviewing the important milestones in Stock Exchange history, short reference should be made to the

Royal Commission of 1877

This Royal Commission was appointed by the Government on the 20th March, 1877, as a result of questions raised in Parliament, and on the 9th June of that year a searching investigation was opened into the Constitution, customs, and practice

of the Stock Exchange. In other words, the institution was put on public trial. The Commission was a strong one under the chairmanship of The Rt. Hon. Lord Penzance, the other members being The Rt. Hon. Lord Blackburn, The Rt. Hon. Spencer H. Walpole, M.P., The Rt. Hon. E. Pleydell Bouverie, The Hon. Edward Stanhope, M.P., Sir Nathaniel M. de Rothschild, Bart., M.P., Mr. H. Hucks Gibbs, Mr. M. Buck Greene, Mr. John Hollams, Mr. Coleridge J. Kennard, Mr. Septimus R. Scott, and Mr. Reginald Yorke, M.P. The secretary was Mr. R. G. C. Mowbray. That the investigation was thorough and complete will be seen from the terms of reference, which were as follows—

To inquire into the origin, objects, present Constitution, customs and usages of the London Stock Exchange, and the mode of transacting business in and in connection with that institution, and whether such existing rules, customs and mode of conducting business were in accordance with law and with the requirements of public policy, and if not, to advise in what respect they might be beneficially altered.

The Commission sat for over a year, and during the sitting over fifty witnesses were examined, including the Town Clerk of London, accountants, statisticians, Stock Exchange officials, Brokers, Jobbers, and representatives of the Liverpool, Manchester, and Glasgow Stock Exchanges. These witnesses answered 8,831 questions relating to the Stock Exchange and its practice, and the minutes of evidence ran into nearly three-quarters of a million words. The Committee of the Stock Exchange offered every assistance they could, and access was freely given to every fact, document, and item of information in their possession.

The Commission's Report was published in 1878, and in general terms was a complete vindication of the Stock Exchange and the conduct of its business. Some drastic recommendations were put forward, but, as usual, these were not unanimous, eight of the Commission signing the Report without qualification, while four—Walpole, Stanhope, Greene, and Scott—attached their signatures subject to reservations contained in separate Reports. What was of vital importance was the Commissioners' declaration that—

. . . they desired to express their opinion that in the main the existence of such an association . . . had been salutary to the interests of the public, while in the administration of its laws the Committee

for General Purposes had . . . acted uprightly, honestly, and with a desire to do justice . . . The Commissioners recognised a great public advantage in the fact that those who bought and sold for the public in a market of such enormous magnitude in point of value, should be bound in their dealings by rules for the enforcement of fair dealing and the repression of fraud, capable of affording relief and exercising restraint far more prompt and often more satisfactory than any within the reach of the courts of law.

This compliment was supplemented by another possibly more striking, penetrating, as it does, to the soul of all Stock Exchange transactions. The Commission were assured—

That the want of a written Contract between Members had in practice no evil results, and that out of the millions of contracts made on the Stock Exchange, such a thing was hardly known as a dispute as to the existence of a contract or as to its terms.

Here, if it were needed, was justification for the Stock Exchange motto, *Dictum Meum Pactum.*

The Commission at its sittings surveyed all phases of Stock Exchange activity, and every detail was subjected to an exhaustive inquiry. The Commissioners were satisfied with the Constitution, but appeared to look dubiously on the much-debated two-fold government known as dual control.[1] They were in favour of the system of Jobbers and recognised their value, and were also in favour of a public gallery. They appeared to exonerate the Stock Exchange from the charge of encouraging gambling. They found that Members were quite unable, at the time of dealing, to distinguish between bargains made for the purpose of speculation and those arising from a desire to invest money or to sell investments. In these circumstances they did not think it practicable to render speculative or gambling business any more illegal than it already was, and did not propose any change in the law. They refused to interfere in the matter of fixing Brokers' commissions or in the matter of sharing them, but had definite recommendations to make on the subject of the *Official List.* They desired the appointment of a List Committee,[2] being—

strongly of opinion that it was much to the interests of the Stock Exchange that the List should be made as perfect as possible for the dissipation of unjust suspicions and the preservation of the confidence of clients in their Brokers. The duty of marking all the variations should be enforced as strictly as possible, and no pains should be spared to make the List a complete and faithful record.

[1] Now abolished—see Chapter III

[2] Now in existence—see Chapter III

On the subject of List quotations the Commissioners reported in favour of—

continuance of the investigation by the Committee to ensure the stamp of genuineness and soundness before quotation was granted, this practice having been in many instances the means of either detecting fraud or of rendering fraud which has been subsequently detected more easy of proof.

Having reviewed the whole of its activities, the Commissioners made the startling recommendation towards the end of the Report that the Stock Exchange should alter its status, and that it should become an incorporated or chartered body.[1] As mentioned, this was not unanimously agreed, and the minority who dissociated themselves from the general conclusions of the Report took strong exception to this recommendation. As is well known, this course has not so far been adopted, and remains but a recommendation of some seventy years ago, together with the important matter of compulsory bargain marking, and the public gallery up to which mythical elevation we conducted our students in Chapter II in order that, by drawing aside the curtain, they might look down upon the business in full swing on an average day.

The Stock Exchange survived this Royal Commission storm, emerging indeed more firmly established in popular opinion than before. Recognition by the public of the high ideals which guide its administration and the honourable motives which inspire its trading methods, added to the real facilities for the purchase and sale of securities which are provided, have lifted the business to its present imposing position. Fresh storms have broken from time to time, but each succeeding crisis has been met and overcome. To-day we see an institution buttressed by its experiences, paramount as an Exchange, supreme as a financial centre, and still the foremost bourse in the world.

[1] These matters are known to be engaging the careful attention of the present Council of the Stock Exchange, and Members feel the Institution is appreciably nearer the Royal Commission's recommendation than ever before in its history.

GLOSSARY OF STOCK EXCHANGE PHRASEOLOGY

IN the following Glossary an attempt is made to explain some of the terms which are understood in Stock Exchange circles. Those outside the business may be forgiven for considering that some of these are "double Dutch," but it may be taken for granted that, in a calling where few words are spoken when a business transaction is in progress, every remark has a peculiar significance.

Account. (1) Account Days are fixed a year ahead by the Council, the usual number being twenty-four per annum or two per month. If an Account is longer than fourteen days it is because of the incidence of holidays. Account Day is sometimes called Settling Day or Pay Day, and is the last day of the Account period.

(2) A bargain done for the Account is distinct from one done for Cash or for a more forward date (see page 127).

(3) A statement rendered each Settlement to a client or country Broker is also termed an account.

Ad Valorem. According to value. This governs the stamp duty required by the Inland Revenue on transfers, bonds, and other forms of security.

All In. The shout of market dealers when securities are falling.

All Out. A similar shout when securities are rising.

Altering the List. Official List quotations are each day revised by Jobbers in the respective markets. In general terms, prices are put up when demand exceeds supply, and down when selling pressure is not absorbed by purchases. Buyers or sellers of marketable amounts unable to transact their business at or within the various quotations are entitled to ask for the quotation to be altered. The theory is that a lower quotation attracts buyers and a higher offers greater inducement to sell (see page 65).

Amortisation. The placing aside or application of sums for the final extinguishing of securities, loans or debt. Similar in practice to a Redemption or Sinking Fund. Wise investors who buy Mining Shares to secure large dividends place a part of the amount received to a reserve for amortisation purposes. This is to ensure the capital invested being preserved, as the life of all mines is limited.

Anything Else? The request, say, of a Broker to a Jobber who has "made" a price to "make" a closer one. For instance $99\frac{7}{16} - 1\frac{9}{16}$ would be closer than $99\frac{3}{8} - \frac{5}{8}$.

Arbitrage. The business carried out by arbitrageurs. The adjustment of values between two financial centres such as London and New York (see page 188).

Attaché. One who introduces business. Once known as "Half Commission" man.

Authorised. A clerk who, under Stock Exchange Rules, is allowed

or authorised to deal for his own principal, i.e. employer. Members not in business for themselves can be authorised to other Members (see pages 35–6).

Averaging. The process of subsequent buying or selling to establish a fresh price level. A holder of 100 Shares at 20s. by buying a further 100 at 10s. would hold 200 Shares at an average price of 15s. If the second purchase was at 30s., his average would obviously be 25s. Sellers can also average either up or down.

Back or **Backwardation.** Where, owing to the market position, a "bull" instead of paying a rate for contango facilities received one; and a "bear," instead of receiving a rate for similar accommodation, had to give one (see page 370).

Bad Book. A Jobber, having bought securities which subsequently go down in price, would describe himself in relation to that security as having a "bad book." A Jobber would be similarly placed if he had sold short a security which went up before he had covered his sale.

Bad Delivery. Stocks or Shares which on presentation are faulty in some particular are said to be "bad delivery" (see pages 293 and 309).

Balance. A word with several meanings: (1) A Broker may buy from or sell to a Jobber a given amount of Stock leaving a "balance" still to "do." (2) A seller of securities possessing a larger Certificate than the amount sold may "certify" his sale against his certificate and look to the company for the "balance" (see page 255). (3) The process of balancing all the transactions entered in the office records is known as finding the "Balance" (see page 387).

Banging. The violent offering of securities in the open market.

Bank Rate. The rate of discount fixed by the directors of the Bank of England, once used as a basis for charges on loans. The weekly announcement of the Bank of England was made on Thursdays, but no change has been seen since 26th October, 1939, when 2 per cent was fixed (see page 146).

Bare. Term applied to a market short of a particular security.

Bargain. A deal between or on behalf of Members of the Stock Exchange, not necessarily profitable.

Bear. An operator who has sold short. "Bear covering" is the closing of a short position. Operations designed for a fall in security values are said to be on the "bear" tack (see pages 121 and 154).

Bearer. Securities obtainable in Bond form without the need for a transfer (see page 281 *et seq.*).

A cheque payable to "bearer" is one that requires no endorsement.

Bearish. Possessed of gloomy sentiment.

Been Round? The pertinent inquiry, say, of a Jobber to a Broker to ascertain if the Broker has asked the price of any other Jobber.

Best. An order at "best" means that the security must be purchased at the cheapest possible or sold at the best price obtainable.

Better. The terse summing up of an improved tendency in one or all markets.

Bid or **Buy.** The addition of the word "bid" or "buy" by a dealer to any figure or fraction means that the speaker is a buyer at that price. The information can be passed on from one to another as such, but a bid cannot be expected to be "on" or in force indefinitely.

