

NEWS

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INCREASED RETAIL COMMISSION DISCOUNTING IDENTIFIED BY REPORT ON THE SECURITIES INDUSTRY

A marked increase in retail brokerage commission discounting, as well as widespread and substantial profitability throughout the industry, are among the developments identified in the Commission's Staff Report on the Securities Industry in 1979.

The profitability figures, based on data filed with the Commission by more than 2,500 broker-dealer firms which transact business with the general public, showed that such firms had combined pre-tax income of \$1.5 billion in 1979, an increase of about 60 percent over the previous year. Gross revenues for those firms amounted to \$13.2 billion in 1979, a 31 percent increase over 1978, and their pre-tax profit margin was 11.2 percent, compared with 9.1 percent in 1978.

The Report found that by the end of 1979 there were 97 firms which could be identified as discount broker-dealers. These firms received 7.8 percent of all retail commissions during the fourth quarter of 1979. For 1979 as a whole, the 97 discount firms earned \$106.5 million in commission revenues, 6.7 percent of the industry total. By Comparison, the 86 broker-dealers identified as discount firms in 1978 earned

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\$78.1 million in commission revenues, 5.4 percent of the industry total; and the 77 firms so classified in 1977 earned \$49.8 million, 4.7 percent of the industry total.

"While the number of firms has grown by 26 percent since 1977, their market share has increased by 66 percent," the Report said. "The considerable expansion in 1979 suggests that the growth of discounting has yet to run its course."

Among its other findings, the Report noted the following:

-- The pre-tax return on equity for all securities firms combined was 27.0 percent in 1979, versus 19.2 percent in 1978. The principal difference between the most profitable and least profitable firms in 1979 was the ability of the former to generate more revenue dollars per dollar of assets. Large firms and small firms attained similar levels of profitability in 1979.

-- Overall, effective commission rates declined slightly during 1979, though the decline was less dramatic than in the earlier years following the May 1975 abolition of the fixed rate schedule. The overall effective rates on individuals' orders declined 2.3 percent in cents per share and 2.7 percent as a percentage of principal value. Comparable figures for institutions' orders were 6.5 percent and 9.5 percent, respectively.

-- Specialists experienced record revenues and profits during 1979. Their total revenues increased 48 percent to \$331.7 million from \$223.7 million in 1978. At the same time, their pre-tax income almost doubled from \$72.1 million to \$142.8 million as pre-tax profit margins rose from 32.2 percent to 43.1 percent. The two main sources of revenues for specialist units -- floor brokerage and trading gains (or losses) -- accounted for 74 percent to 85 percent of specialists' total revenues during the 1975-1979 period.

-- NYSE member firms, although small in number (15 percent of all firms), accounted for 90 percent of the total assets and 85 percent of the gross revenues of broker-dealers conducting a public business in 1979. Firms that conduct a public business exclusively over-the-counter and members of exchanges (other than the NYSE) that conduct a public business accounted for the remainder.

The Report, prepared by the Commission's Directorate of Economic and Policy Analysis, is the successor to the series of reports to Congress on The Effect of the Absence of Fixed Rates of Commission which were prepared subsequent to the abolition of fixed commission rates in 1975. The Report, however, no longer focuses principally on Commission rates, but has instead developed into a comprehensive analysis of the various sectors of the securities industry, the dynamics of competition, and the impact of market forces on the industry's financial results.

In a foreword to the current Report, Chairman Harold M. Williams commented that, "I believe the findings of this study will prove useful not only to the Commission in its consideration of rules affecting the workings of the securities industry and the capital markets (including the evolving national market system), but also to the managers and operating officers of securities firms and to other persons interested in the health and performance of the securities industry."

Copies of the Staff Report on the Securities Industry in 1979 may be obtained by writing to the Publications Section, Securities and Exchange Commission, Washington, D.C. 20549.

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