Big Figure. In dealing it is usual to concentrate on fractions only. The big figure is the one ruling and is taken for granted. When there is any doubt the figure or figures, whether pounds, shillings, dollars, or other currency, are confirmed (see page 221).

Bit Closer. The request for a closer price. See under "Anything Else."

Bit Off. A term to indicate a slight setback in market sentiment.

Blazing. A term used to sum up a market that is exceptionally active and good (see page 143).

Blue Button. Clerks who are not authorised to deal, and who are allowed the privilege of entering the Stock Exchange, must when doing so wear a blue button in the lapel of their coat. These clerks are known as "unauthorised," and the number allowed to each firm or Member is limited (see page 36).

Boiled Over. This describes the condition of a market that has been good, but has suffered some setback.

Bonus. The distribution of profit over and above the usual dividend. The issue of Stock or Shares on terms which constitute a bonus.

Book. "Running" a book means specialising in a certain security. The request "Have you a book in so and so?" is an inquiry whether the Jobber is able to make a price or offer the security.

Boom. Extraordinary upward movement in prices accompanied by excited dealings. A miniature boom is a similar condition of short duration (see page 150).

Bottom Fallen Out. The sudden collapse of market prices, when no support is forthcoming.

Box. When securities are taken up in the course of business or on clients' account they are said to be put in "box."

Break. A sharp setback in price.

Broken Amount. The sale of an unmarketable quantity sometimes calls for a reconstructed price, as it involves loss on stamp and fee.

Broken Book. This remark by a Jobber would infer that he had only an odd amount of Stock or odd number of Shares "on" his book. It would not prevent his buying, but is an intimation that he is not in a good position to "make a price."

Bucket Shops. The undesirable types of outside firm who used to advertise for Stock Exchange business. Their activities are now precluded by "The Prevention of Fraud (Investments) Act, 1939" (see pages 182 and 201).

Bull. One who buys for a rise. In general terms any holder, whether speculative or investment, is a "bull." Operations designed for a rise in security values are described as being on the "bull" tack (see page 121).

Bullish. Possessing hopeful sentiment.

Bumping on the Bottom. Description applied to market prices which have reached their lowest level. See under "Gravelled."

Buying-in. An official department of the Stock Exchange designed to obtain delivery of securities which are overdue (see page 274).

An intimation to a seller that the buyer is issuing a notice to this Department (see page 277).

Call. A word with several meanings. It may refer to—

1. The amount due on new issues on a given date in accordance with the terms of a Prospectus (see page 209).

2. The purchase of a single option (see page 131).

3. The loan or deposit of money which can be withdrawn at any time.

4. The announcement by a company or a liquidator that a liability is being enforced.

Call of More. An arrangement made at the time of dealing, establishing the right at a stated time to "call" a similar amount if desired.

Carry Over. See under "Contango."

Certification. Stamped or written authority in place of a certificate (see page 253).

Challenge. A Jobber, having made a price, is liable to be challenged. If the challenge is at the middle of his two quotations the position of both parties is undisclosed and can remain so if desired, as it is not obligatory for the Jobber to deal. If it suits him to deal, he may invite the challenger to "open" or say "Buy" or "Sell," when a deal may possibly ensue. Should both parties be the same way, no business results, and etiquette would release the Jobber, if he desired, from his original price.

Cheap Money. The facilities for borrowing money are at one period cheap and at another dear. When Bank Rate is low money is said to be cheap, when it is high money is said to be dear. Cheap and dear money have an important effect on security values, the natural sequence being high price values during cheap money and low levels during dear money periods.

Checked. A reference to a bargain which had in accordance with custom been agreed the following morning (see page 220).

Checking One's Market. The confirmation of a price with other dealers to ascertain the actual market level.

Checking Room. The extensive room beneath the Stock Exchange used for passing of Names and checking of bargains. Usually called the Settling Room (see page 219).

Chip Harder. A phrase used to sum up a market which is slightly better.

Choice. A dealer who offers another his "choice" bestows the right either to buy or to sell at a certain price. While "choice" may be valuable, it is not always so. Jobbers in an active market will often oblige a Broker who is unable to deal after a price has been made by giving him his choice at the middle.

Clean. On Treasury Bills and other similar Bonds interest accrues from day to day until date of payment (see page 304). On the day interest payment is made the Bonds are called "clean," as no adjustment has to be made. Before this date they were "dirty."

Clearing. A name applied to the Settlement Department, which "clears" certain securities during the Settlement (see page 235).

Close. A Stock Exchange fraction, $\frac{1}{64}$ of 20s. or 3¾d. a share. When a price is small and quoted in pence only, "close" is usually understood to be ¾d.

Close to Close. A term used to indicate that a price is $\frac{1}{64}$ or 3¾d. either side of a given fraction. For example, $\frac{9}{16}$ "close to close" would mean 10s. 11½d. to 11s. 6¾d. "Close to $\frac{9}{16}$" would mean 10s. 11½d. to 11s. 3d., and "$\frac{9}{16}$ to close" would be 11s. 3d. to 11s. 6¾d.

Closing or **To Close.** Buying or selling to close securities opened in the same Account. To close an open position or bargain means to get even (see page 83).

Closing of Books. The procedure adopted by banks and companies

when about to make a distribution. Sometimes called "shutting" (see page 299).

Collateral. Securities advanced, deposited, or accepted against a loan.

Coming In. A phrase indicating that securities wanted by the market are forthcoming.

Coming Out. Extensive dealings used to take place in securities for "coming out." This is not now permitted, but the remark survives as applying to Stock or Shares about to be issued.

Commercial. A Jobber who is always willing to "make a price" gains a reputation of being commercial. The term could apply to any dealer with business to transact.

Commission. Brokerage charged according to an Official Minimum Scale laid down by the Stock Exchange (see pages 79–81).

Consideration. The amount entered on a transfer deed (see page 249).

Contango. Continuation of an open position for a consideration. Securities contangoed are said to be "carried over," and the consideration agreed upon for the operation is known as a "Rate" (see page 125).

Contingent. An order which depends upon another being executed.

Corner. The operation of cornering a particular market is where most of or more than the issued capital of any concern is bought by an interested party or parties.

Cover. Stock, Shares or money advanced as security against an open position. Common in America, where it is known as "margin." The term is also applied in relation to revenue available for dividend or Debenture interest (see page 110).

Coupon. A small certificate or warrant detachable from a Bond or Certificate to be exchanged for some form of value (see page 282).

Cum-. Prefix meaning "with." Cum-dividend means "with dividend," cum-rights "with rights," and cum-all "with all advantages" (see pages 299–300).

Cumulative. Interest that is cumulative accumulates in the case of arrears, and is payable before a distribution for a current period can be made (see page 109).

Cutting a Loss. A determination to close a position and pay the loss.

Cutting Limit. A rather nebulous instruction sometimes given to limit a loss when a security falls to a certain level.

Dead. Description of a market where there is absolutely nothing doing.

Deal. A transaction. A big deal is a large transaction. "I want to deal" is a request for a price. "I want to deal 'small' or 'fairly big'" is an indication of size. "I want to deal 'lumpy'" is bigger still, while a "line" is usually too large to be "taken on" without negotiation or without the Jobber knowing the exact amount.

Dealer? A query often addressed by a Jobber to a Broker who asks a price. This does not mean "Are you entitled to deal?" but "Do you want to deal." Jobbers are often referred to as "Dealers."

Dear Money. See under "Cheap Money."

Deceased Account. Selling due to liquidation of securities for a deceased account.

Deed Stock. Securities deliverable on deed of transfer as distinct from bearer Stock (see page 247).

Defaulter. A Member of the Stock Exchange who is "hammered" or posted by the Council as a defaulter. One unable to fulfil his engagements (see pages 58, 59, and 338).

Defunct. Applied to companies that have been wound up (see page 338).

Demobilised. A term used to describe the process of converting registered bearer securities into bearer.

Differences. Amounts which pass each Account due to and from Members and clients (see page 127).

Discount. When a Stock or Share is lower than its issued price, it is said to be at a discount. A Stock issued at 97½, the price of which is 95, is standing at 2½ discount, and a Share issued at 30s. and priced 28s., is standing at 2s. discount.

Discount is often allowed at varying rates when partly-paid securities are paid up in full before the due date.

Discounted. When developments or information are anticipated in advance and prices fail to respond, the effect is said to have been "discounted" (see page 148).

Discretion. Orders given at or with discretion allow the Broker a margin according to his judgment. Discretionary orders can be limited, as, for instance, when a Share price is mentioned with a discretion of 3d., or a Stock price given with a ¼ per cent discretion. In this form orders are more acceptable.

Drawn Bond. A bond of any description of which notice has been given that it will be drawn, redeemed, or paid off (see page 292).

Dried Up. A term applied to a market where interest has evaporated and dealings are scarce.

Dual Control. Referred to the joint system of Stock Exchange administration by Trustees and Managers and the Committee for General Purposes (see pages 49 and 417). Now abolished.

Dull as Ditchwater. Descriptive summing up of a market with a pronounced downward tendency.

Easier. Description applied to a market where the level of prices is lower than it had been previously.

Either Side. Term used to indicate that a price is $\frac{1}{32}$ or 7½d. either side of a given figure or fraction. For example "either side of the nine" would mean "$\frac{1}{32}$ either side of $\frac{9}{16}$." As $\frac{9}{16}$ is 11s. 3d., "either side" would mean "10s. 7½d. to 11s. 10½d." Either side of the figure, the figure being 2, would mean 39s. 4½d. to 40s. 7½d.

Equity. What remains of profit and capital after all loans and creditors are paid off. "Equities" in this country have come to be regarded as Ordinary Shares (see page 113).

Even. The statement that a Broker, Jobber, or operator is even indicates that he has no position either as "bull" or "bear." In troublous markets it is an enviable position to have. Applied also to a contango where no rate is given or received.

Ex-. Meaning "without." Ex-dividend means "without dividend," ex-rights "without rights," and ex-all "without all immediate advantages" (see page 299).

Executed. Term in use to announce the completion of an order. A power of attorney or deed of transfer which has been duly signed and witnessed is also said to be executed (see page 248).

Face Value. The nominal value given on the face of a certificate

or Bond. The amount stated gives no indication of the price paid for the security or the price at which it could be sold.

Feature. The inquiry "Any feature?" means "Is there any market development worthy of mention?" "Featureless" sums up a condition where there is nothing of interest to report.

Finish. To "finish" one off is to complete the transaction. To intimate that you are finished means that you have "no more to do."

Firm. A description applied to a market where prices are steady with no apparent setback. Business definitely left for execution. A quotation which can be relied upon. Applied also to underwriting.

Firmer. As above, but with an upward tendency.

Fixed Charges. The amounts which a company has to meet before profits are available for distribution. Debenture and guaranteed loan interest and other such obligations are known as "Fixed charges."

Fixed Price. Issues of securities are sometimes made through the market at a minimum price. This minimum price, below which it is not possible to buy the security, is called a fixed price.

Fizzled Out. A movement in prices which terminates suddenly; an interest or tendency which comes to an abrupt end.

Flat. A phrase used to describe a market where prices are extremely weak. Applies also to the yield on a security without allowing for redemption (see pages 105, 106, and 143).

Floaters. Bearer Stock used as security against a loan.

Flotation. The launch of a new issue, successful or otherwise.

Fourteen Hundred. Cry used on the floor of the House to denote the presence of a stranger. Origin said to date back to the days when membership totalled 1,399.

Fractions. Stock Exchange fractions best known are $\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{8}$, $\frac{1}{16}$, $\frac{1}{32}$, and $\frac{1}{64}$ of £1. $\frac{1}{2}$ = 10s., $\frac{1}{4}$ = 5s., $\frac{1}{8}$ = 2s. 6d., $\frac{1}{16}$ = 1s. 3d., $\frac{1}{32}$ = 7½d., $\frac{1}{64}$ = 3¾d. These fractions are used for both Stock and Shares. Quotations for Stock seldom go below $\frac{1}{16}$. Experienced dealers refer to "sixteenths" ($\frac{1}{16}$ or 1s. 3d.) by their number; thus "Buy at the nine," meaning $\frac{9}{16}$ bid, or "Sell at the eleven," which means $\frac{11}{16}$ offered. Thirty-seconds ($\frac{1}{32}$ or 7½d.) are referred to as being "under to" a fraction or that fraction "to over." Thus "under to $\frac{9}{16}$" equals 10s. 7½d. to 11s. 3d., while "$\frac{9}{16}$ to over" equals 11s. 3d. to 11s. 10½d. When $\frac{1}{32}$ each side of a fraction is quoted the phrase mentioned is "either side." When dealing in sixty-fourths ($\frac{1}{64}$ or 3¾d.) the terms used would be as follows: "Close to the nine," meaning 10s. 11¼d. to 11s. 3d. or "Nine to close" which means 11s. 3d. to 11s. 6¾d. "Close either side" of a fraction, as explained, means 3¾d. below to 3¾d. above such fraction, at the first of which a dealer will buy and at which latter price the dealer making such price will sell. "Under to close over the nine" would mean 10s. 7½d. to 11s. 6¾d., while "close under to over the nine" means 10s. 11¼d. to 11s. 10½d. The further stage is when a quotation is given "Over the nine close to close," which, interpreted in shillings and pence, means 11s. 6¾d. to 12s. 2¼d. This description of "under," "over" and "close," "either side," or "close either side," can be applied to any and every fraction or figure.

Share fractions are often distributed by companies to holders and can be registered if such fractions are increased to complete whole

Shares. Permission to deal in such fractions is therefore granted by the Council, when they can be bought or sold for a given period.

Free. The sale of Stock or Shares "free" means that the seller pays the stamp and fee (see page 130). Usual with small or broken amounts.

Free Market. A market in which it is easy to deal either way in a large or small amount.

Free of Tax. In some instances the interest on British Government Stocks is paid free of tax to residents abroad. Where residents in this country receive interest without tax deduction it is assumed the amount is accounted for direct to the authorities. Dividends paid free of tax should always show the deduction in respect of income tax on the dividend warrant. Actually, tax has been paid on the amount distributed. While it is necessary, in the calculation of its yield, to remember the fact that a dividend is paid tax free, it should not be overlooked that such tax has been accounted for to the Inland Revenue. In cases where security holders are not liable for income tax in whole or in part such tax deduction is recoverable.

Funds. A well-known description of British Government securities.

Get On. The ability to "get on" means that a Broker or Jobber has succeeded in transacting his business.

Get Them for You. The offer of a Jobber to procure a price which is unknown to him.

Gilt-edged. Term applied to the securities of the British Government or those of the highest possible class (see page 101).

Givers. The state of a market where on Contango Day all desired to "give" a rate. "Givers to a man" indicates the existence of a large "bull" account.

Go'er On. The declaration by a Broker or Jobber that he desires to continue buying or selling the same security.

Good. Description applied to market prices when they are rising.

Gravelled. A phrase used to describe markets which appear to have reached bottom.

Gross. A gross price is one that does not take commission into consideration. Where commission has been allowed for in the price, the latter is known as net (see page 82).

Grounded. Used in similar circumstances to "Gravelled."

Guinea Pigs. Derogatory description of persons who purchase a position or lend their name to prospectuses for the sake of appearance.

Half Book. An arrangement whereby a Member shares his commitments and his profits.

Half-commission. Stock Exchange Rules allow the sharing of commission with institutions and individuals. A person, being a Member, who introduces business and takes 50 per cent of the gross commission is known as a "half-commission man" (see page 88).

Hammered. A Member of the Stock Exchange who fails to comply with his bargains is hammered and declared a defaulter (see pages 58 and 338 and "Defaulter").

"Ha'penny" Harder. Term used to indicate a slightly better tendency.

Hard but Idle. Sums up a market where prices are steady but nothing is doing.

Helped. A Member or firm in difficulties receiving assistance is said to be "helped over" (see page 346).

Holding the Baby. Sums up the position of those left in possession of securities which they cannot sell (see page 151).

Hot. A description applied to a Broker or Jobber with whom, when dealing, particular care is needed.

Alternatively, such are known as "mustard" or "hot stuff" merchants, and persons trading with them are jocularly warned to "mind their pockets."

House. The familiar name given to the Stock Exchange. The derivation of the word "House" is given in Atkin's "House Scraps" as follows:

> When Jobbers and Brokers assembled for a short period in the Rotunda of the Bank of England, a room was rented in a house facing Bartholomew Lane. When a Member was not to be found in the Rotunda it was said, "He was over at the House." Later when Members moved into their own building, "House" had become a recognised term.

Hypothecated. Pledged or set aside for a specific purpose.

Idle. Word frequently used to indicate a market condition when nothing is doing.

Imprac. A contraction of "impracticable," frequently used to report lack of success with an order to buy or sell.

Improve. Word frequently in evidence when requesting Jobbers for a closer price.

Indemnity. Undertaking to hold another company, firm, or person free of responsibility (see page 280).

Inflation. The watering of a nation's currency. The increase of paper money without proper backing or recognised cover. The creation of credit without collateral. The continued rise of commodity prices.

Interim. Applied to a partial dividend distribution as distinct from a final announcement.

Irredeemable. Enjoying no redemption date (see page 108).

Jobber. Members of the Stock Exchange are divided into two classes, Brokers and Jobbers. The latter are not allowed to deal with the public, but make prices in various securities to fellow-Members. Jobbers are sometimes called "dealers" (see page 27).

Joint Account. Indicates a Stock-holding registered or inscribed in more than one name.

Joint Book. A familiar arrangement between two firms of Jobbers who are allowed to have a market partnership for dealing in the same security. While this is permitted, partnerships which are limited to two Members, or two firms, must apply only to the market in which both are dealing, and must be notified to, and posted in, the Stock Exchange.

Jumpy. Description applied to markets when the trend is agitated and unsettled.

Jungle. Name given to the West African market.

Kaffirs. Name applied generally to South African Mining Shares. The market where Kaffirs are dealt in is sometimes referred to as The Kaffir Circus. Rhodesians are dealt in near by.

Kangaroos. Name sometimes applied to Australian Land, Tobacco, and Mining Shares.

Knifey. Appellation given to a person who in his dealing cuts things painfully fine.

Lame Duck. Description given to a firm or persons who are helped in financial difficulty (see page 346).

Landed. Sometimes used to describe the condition of being "left" with Stock or Shares.

Leave it With You. Expression in common use where an impracticable order is left with a Jobber for execution. The business is then known as "left with So and So," and must not be taken in another direction without being "taken off" from "So and So."

Less Tax. Dividends and interest are usually paid with income tax deducted at source. These distributions are said to be made less tax.

Letters. Dealing for "letters" refers to a transaction settled by the passing of Letters of Allotment or Renunciation. A time limit usually exists for title in this form (see page 291).

Letters of Regret are communications from companies where no allotment is made.

Let You Go. Expression used by a Jobber to indicate that he is unable to make a suitable price to a Broker, but is willing for the Broker to try elsewhere.

Level. The process of getting level for a Jobber is to buy back at a profit, if he can, the security that has been bought of him, or sell again, if he can, the security that has been sold to him. "Level" may be the remark of an operator or a Jobber that he has no position open in a certain security.

Liability. This word may refer to uncalled capital as explained on page 120, or to responsibility arising in connection with the passing of Tickets (see page 233).

Limit. Restriction applied to a price. In Stock Exchange circles a "limit" is business left at a fixed price with another man for execution. See "Leave it With You."

Limited. Expression conveying to another man that a price limit applies to some proposed business. In connection with a company it may refer to limited liability.

Limited Market. Conveys the impression that dealings in a particular Stock or Share are restricted and difficult.

Line. A "line," in dealing, refers to a very large amount of Stock or number of Shares.

Liquidation. Constant selling. Often due to realisation of a deceased account or of a weak position.

Lists Closed. This phrase refers to the practice of issuing authorities who at a given time refuse to accept further applications for a new issue.

The lists that are closed are lists of applications (see page 206).

Long. Term sometimes used to indicate a "bull" position.

Long Shot. Securities purchased or sold, having in mind developments which may eventuate after considerable time.

Lot. Jobbers frequently wish to know, when "making a price," whether the number or amount is the "lot." That is to say, will it finish the transaction or has the inquirer still more of that particular security to deal in?

Make it You. Statement made by Jobbers which expresses willingness to deal at either of two prices quoted.

Making a Market. The various means adopted to create or to stimulate interest in a company's Stock or Shares are known as "making a market."

Making a Price. The practice of Jobbers who deal in various securities. The price is actually two prices, at the lower of which the Jobber will buy, and at the higher of which he is willing to sell (see page 27).

Manipulated Market. Artificial stimulation or depression of price movements by interested parties is termed manipulating a market.

Margin. Allowance made for contingencies or discretion allowed in connection with an order. American term for "cover."

Mark. The "record of business done" in the Stock Exchange Lists is known as the "marking of bargains" (see page 64 *et seq.*).

Marked for Dividend. Bearer certificates in well-known names can be left in such names and dividends claimed from those registered by means of a system of marking for such purpose (see page 308).

Market. An important word used to describe the whole floor of the "House" or any one particular market in it. It is also used to refer to a particular security and its tendency. All kinds of descriptions are employed to sum up the feeling or tendency of markets, ranging from "flat, featureless, stale, stupid, silly, stagnant, sensitive, spotty, fidgety, dull, nervy, jumpy, uninteresting, puzzling, tender, patchy, toppy, touchy, tired, easier, and depressed," to "bright, better, buoyant, blazing, and booming." Markets can "turn" but not "swerve," be "hard" but never "soft," "firm" but not "infirm," "off" but never "on." Where nothing is doing, the situation is summed up by the remark that there is "No market."

Marrying. A Broker receiving simultaneously orders to buy and sell the same security is allowed to "marry" the business—that is, put one bargain against the other. When this is done, one commission only must be charged, and the contracts marked Bought from Principal and Sold to Principal with Commission or Free of Commission, as the case may be. The usual practice with such orders is to put them through a Jobber, that is to say, sell and buy the security at a small difference in price. This practice ensures a fair price level being established for both buyer and seller (see page 85).

Mean Price. The middle of two prices which constitute a price quotation.

Middle. A dealer at the mean price is said to be a dealer at the "middle." A person challenging at the middle is not bound to disclose whether he is buyer or seller.

Missing One's Market. When an opportunity to buy or sell to advantage is allowed to slip by, one is said to have "missed one's market."

Mixer. A security not itself highly attractive may be recommended as suitable for "mixing purposes." Justification for the inclusion of such a security in an investment list would be for the purpose of "sweetening yield," i.e. of raising the average.

Money. Transactions can be carried through for "money" or cash as distinct from those for the Account (see page 127).

Monkey. A term meaning £50,000 Stock or 500 Shares (see page 221).

Mop. When securities or names are made up between principals to save time and trouble the act is described as a "mop." A corruption of Make Up. (See "M/U.")

M/U. Abbreviation used for "making-up" price (see page 126). Also used in connection with the making-up of Names and securities.

Name Day. Day on which the passing of Names commences, otherwise Ticket Day (see pages 127 and 222, 224).

Names. Tickets issued by buyers on which are entered the purchasers' registration particulars (see page 223).

Negotiation. Term which implies that "price making" is not possible in a particular security, and that finding buyer or seller is a matter of negotiation.

Net. Contracts are usually rendered to country Brokers "net"—that is, with commission added or subtracted in accordance with the scale laid down (see page 82).

New. Dealings for "New" are for the next, and not the current Stock Exchange Account.

Nibble. Investors exhibiting an interest in particular securities are said to be on the "nibble."

Nominal. A nominal quotation is one at which it is not possible to deal. In such a case the market may be buyers only or sellers only, and possibly neither, when dealings are quite a matter of negotiation.

Nomination. Before admission to the Stock Exchange can be obtained an applicant must acquire the right of Nomination from a retiring Member. Exception to this Rule exists for certain clerks, and the circumstances are explained on pages 14, 15, and 54.

No Money to Pass. To save inconvenience, large exchanges from one security to another are sometimes arranged on the understanding that no money is to pass other than the difference on the exchange.

No Par Value. See "Par."

Nothing Doing. Applied to a market when there is no sign of business passing.

Nothing to a Jam Tart. Expression used to imply that a Share is quoted "nothing to anything over." That is to say, no price is obtainable if one is a seller, while any bid for the Shares is likely to be successful.

Nothing to Do. Remark in common use indicating no business to transact.

Nothing to Go For. Absence of information likely to influence a price. For instance, the yearly dividend on Ordinary Stock or Shares which just comes up to market expectation would leave a feeling that there "was nothing to go for."

Not in the Market. The remark of a dealer with an order which had little chance of being then executed.

Nous. From the Greek meaning "mind" or "sense." Dealers who show penetration or the ability to interpret market tendency are said to possess "nous." The pronunciation rhymes with "House."

N.T.P. When in a limited market a Jobber is short of a security he will, to oblige, often sell N.T.P. This means that the buyer is "Not to press" for delivery. Bargains with this condition compel the buyer to wait until it is convenient for the security to be delivered, and

preclude the resort to "Buying in." For this reason the Council decline to recognise bargains with this condition attached. Such bargains are sometimes marked N.B.I., which means "No buying in" (see page 246).

Nurse Them. Refers to the practice of holding securities for the return of more propitious conditions.

Off. A word used by a Jobber to indicate that he is no longer bound by a price he has made, or by a Broker to convey that business he has suggested is no longer in force.

Off Colour. Description of a market not good in tendency.

Offered or **Sell.** The addition of the word "offered" or "sell" by a dealer to any figure or fraction means the speaker is a seller at that price. An offer cannot be expected to be in force indefinitely. The information "they are offered in the market" does not commit one to dealing at that price.

Official Assignee. Stock Exchange official responsible for winding up defaulters' estates (see page 338).

Officially Quoted. Stocks and Shares which are given a quotation in the Stock Exchange List of Officially Quoted Securities.

On. Word used to indicate that a price made by a Jobber is still in force. Used by Brokers to confirm that limits are still in being.

One. When dealing in Stock, "One" is understood to mean "one thousand pounds," "Two," two thousand pounds, and so on. With Shares the same rule applies, but cautious dealers, having dealt in a "couple," usually confirm that the quantity refers to two thousand Shares (see page 221).

Open. The request to "open" means to state what one wants to do. While "opening" may prove helpful, it is not obligatory, and in some cases may be risky. It is not etiquette to "open" a Jobber's book, that is, find out his position, unless with a view to dealing with him.

"Open" may also refer to securities in an Account not yet closed.

Opening Prices. Market quotations at the commencement of each day's trading. May refer to the first quotation of a new issue.

Option. Power of choice which could be purchased for a consideration (see page 130).

Option Dealers. Those who specialised in and made quotations for options (see page 130).

Over. Commonly used, it refers to $\frac{1}{32}$ of £1. Over $\frac{5}{8}$ would mean 13s. 1½d. Over the figure (the figure being 2) would mean 40s. 7½d. "Anything over" would mean any fraction in the case of Stock and any sum in the case of Shares (see "Fractions").

A Jobber having a "Name over" means that he is short of that particular security to which the Name applies.

Over-subscribed. When applications are received for a new issue in excess of the amount offered it is said to be "fully subscribed," "over applied for," or "over-subscribed" (see pages 123 and 206).

Over the List Price. A buyer of securities compelled to pay over the Official List quotation is entitled to ask for the quotation to be put up. A seller accepting a lower price than that ruling can ask for the List price to be put down (see page 65).

P/A. Abbreviation for "Power of Attorney," and also "Personal Account."

Packet. Word denoting a large amount of Stock or Shares.

Par. Equivalent to issue price while securities are partly paid. "Above" par means at a premium; "below" at a discount. As the "face" value of Stock is usually 100, this figure is often referred to as "par." Mint par of exchange is the fixed legal ratio of one country's currency to that of another.

"No Par Value" refers to Shares, Units, or Stock divisions with no fixed, nominal, or face value. This form of participation is common in America (see page 116).

Pari passu. Ranking equally with or identical in all respects.

Paris. Word which sums up the cause of fluctuations in the securities with which this centre is interested. Paris numbers are those which are dealt in on that Bourse. For this reason they frequently commanded a premium (see page 193).

Parity. A parity price is the equivalent quotation of a given security in a different currency (see page 191).

Parliamentary Act. Some Stocks are authorised and issued under special Acts of Parliament as distinct from the Companies Act.

Partly Paid. Securities which are not "fully paid," and on which a liability still exists.

Pegged. When support is always forthcoming for a security at a certain level, it is said to be pegged at or about that price.

Pick Up. Derogatory appellation to one who takes advantage of another's ignorance of a market price. A dealer who feels that he has been "picked up" is slow to make a price again to the same person.

Pitch. The spot on which a particular Jobber can usually be found.

Planted. A dealer peremptorily selling securities is said to have "planted" or "plunked" them into another dealer.

Plugged. When a bidder is silenced at once by a seller, he is said to have been "plugged." If securities are sold to a man after long bidding, he is said to have been "supplied."

Plunger. One who deals recklessly.

Plus Accrued. Treasury Bonds and other similar Bonds are dealt in with interest accruing from the date of last payment. A seller would thus receive interest calculated from the last dividend date, and the buyer would be responsible for paying it on the business day following that on which the purchase was made (see page 305).

Pony. A term meaning £25,000 Stock or 25 Shares (see page 221).

Position. State of a Jobber's book. May refer to any operator's open account.

Power. Short for Power of Attorney; the authority given for one to act for another (see page 271).

Prac. Abbreviation of "practicable." An order or limit which is possible to execute becomes "prac."

Premium. A level above the issue price, or above the nominal value of a Stock or Share (see page 123).

Prior Charges. Securities that rank in front of Ordinary Stock or Shares in respect of dividend distribution are known as Prior Charges (see page 104 and "Fixed Charges").

Probate. Proof of death. Probate price (see "Valuation").

Protect You. The offer of one Member to another to be "on" with

regard to a bid or an offer while a principal is consulted or an improved quotation sought elsewhere.

Proxy. A form which when signed empowers one person to vote for another at company meetings. The deputising of authority.

Puff. Term used to describe a recommendation in the Press to buy a certain security.

Puffing His Market. A Jobber bidding for securities which he already possesses, and is only desirous of selling, is said to be "puffing his market."

Punter. Not a genuine investor. One who gets in and out quickly.

Put of More. An arrangement made at the time of dealing establishing the right at a stated time to "put" a similar amount if desired.

Put on the Book. Implies willingness by a Jobber to take securities for which he has no immediate buyer.

Put on the Tape. Inquiries regarding securities can be initiated through the medium of the Exchange Telegraph tape machine. Subscriber's telephone number and particulars are thus broadcast to all who use the tape. Thus negotiations between interested principals are made possible.

Put Through. Brokers who have orders both to buy and to sell the same security usually "put them through" the market. The operation consists in submitting for a small consideration to the Jobbers who deal in the security, the question as to what is the correct price. While a Broker is allowed to "marry" orders (see "Marrying") the process of "putting through" ensures a fair deal to both buyer and seller. An example of this principle would be for Stock to be put through on a quotation of 100 to ½ at $100\frac{1}{8}$ and $100\frac{5}{8}$, or for Shares ordinarily quoted 25s. to 25s. 6d. to be similarly put through at 25s. 1½d. and 25s. 3d., 25s. 3d. and 25s. 4½d., or alternatively 25s. 2¼d. and 25s. 3¾d. Efforts are made to ensure transactions being genuine and to prevent the putting through of fictitious business in order to obtain publicity for the marks. Stock Exchange rules preclude a Broker "putting through" securities with another Broker (see pages 85–6).

Putting Up/Down the List. A buyer of securities unable to secure them at or within the Official List quotations may ask for that quotation to be raised. A seller likewise unable to dispose of securities within the list quotation can ask for the quotation to be put down (see page 65).

Quotation. A quotation is the price or prices made in the market at which it is possible to deal. These prices are usually well within the quotations seen in the Stock Exchange Official List. For information regarding Official Quotations see pages 60 and 316.

Quoted Numbers. The numbers on all bonds which are officially recognised can be found in the Stock Exchange Weekly Official Intelligence. Unquoted numbers are not good delivery.

Query. A question raised concerning a bargain.

Raid. Concerted movement to inflate or depress a market.

Rally. Term applied to a market recovery.

Rates. Consideration which is fixed each Account for contango facilities (see pages 125–6).

Read. Pronounced reed. The trace from buyer to seller. In the case of registered securities the various names are found on the back of the Ticket (see page 225).

Reading. Tracing securities. The intelligent anticipation of price developments is termed "reading the market aright."

Red Button. Clerks who are allowed to enter the Settling Room beneath the Stock Exchange must, when exercising the privilege, wear a red button in the lapel of their coats. Those clerks are known as Settling-room clerks, and the number allowed to each firm or Member is limited (see page 36).

Redemption. Securities purchased for the purpose of extinction are said to be bought for redemption. Also applies to date of repayment.

Reinvestment. Orders treated as such can be given special commission consideration (see page 83).

Reliable. A reliable quotation is one which a dealer is quite prepared to substantiate by selling or buying at the prices named.

Remisier. An agent registered in accordance with Stock Exchange Rules (see page 88).

Renunciation. An allotment letter which gives the original allottee facilities to renounce his holding in favour of another (see page 291).

Rescission Bonds. A Rescission Bond is one which, generally speaking, revokes, repeals, or annuls Bonds which previously existed.

Rialto. The Rialto Bridge is a famous marble structure over the Grand Canal, Venice. The shops on both sides of the Bridge are still in existence, and this spot is the site of the Exchange and the centre of industrial activity. This fact accounts for the application of the name Rialto to Stock Exchanges and other busy centres.

Rig. An artificial raising or bolstering up of price levels.

Rights. Definite offers which carry advantage to existing Stock- or Shareholders are known as Rights. The value of such Rights is assessed by the Stock Exchange in accordance with the terms of the new offer, and the market price of an existent or similar security (see page 310).

Rock Bottom. Phrase which suggests that prices may fall no further.

Run It. Refers to determination to continue an open position.

Runner. One who collects prices or business but who does not of necessity deal.

Running a Book. Describes the position of a Jobber who specialises in a certain Stock or Share.

Saddled. Sums up the position of one who is "left" with a security, possibly at a higher price than that in the market.

Sag. Inclined to sag describes a reactionary tendency in a market.

Same Way. The condition of two dealers who discover on "challenging" at a certain price that their positions are identical.

Scrappy. Word used to describe small transactions or "ragged" dealings.

Scratch It. The not infrequent and generous offer of Brokers or Jobbers to cancel a transaction when it transpires that a mistake has been made. It should be emphasised that this is quite gratuitous and often involves a Member in loss (see page 32).

Scrip. Securities in bearer form and not registered as in the case of transfers (see page 281).

Seen Anything? Discreet inquiry regarding a given price quotation.

Sell or **Offered.** See "Offered or Sell."

Selling Out. The department to which a seller resorts if unable to obtain a Name on which to deliver his security (see page 229).

The threat used to speed up the transit of such Name.

Settlement. Date for which securities are bought or sold. (See "Account.")

Shade Off. To convey an almost imperceptible setback in price.

Shake Out. Sharp setback in price movements due to the dislodgment of weak "bull" positions.

Shipping Order. Suggests a large transaction. Facetiously applied to tiny ones.

Shooting a Man. Refers only to a common practice of Jobbers who, guessing whether a Broker is a buyer or seller, will alter their price accordingly. For example, if the price of War 3½ per cent was 100 to ⅛ and a Jobber made 99⅞ – 100⅛ to a Broker thinking him a seller this would be "shooting." If the Broker bought the Stock the Jobber would have "shot" his Broker incorrectly or the wrong way.

Shop. The promoting interest behind an issue is known as the "shop." Orders proceeding from such source are described as "shoppy."

Short. One who is out of Stock or Shares. A "bear."

Shorts. Government and other Securities which have an early redemption date (see page 304).

Shunters. Term applied to Brokers who "arbitrage" with Provincial Stock Exchanges (see page 157).

Silly. Description of markets where tendency is difficult to define. An alternative description is "stupid."

Sliders for Choice. A summing up of market conditions where sellers are in evidence.

Slump. A pronounced fall in price (see page 149).

Small. A remark accompanying a request for a price when the amount involved is modest.

Something Closer. Request to a Jobber to come inside a stated quotation.

Split. The loss involved through the division of a "Ticket" (see page 226).

Split It With You. The usual offer amongst Members when a mistake is discovered which involves a loss.

Spoil. To "open" indiscreetly or handle clumsily a large order will sometimes "spoil one's market."

One who bids or offers securities with the object of preventing another dealing is known as a "spoiler."

Spotty. A dealer with an order at or close to the "middle" of a quotation is known to be "spotty."

Spring. Term which indicates ability to give way to a slight extent, e.g. "If you spring 1½d. I will deal."

Squeeze. Pressure brought to bear to enforce the closing of an "open" position. A "bear" squeeze will often take a price higher than intrinsic value.

The cutting of a price as fine as possible.

Squirt. A derogatory term indicating that someone is taking advantage of another's order. The operation is known as "squirting on the Market."

Stable. Alternative description of "Shop." Interested House behind a particular Stock or Share.

Stag. An impermanent applicant for a new issue. Where the applications in such cases are considerable an issue is said to be "heavily stagged" (see page 121).

Sterling. The English £ and its value as compared with other currencies.

Used also to indicate real worth.

Sticking Out. Descriptive phrase of a viewpoint which is unmistakably clear. Used to emphasise either the over-value or under-value of a security.

Sticky. Applied to market prices which refuse to budge.

Stock Exchange Amount. Sums easily recognised by the profession. £6 5s. or £3 2s. 6d. are Stock Exchange amounts, the former being equivalent to $\frac{1}{8}$ per cent on £5,000 Stock or $\frac{1}{16}$ on 100 Shares, and the latter equivalent to half that amount or, say, $\frac{1}{32}$ on 100 Shares.

Stop Loss Orders. Instructions to limit one's loss on a falling market (see "Cutting a Loss").

Straddle. A cross position in two Stocks in companies of similar interests, or two forms of Stock in the same company. A dealer who was short, say, of British American Tobacco Bearer Shares which he was unable to buy might purchase the Registered Shares as a protection. By thus being a "bull" of one and a "bear" of the other, the Jobber is protected against excessive loss in the event of a rise or fall in the price of a particular security. An alteration in the relative prices of the securities allows an operator to undo a "straddle" at a profit or loss which otherwise might not be possible. A "straddle" may be described as a form of protective dealing.

Also, and more loosely, used in the sense of a "swap."

Street. On the closing of the Stock Exchange at 3 p.m., Jobbers and Brokers gather in Throgmorton Street and Shorters Court for the transaction of business. This gathering is known as the "Street" market. Years back the last to disperse was the American market in Shorters Court, as 3 p.m. in New York, is equivalent to 8 p.m. in London (see page 188).

Stuffed. Equivalent to "Plugged," "Planted," or "Landed."

Sub. Abbreviation for "subject." A transaction done with a Jobber "subject" is liable to cancellation if unacceptable to the Broker's principal.

Support. Purchasing orders on a falling market which have a steadying effect.

Swap. The exchange of one security for another.

Switch. Same as "Swap."

Takers. Those desirous of taking "contango" money. Indicative of a "bear" position (see page 126).

Take Up. When securities are purchased they are either continued or taken up at the Settlement. To "take up" is to pay for or stand to pay for the securities in question.

Take You Upstairs. The threat, playful or otherwise, of one Member to take another before the Council.

Talon. A slip attached to bearer Bonds enabling a fresh sheet of coupons to be collected when the existing coupons have all been used.

Tame. An order easily executed. A Broker easily satisfied.

Tap. Description applied to a market where persistent selling is in evidence. Might apply to a security where Stocks or Shares are always obtainable.

Tape. Method employed by the Exchange Telegraph Company to broadcast news and Stock Exchange prices. The system is privately owned, and Members and clerks are exclusively employed in the "House" to collect and report price changes. A move in a market counter can be transmitted to all subscribers in their offices within 15 seconds.

Tapis. "On the tapis" means something afoot, something under consideration or on the carpet.

Tendency. The inclination of a market or a market quotation. On a dull day tendency would be downwards. An important consideration to an operator or a dealer (see page 143).

Tender. When a market is tender it is easily disturbed. A competitive application, in some cases for Stock to be allotted and in others for Stock to be redeemed (see page 211).

T.F.A. Stocks issued under the Government Trade Facilities Act. Such issues are full Trustee Stocks (see page 103).

That Your Lot? Legitimate inquiry of a Jobber making a price in a fair quantity.

There They Go! Humorous shout when two or more leave the market for a refresher.

Three-deckers. Description given to an applicant for admission to Stock Exchange membership who has to find three sureties (see page 16).

Thrown Out. A contango position suddenly terminated.

Ticket. Name issued by buyers on which are entered registration particulars (see page 223).

Ticket Day. Day on which the passing of Tickets commences (see pages 127, 222 *et seq.*).

Tip. Recommendation to buy or sell. There are market tips and newspaper tips. A Stock Exchange adage says "Where there's a tip there's a tap" (see page 145).

Tone. The tone of the market sums up its general condition or tendency. "Better," "easier," "dull," or "improving" will indicate the tone of markets (see page 143).

Toppy. Word used to describe a market or a price which is thought to be "top heavy," and where some setback is expected.

Tops and Bottoms. To hit "tops and bottoms" is to buy at the bottom and sell at the top—the ideal of all operators. Also a market condition implying confused tendency.

Touch. The request for the "touch" in a market quotation is for the closest possible price known. A dealer giving the "touch" may not himself be able to deal at the prices quoted.

Trace. The various names through which a security may pass between ultimate buyer and seller. With registered securities the trace can be found on the back of the Ticket (see "Read" and page 225).

Tracing. Following the trace to discover a person who delivers the Stock.

Trade. Description applied to Stock Exchange business.

Trader. A dealer with an order is referred to as a "trader."

Transfer Stock. Distinguishes between Stock transferable by deed and that by "Bearer Bond."

Treasury Bills. These Bills are issued by the Bank of England on the weekly tender system and are repayable three months after date "Hot" Bills are those tendered for each Friday, and they cool off at the end of their first week of life when, as is the usual practice, further Bills are tendered for.

Treasury Short. Bonds issued by H.M. Treasury having five years or less to run (see page 304).

Trust Company. A company formed for the purpose of specialising in the purchase of other securities (see page 195).

Trustee. One to whom property is legally committed in trust for another. Special Acts of Parliament are laid down for a trustee's guidance.

Trustee Stocks. Investments defined by Trustee Acts and available for the purpose of trustees (see page 99).

Turn. A Jobber's "turn" is supposed to be the difference between buying and selling price. It does not follow that he deals at both prices; the profit or otherwise which follows is known as his "turn" or his loss (see page 29).

Getting or giving the "turn" has passed into recognition as the bestowal of some advantage.

Turning Round. Applied to a person who reverses his position, or a market which is changing its course.

Unauthorised. A clerk who is allowed to enter the House but not to deal (see "Blue Button" and page 35).

Under To. Means $\frac{1}{32}$ or $7\frac{1}{2}$d. "Under to $\frac{7}{8}$" means 16s. $10\frac{1}{2}$d. to 17s. 6d. (see "Fractions" and "Over").

Underwriter. One who for a consideration guarantees to take up Stock or Shares not applied for or allotted (see page 204).

Uneven. A position which is not square. A person who is either a "bull" or a "bear."

Unquoted. Unquoted securities are those which do not appear in the Stock Exchange Official List.

Unquoted numbers, unless by arrangement, are bad delivery (see "Quoted Numbers").

Unreliable. A quotation thus proffered is one at which it may not be possible to deal.

Valuation. A statement made in accordance with existing price levels. Valuations for probate are made, where an official price is quoted, at 25 per cent below the middle of the quotation.

Waiter. Uniformed attendants stationed at the Stock Exchange doors and mounted on rostrums within the "House." Derivation probably from the old "Coffee House days" (see pages 19 and 399).

Waiting List. Clerks who desire to become Members of the Stock Exchange without the necessity of acquiring a Nomination may enter their names on what is known as the Waiting List (see page 14).

Wall Street. The famous home of the New York Stock Exchange.

Watching the Market. Keeping a careful eye on price movements.

Watered. Description applied to capital which is unduly inflated.

Way. Word used when seeking tendency within a quotation. In reply to a Broker to whom he has given a quotation of, say, 26s. to

26s. 6d. a Jobber might presumably say, if asked the "way," "26s. 1½d. 26s. 6d." This indicates the Jobber to be a better buyer than seller, and the disclosure of the "way" may thus lead to business.

Wild. Description given to markets when they are extremely agitated and excited.

Wild Cat Scheme. Description applied to a venture which enjoys little hope of financial success.

Wouldn't Pick 'Em. Disrespectful reference to Stocks, Shares, institutions or firms which are not in favour.

Wrong Side of Middle. Position of a Broker who is a seller at above, or buyer at below, the middle of a market quotation.

Wrong Way. The shortening of a quotation in the direction which is of no assistance will sometimes call for this remark. Two dealers who meet and prove to have similar business are the wrong way for each other.

Yankees. Name given to American securities.

Yield. The annual return shown by a security when interest distribution, purchase price or market price, and possibly redemption price are taken into consideration (see page 106).

INDEX

ACCOUNT Day, 126 *et seq.*, 214 *et seq.*, 419
Accounts, 352 *et seq.*
"Accredited clerks," 162, 173
Accrued interest, 302, 304
Admission of clerks, 35–36
—— of members, 52 *et seq.*
Ad valorem, 419
Advertised statements, 318–24
Advertising by members, 22, 57
Agents, 87 *et seq.*
Agents' contracts, 93
Allotment letters, 206, 288
——, preferential, 210, 313
Altering the list, 65, 358–60, 419, 433
American securities, 186–8
—— ——, dividends on, 302, 307
—— share certificates, endorsements on, 216–9
—— —— ——, delivery of, 284
—— —— ——, switching of, 186–8
Amortisation, 419
Annual subscription, clerks', 14, 16,36
—— ——, members', 14, 16, 58
Annuities 4% Cumulative Red., 45 *et seq.*
Appendix 34, 316 *et seq.*
—— 35, 333 *et seq.*
Application for new issues, 210–11
—— —— official quotation, 316 *et seq.*
Arbitrage, 188, 419
Arbitrageurs, 188–91, 419
Arbitration in members' disputes, 56
Arrangement, Deed of, 340
Art Society, Stock Exchange, 12
Associated Stock Exchanges, 158
Association of Canadian Investment Dealers, 183
—— —— New York Member Firms, 183
—— —— Stock and Share Dealers, 183
Attachés, 14, 87–90, 419
Attorney, Power of, 271–3
Authorised capital, 119
—— clerks, 9, 35–6, 419
—— depositaries, 248
Averaging, 420

BACKWARDATION, 370, 420
Bad book, 420
—— delivery, 293, 309, 420
Badges, clerks wearing, 36, 421, 434
Balance certificate, 255, 420
"Balance," finding the, 387, 420
Balance of order, 420
Bank-notes, when member may demand, 216
Bank Rate, 146, 420
—— ——, influence of, on security prices, 146
Bankrupts, admission of, 53
Banks as agents, 87–8, 90–2
—, business contributed by, 90, 193
Bargains between non-members, 68–70
—— —— ——, commission on, 79–82
——, checking of, 220–2
——, inviolability of, 56
——, marking of, 64–70
——, meaning of, 420
Bearer securities, 281, 420 *et seq.*
—— ——, buying-in of, 290
—— ——, times for delivery of, 290
"Bears," 121 *et seq.*, 154, 420
Belfast Stock Exchange, 173–5
Benevolent Fund, Stock Exchange, 12
"Big figure," 221, 421
Birmingham Stock Exchange, 167–70
Blank transfers, 257, 266–8
Blue button, 36, 421
Bonds, damaged, 288
——, drawn, 291–4
——, rescission, 105, 434
——, various, 105
Bonus issues, 313
Booms, 150, 421
Borrowing (Control) Act, 1946, 208
Borrowing, forms of, 105
—— overdue Stock, 278
Bought Journal, 139, 353–5
Box Account, 391, 421
Bristol Stock Exchange, 175
"Broken amount," 32, 421
Brokers, function of, 27, 29, 71 *et seq.*
Brokers' medals, 406
"Bucket shops," 421
"Bulls," 31, 121–4, 154, 421
"Buying-in," 274, 421 *et seq.*
—— and selling-out, charges for, 229
—— bearer securities, 290
—— inscribed Stock, 297
—— registered securities, 275 *et seq.*

CALL of more, 422
"Call" option, 131, 421
"Call Over" (Provincial Exchanges), 157
Calls, payment of, 298, 312, 421
Candidates for membership, 52–4
Capital, 119
Capital Issues Committee, 208
Capital liability, uncalled, 120

Capital, Stock Exchange, 44–5, 414
Cardiff Stock Exchange, 177–9
Career, Stock Exchange as, 1 *et seq.*
"Carrying over," 125
Cash Book, 215, 377–80
—— transactions, 129–30
"Caught short," 31
Centralised delivery, 216–19, 262
Certificate, destroyed, 280
——, income tax, 306
——, lost, 280
Certification of transfers, 253–6, 296, 422
Chairmen, list of, 411
Challenge, 422
Change Alley, 399, 401
—— of investments, commission on, 83
Checking Book, 357
—— of bargains, 220–2, 422
—— room, 422
Cheques passing between members, 216
Choice in dealing, 422
"Clean" Bonds, 422
Clearing Book, 384–6
—— House, 235, 422
—— Sheets, 237–43
Clerks, ages of admission for, 36
—— and remisiers, 88–90
——, authorised, 9, 36, 419
——, Settling-room, 36
——, unauthorised, 36
Clients and their contracts, 73 *et seq.*
Clients' Ledger, 360–4
"Close," 422
Closing of books, 299, 422
—— transactions, commission on, 83
Coffee houses, early dealings in, 399
Cohen Committee's Report, 330–2
Collateral, 423
Colonial Stocks, 104
Commission charges, fairness of, 86
—— —— for buying-in and selling-out, 229, 274
—— on new share issues, 210
Commission-sharing, 10, 87–90, 211
Commission, underwriting, 205–6
Commissions, change of investments, 83–4
——, country Brokers and, 79, 81–2
——, minimum scale of, 79–81
——, provisions that benefit clients, 82–6
——, rebates to attachés, 88
—— —— —— banks, 88
—— —— —— clerks, 88
—— —— —— remisiers, 88
——, reduced, 83–4
Committee for General Purposes *See* COUNCIL, 38, 409
Company Law Amendment Committee Report, 330–2
—— Prospectuses, 208–11
Consideration, 423
Consideration money, 249–50
——, nominal, 250–3
Constitution of London Stock Exchange, 38 *et seq.*
Contango, 74, 124 *et seq.*, 131, 423
—— Day, 125 *et seq.*
—— Journal, 367–70
—— Rate, 125–6
Contingent orders, 423
Continuations, 74, 124 *et seq.*
Contract note, 73 *et seq.*
—— stamps, 74, 92
Conversion of Shares into Stock, 110, 219
"Corner," 423
Corporation Stocks, British, 104
Council of Associated Stock Exchanges, 159, 256
—— of the Stock Exchange, 38–44
—— —— —— Chairman, first, 39, 411
—— —— ——, Committees, 43
—— —— ——, Foundation Members, 40
—— —— ——, Ordinary Red Members, 41
Country Brokers, 73, 81, 93
Coupons, interest, 282, 302–3, 423
"Cover," 110–12, 423
"Crown Agent" Stocks, 104
Cum dividend, 299
"Cumulative" Preference issues, 109, 423
Cutting a loss, 32, 423
—— limit, 423

DAMAGED Bonds and Certificates, 288
Deal and dealers, 423
Debentures, 105, 108, 111
Declaration day, option, 132, 140
Deed of Arrangement, 340
—— of Settlement, 1875, 38
—— Stock, 247, 423
Defaulters, 338, 424 *et seq.*, 58–9
——, options and, 138
——, readmission of, 348–50
——, selling out and, 234
Deferred Ordinary issues, 107, 113
Defunct Companies., 338, 424
Delivery of bearer securities, times for, 281
—— of inscribed Stocks, times for, 298
—— of registered securities, times for, 217, 261, 281
Demobilised securities, 424
Denomination of Shares, 115, 118
Denunciation of Stockbrokers, 402
Deputy-chairmen, list of 411,
Destroyed certificate, 280
Dictum Meum Pactum, 36–7, 417
Differences, 127–9, 214, 424
Dirt Track Boom, 151
Disciplinary Rules, 50–2
Discount, 121, 206, 424

Discount houses, 194
"Discounted," 147, 424
Discretion, orders at, 424
Disputes between members, 43, 56
Dividend announcements, 146–7
—— Book, 382–4
—— ——, Suspense Account, 383
Dividends, 298 *et seq.*
——, claims for, 307
——, deduction by buyer, 306, 308
——, free of tax, 118–9
Dividends payable abroad, 303
—— —— in foreign currency, 306
Double option, 131, 135 *et seq.*
Dramatic and Operatic Society, Stock Exchange, 12
Drawings, 106
Drawn Bonds, 292–4, 424
—— registered securities, 294
"Dual control," 49, 417, 424
—— ——, passing of, 49
Dublin Stock Exchange, 170–2

EARLY Price Lists, 405
Edinburgh Stock Exchange, 172–3
"Either side," 424
Entrance fee, clerks', 36
—— ——, members', 14, 16
Equity, 424
—— Shares and Stock, 113 *et seq.*
"Even," 31, 424
Ex bonus, 313
—— coupon, 303
—— dividend, 299 *et seq.*, 424
—— rights, 299 *et seq.*, 424
Exchange Telegraph, 21, 433–7
—— Control Act, 1947, 248, 283, 424
Exempted Dealers, 183

FAILURES, 338 *et seq.*
——, private, 312
Finance (1909–1910) Act, 1910, 92, 252
Finance Act, 1920, 93, 125, 250
First Intermediate Day, 127
Fixed charges, 425
—— price, 425
—— trusts, 199–202
"Flat," 31, 143, 425
Flat yield, 106–7, 425
Foreign Bourses, 185
—— Government Stocks, 95–6
Forms B.A. and B.U.K., 249, 283, 285
Forward bargains, 130 *et seq.*
Foundation Members of the Stock Exchange Council, 41
—— stone, Stock Exchange, 44, 406–8
Founders Shares, 114
Fractions used by dealers, 425
"Free," 130, 426
Free market, 27, 156, 426
—— of tax, 304, 426
Freedom of markets, 33
Funds, British, 61, 426

GAMBLING, 17, 154
Gear ratio, 115–6
General Expenses Account, 380
—— rate, 125
—— register of agents, 88
General Undertakings (Govt.), 324
Genuineness of documents and securities, 266, 288
Gilt-edged market, 101–2, 129, 426
"Giver" (of contango rate), 125–6, 426
—— (of option money), 131
Glasgow Stock Exchange, 160–3
Glossary of Stock Exchange Phraseology, 419 *et seq.*
Good Delivery, 288
—— Names, 287, 308–9
Government Broker, 102
—— Loans, 102–4
—— Stamp Duty, 259
—— Stocks, British, 99, 102–4
—— ——, Foreign, 95–6
Grossing up Dividends, 118–19
Gross price, 82, 426
Guaranteed Stocks, 103, 108

HALF Book, 426
"Half-commission men," 88, 426
"Hammer," 58–9, 426
—— prices, 342
"House," 5, 7, 26, 347, 411–2, 427

INCOME tax, deduction of, 302–9
Indemnity, Letters of, 280, 427
Inflation, 427
Inscribed Stocks, 295 *et seq.*
—— ——, abolition of, 296
—— ——, buying-in of, 297
—— ——, times for delivery of, 298
Insolvency of members, 58, 338 *et seq.*
Insurance companies, business contributed by, 194–5
Interest, accrued, 302–4
Intermediaries, release of, 234, 290
Intermediate Day, First and Second, 127
—— ——, selling out on, 233
Introductions, 325
Investment and speculation, 151–4
——, science of, 95 *et seq.*
—— trusts, 195–9
Inviolability of bargains, 56
Issued capital, 119
Issuing houses, 202–4

JOBBERS, function of, 27, 28, 30, 427
——, utility of system of, 33–5
Jobbers' books, 391
—— Ledger, 364–7
—— lists, 33
—— 10s. Stamp, 93
—— turn, 29, 35, 438
Jobbing Book, 30, 139, 221–2, 353

Journals—
Bought, 353
Contango, 367
Jobbers', 391, 397
Sold, 355

KAFFIRS, 150, 427
Kangaroos, 427

LEDGERS—
Clients', 360
Country Brokers', 360
Jobbers', 364
Private, 380
Sundries, 381
Leeds Stock Exchange, 176–7
Leeman's Act, 139
Letters of Allotment, 206, 291, 428
—— of Indemnity, 280
—— of Renunciation, 291–2, 425
Liability times (for tickets), 233–4
Limit, 428
Limited, 428
—— market, 428
"Lines," 186, 428
Liquidation, 428
List, altering the, 358–60, 433
—— Book, 358–60
—— of Members, 58
—— of subscribers (clearing), 242
—— price, 65
——, Settlement Department, 237–40
Lists closed, 206–7, 428
Liverpool Stock Exchange, 163–5
Loans, various, 105
London-Brighton Walk, Stock Exchange, 12
London Discount Market Association, 183
Lost certificate, 281

"MAKE-DOWN," 343, 345
"Make-ups," 375–6, 430
Making a market, 429
"Making a price," 27, 29, 128 *et seq.*, 429
Making-up Day, 127
"Making-up" prices, 126, 128–9, 243, 376
Manchester Stock Exchange, 165–7
March of science, 97
Margin, 423, 429
Marked for dividend, 308, 429
Market factors, for and against, 142–51
Markets, 27, 429
Marking boards, 22, 66
—— Names, 309
—— of bargains, 64 *et seq.*
—— Officer, Inland Revenue, 252
—— slip, 22, 66, 69
Marks, complaints, 70
—— special, 68
"Marrying," 85, 429
Medals, Brokers', 406
Members, admission of, 52 *et seq.*
——, ages of admission for, 52
——, disputes between, 43, 56
——, duty to public, 56
——, List of, 58
——, number of, 57
Membership, 14, 27, 52–8
——, costs of, 14, 58 *et seq.*
——, eligibility for, 52
——, qualifications for, 14, 52–3 *et seq.*
"Middle," 29, 429
Mincing Lane Stock Exchange, 181
Minimum Scale of Commissions, 79–81
Minors, 265
Money, bargains for, 129–30, 429
——, cheap and dear, 422
"Monkey," 221, 430
"Mops," 375, 430
M/U prices, 126, 128–9, 243, 343, 430

NAMES, passing of, 222 *et seq.*
National Debt Commissioners, Broker to, 102
Nationalisation, and the Stock Exchange, 6, 96
Nationalism, 96
Negotiation, 430
Net contracts, 73, 82, 430
New Issues, 202–4, 208–9
—— Shares, 310–11
New York Stock Exchange, 185 *et seq.*
Nominal capital, 119
—— consideration, 250–3, 267
—— quotations, 430
—— transfer stamp, 93, 191, 250–2, 267
Nomination, 10, 14, 15, 54, 430
——, defaulter's, 348
——, special rights of, 55
No money to pass, 430
Non-Members, defaulters and, 347
"No par value," 116, 430, 432
N.T.P., 246, 430

OFFICIAL Assignee, 338, 431
Official List, 22, 59–64, 256, 286, 309, 315, 337, 417
—— —— Monthly Supplement, 64
—— *Lists* (Provincial Exchanges), 160
—— quotation, application for, 316 *et seq.*
—— valuation, 138, 312
Oldham Stock Exchange, 180–1
"One," 221, 431
"Open," 431
Option dealers, 130, 431
—— money, 130–1, 139
Options, 130, 431 *et seq.*
—— and defaulters, 138
—— and securities made ex rights, 312
——, declaration of, 132, 140–1
Ordinary Stock and Shares, 113–5, 118

Original Deed of Settlement, 38, 408–9
"Outside" Brokers, commission charges to, 90
"Over," 431
Over-subscribed, 206, 431
Over the List, 431

P/A, 271–4, 432
Paid-up capital, 119
Par, 432
Pari passu, 108, 432
"Paris Numbers," 193, 432
Parity price, 191–3, 432
"Participating" rights, 108
Partnerships, Council's jurisdiction over, 56
Passing of Names, 222–5
Payment of calls, 312
Pension Scheme, clerks', 12
Permission to deal and quote, 209, 317 *et seq.*
Permitted Dealings, 330–1
Petty Cash Book, 386–7
"Pitch," Jobbers', 28, 432
Placings, 325 *et seq.*
——, Certificates of Exemption, 332
"Plus accrued," 305, 432
Politics and markets, 148
"Pony," 221, 432
Power of Attorney, 271–3, 432
Preference Stock and Shares, 108–9
—— voting rights, 109
Preferential allotment, 210, 313
—— —— form, 313
Preferred Stock and Shares, 108, 113
Premium, 123, 207, 432
Prescribed Securities, 285
Press, influence of, on price movements, 22, 144–5
Prevention of Fraud (Investments) Act, 182, 201–2
Price Lists, early, 405
—— movements, origin of, 26, 29
—— ——, psychology of, 142
——, parity, 191–2, 432
Prices, making-up, 126–9, 376
Principal's Licence, 182
Prior charge issues, 104, 432
Priority percentage, 112
Private Ledger, 380
Probate Valuations, 212, 432, 438
Profit and Loss Account, 380
Prohibition of Dealings, 331–2
Proof of death, 273–4
Prospectuses, 203–4, 208–10
Provident Fund, Clerks', 12
Provincial Brokers' Stock Exchange, 158, 179–80, 183
—— Exchanges, 16–17, 35, 156 *et seq.*
Proxy forms, 271, 433
Psychology of price movements, 142–5
Public issues, 208
Public, Stock Exchange and the, 56
—— —— ——, protection of, 332
—— Trustee, 88, 211
Publicity and the Press, 22, 144
Puff and puffing, 433
Punter, 433
"Put and Call" option, 131, 135–8
—— option, 131
—— through" transactions, 85–6, 433

QUALIFICATION, Stock Exchange membership, 14, 52–3
Quotations, official, 60, 433
—— ——, applications for, 316 *et seq.*
—— ——, charges for, 329
——, Unit Trusts, 333
Quoted numbers, 433

RATES, 125–6, 433
Read, 433
Receipt, transfer, 264
Recommenders, 53–4
Reconciliation statement, 379–80
Records, Office, 352 *et seq.*
Red button, 36, 434
Redemption dates, 105–6
—— yield, 106–7
Reduced Commissions, 82–5
Registered and bearer Stock, 283
—— certificate, 264
—— securities, 246 *et seq.*
—— ——, drawn, 294
—— ——, selling out of, 229–33
—— ——, times for delivery of, 217, 261–81
—— ——, when ex dividend, 301
Register of Attachés, 88
—— —— Banks, 88
—— —— Clerks, 88
—— —— Remisiers, 88
Register of Defunct Companies, 338
Registers, closing of Stock and Share, 299
Registration Book, 391, 394
—— fee, 92–3, 248
—— of transfer deeds, 263–5
Regularity of documents 266
Reinvestment orders, commission on, 83, 434
Remisiers, 84, 88, 434
Renunciation, Letters of, 291–2, 434
Responsibility for genuineness of securities, 266, 288
"Results," dealings in, 331
Rialto, 434
Rights, 138, 310, 434
——, claims for, 311
——, valuation of, 310–12
Royal Charter, 48, 418
—— Exchange, 20, 400

Royal Commission, 1877, 67, 415
Rules and Regulations, 50, 51
—— —— ——, first, 411–4
Runner, 434
Running a Book, 434

SCHEDULED TERRITORIES, 248
Science in commerce, 97
Scrip, 281, 434
—— Book, 391, 395
Scrip Tickets, 288–91
—— ——, splitting of, 289–90
——, time for delivery of, 233, 281
Second Intermediate Day, 127
Secretaries, list of Stock Exchange, 414
Securities—
  Bearer, 281 *et seq.*
  Inscribed, 295 *et seq.*
  Registered, 245 *et seq.*
  Times for Delivery, 281
  Various classes of, 107–9
Seller responsible for genuineness of securities, 266, 288
Selling for cash, 127
Selling-out Department, 229–33, 435
—— bearer Stock, 290
—— inscribed Stock, 297
—— registered securities, 229–33
Settlement, 127, 213 *et seq.*
——, British Funds, Corporation Stocks, Public Boards, Inscribed, Dominion, etc., 129–30
—— Department, 43, 235 *et seq.*
—— —— List, 238–9
—— ——, selling-out and, 232–3
—— ——, split tickets and, 227
Settling Room, 35, 126, 219
Settling-room clerks, 35–6
Share and Loan Department, 60, 254, 294, 303, 306–7, 312, 315 *et seq.*
—— —— —— ——, certification by, 254
—— —— —— ——, coupons payable abroad and, 303
—— —— —— ——, dividends on American Securities and, 307
—— —— —— ——, dividends payable abroad and, 303
—— —— —— ——, drawn Bonds and, 294
—— —— —— ——, temporary settlement of rights and, 312
Share, definition of, 23–4
Shareholder, death of registered, 273–4
——, registration of minor as, 274
Shares to Stock, 110, 219
Sheffield Stock Exchange, 175
Shop or stable, 435
"Short," 31, 122, 435
——, selling, 122
"Shorts," 304–5, 435
"Shunters," 157, 189, 435
Signboards, electric, 20, 21, 146–7
Single option, 131 *et seq.*
Sinking Fund purchases, 105–6
Slip, marking, 22, 66, 69
Slumps, 149, 435
Societies named in Second Schedule of Solicitors (Scotland) Act, 183
Sold Journal, 139, 355–7
South African stamp duty, 94
—— Sea Bubble, 150
Special application forms, 313–4
—— resolution, 48
Speculation, 152–5
Splits Book, 384
"Splits," loss on, 226–7, 435
Splitting of Tickets, 226–8
Spoil, 435
Spotty, 435
Squeeze, 435
Stag, 121–4, 436
Stale bull, 122
Stamp and Fee Account, 381–2
Stamp duties—
  Bearer securities, 282, 287
  Contract note, 73 *et seq.*, 92
  Letter of Indemnity, 280
  Letters of Renunciation, 291
  Power of Attorney, 271
  Proxy forms, 271
  South African, 94
  Transfer, 93, 259–61
Stamp requisition forms, 260–1
Stockbrokers, denounced, 402
——, functions of, 71 *et seq.*
"Stock" creditors, 344, 346
Stock, definition of, 23–4
—— Exchange amount, 436
—— —— and Nationalisation, 6
—— —— Annuities, 45 *et seq.*
—— —— Art Society, 12
—— —— as a career, 1–14
—— —— as an institution, 19, 22, 156
—— —— Benevolent Fund, 12
—— —— Boxing Club, 11
—— —— Brighton Walk, 12
—— ——, Cadet Corps, 12
—— ——, capital of, 44–5, 414
—— —— Christian Association, 12
—— —— Coat of Arms, 37
—— —— Council, 38–41
—— —— Dramatic and Operatic, 12
—— ——, function of, 22 *et seq.*
—— ——, historical summary of, 399–418
—— —— Library, 13
—— —— Male Voice Choir, 12
—— —— markets, 27, 429
—— —— membership, 27, 55, 57

Stock Exchange, Monthly Supplementary List, 64
—— ——, need for a, 25–6
—— —— New Constitution, 38 *et seq.*, 50 *et seq.*
—— —— Nominations, 10, 14–16, 54, 430
—— —— *Official List*, 22, 59–64 256, 286, 309, 315, 337, 417
—— —— *Official Year Book*, 287, 337–8
—— —— Orchestral Society, 12
—— —— phraseology, 419 *et seq.*
—— —— property and its capital, 44
—— —— Provident Fund, 12
—— —— Reference Library, 13
—— —— Rifle Club, 11
—— —— Shares, 41, 414
—— ——, site of, 18–19, 399–400
—— —— sport, 11
—— ——, strangers and the, 19
—— —— subscriptions, 14–16, 58
—— —— Waiting List, 14–15, 438
—— —— War Memorial, 21
—— —— *Weekly Official Intelligence*, 64, 256, 298, 309
Stock Units, 109–10, 219
Stop loss orders, 436
"Straddle," 436
Strange promotions, 403
"Street," 68, 436
"Striking" prices, 128, 131
—— —— (options), 128, 131
Subscribers only admitted, 18
Subscription Lists, 206, 210
Sub-underwriting, 206
Sub-units, 199–202
Sundries Ledger, 381
Sureties, 14, 16, 53
Suspense Account, Dividend, 383
Swap, 436
Switching, 186

"TAKER" (of contango rate), 126, 436
—— (of option money), 131, 136
Talon, 436
Tape, 437
Tap Loans, 208
Tax free, 282, 426
Temporary Recipients, 249
—— Regulations, 50, 124–6, 370
Tendency, 143, 437
Tenders, 211, 437
T.F.A. Stocks, 103, 437
"Three-deckers," 16, 437
Throgmorton Street, 18–19, 409
Ticket Book, 372, 374
—— Day, 127, 222, 437 *et seq.*
Tickets Passed Book, 371–2
——, passing of, 222 *et seq.*
—— Received Book, 373–4
——, scrip, 288–91
——, splitting of, 226–9
Times for delivery—
Bearer securities, 281
Inscribed securities, 298
Registered securities, 217, 261, 281
Renunciation Letters, 292
Tip, 144–5, 437
Title, registered, 247
——, transfer of, 245 *et seq.*
"Tone," 143, 437
"Touch," 437
Trace, the, 225, 281, 344, 437
Trade Facilities Act, 103, 437
—— returns, 145
Transfer deeds, 246 *et seq.*
—— ——, preparation of, 257–9
—— ——, registration of, 263–5
—— ——, times for delivery of, 217 261, 281
—— forms, special, 269–70
—— stamp duties, 93, 259–61
Transferee, 248
Transferor, 248
Transfers, blank, 257, 266–8
——, certification of, 253–6
—— Delivered Book, 392
——, payment for, 261–3
—— Received Book, 393
"Trans Lux," 146
Treasury Bills, 211, 438
—— ——, hot, 438
—— "shorts," 304–5, 438
Trial balance, 387–90
Trustee, 438
—— Act, 1925, 98–101
—— ——, need for revision, 99
Trustee Stocks, 99–100, 438
Trustees and Managers, 39–41
—— —— ——, list of, 410
Trusts, fixed, 199–202
——, investment, 195–9, 438
—— (Scotland) Act, 1921, 100
"Turn," Jobber's, 29–35, 438

UNAUTHORISED clerks, 35, 438
Uncalled capital liability, 120–1
"Under to," 438
Underwriting, 204–7
Underwriting, firm, 207
Unissued Capital, 119
Unit Trust Schemes Authorised, 185
Units (fixed trusts), 199–202
—— (of Stock), 109–110, 219
——, commission on, 80
——, quotations for, 110
Unnumbered Shares, 110
Unquoted numbers, 438

VALUATION of rights, 310–2
Valuations for probate, commission on, 212, 432, 438
Various classes of company security, 107
Voting rights, 109

"WAITERS," 19–20, 399, 438
Waiting List, 14–15, 438
War and Markets, 34, 148–9
—— —— Stock Exchange, 57, 60
—— 5 per cent Loan, 102–3, 152
—— Memorial, Stock Exchange, 19, 21
Way, 143, 438–9
Witness's signature on transfer deed, 258–9
Wrong way, 439

YANKEES, 439
Yield, 106–7, 116–8, 439
Youth and the Stock Exchange, 1 *et seq.*

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