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# PITMAN

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# THE STOCK EXCHANGE WAR MEMORIAL

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# 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

CHECKED - 1963

BY

F. E. ARMSTRONG

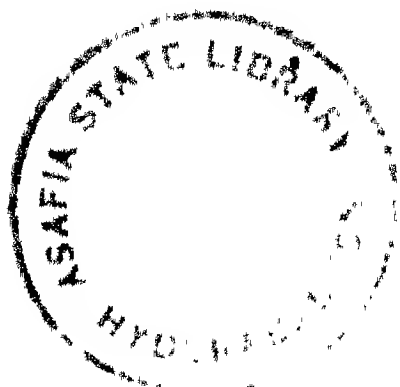
OF THE STOCK EXCHANGE, LONDON  
LECTURER ON "STOCK EXCHANGE LAW AND PRACTICE"  
TO THE CITY OF LONDON COLLEGE



THIRD EDITION

LONDON  
SIR ISAAC PITMAN & SONS, LTD.

1939



SIR ISAAC PITMAN & SONS LTD  
 PITMAN HOUSE, FARRER STREET, BIRMINGHAM, ENGLAND  
 THE PITMAN PRESS PATH  
 PITMAN HOUSE, LITTLE COLLING STREET, BIRMINGHAM  
 ASSOCIATED COMPANIES  
 PITMAN PUBLISHING CORPORATION  
 2 WEST 45TH STREET, NEW YORK  
 205 WEST MADISON STREET, CHICAGO  
 SIR ISAAC PITMAN & SONS (CANADA) LTD  
 (INCORPORATING THE COMMERCIAL TEST BOOK COMPANY)  
 PITMAN HOUSE, 101-103 KING STREET, TORONTO

<p>Author</p>	<p>18690</p>
<p>Class</p>	<p>D. 15.</p>
<p>BOOK No.</p>	<p>X</p>

# PREFACE

TO THE THIRD EDITION

REQUEST for a Third Edition of this book gives opportunity to bring it up to date. The occasion is welcome, as in no period of Stock Exchange history have the Committee for General Purposes applied themselves so assiduously to reframing its Rules and Regulations. It is fair to say that for years past this Committee, through the various Sub-Committees appointed by them, have sat practically in constant session, dealing with problems connected with the profession, and matters affecting the service offered by the Stock Exchange to the public.

Developments of national importance have taken place since the last edition was published. To several of these important matters attention was directed in previous editions of this work, and therefore the advent of such measures brings to author and publishers keen satisfaction. Pride of place must be given to the passing in Parliament of the Prevention of Fraud (Investments) Act, which goes far to remedy the crying need of the public for protection from unscrupulous share pedlars. The remarks under the heading of "Outside" Brokers are allowed to remain on page 166, but reference is made to the page on which this beneficent Act is referred to at greater length.

Striking growth of the "Fixed Trust" movement has also to be recorded, and this development is dealt with under the appropriate heading. Lest an exaggerated view of "Fixed Trust" development should be held, it is interesting to point out, first, that the tendency of Fixed Trusts is now wholly away from fixity; and, secondly, that whereas in nine years this form of appeal has succeeded in extracting £80,000,000 from the pockets of the investor, in one year alone to March, 1938, the Sub-Committee of the Stock Exchange for New Issues and Official Quotations dealt with 1491 applications for Permission to Deal, as a result of which permission was granted for sums aggregating no less than £569,000,000! When it is remembered that vigorous overhaul of all particulars is required, it will be seen that a vast amount of work is done

by the Stock Exchange Committee for the public, of which the public are unaware.

In other directions the activity of the Stock Exchange Committee has been unremitting. Of great value to the investing public have been their efforts, directed to the whole body of companies with whom they deal under the Companies Acts, for uniformity in the matter of their dividend announcements.

A firm stand has also been made by the Stock Exchange Committee for the protection of Preference Shareholders' voting rights, it being felt that regard should be paid to the amount of company's capital which Preference Shareholders have subscribed (see page 96); and that Preference Shareholders' voting rights should not necessarily be contingent upon such developments as default, amalgamation, or liquidation.

For the nation the past years have been critical; for the Stock Exchange they have been fraught with anxiety. The recovery envisaged in Chapter I, First Edition, has been experienced, but by a disturbing turn of fortune's wheel anxious days are with us again. Stock Exchange activity is bound up with the well-being of this and other countries, and what is required more than anything else in the business world is a return of confidence based upon mutual trust and goodwill amongst nations. Difficult as conditions are, abnormality by its very nature is impermanent; and the task of the Stock Exchange is to pursue its course, to provide an efficient and protective service for the public, and to maintain the high ideals of business trading which are an example to the world.

The need for education regarding Stock Exchange matters is still marked, and interest in the subject is unabated. This work has been chosen by the Institute of Bankers as a textbook in its examination for the Diploma in Executor and Trustee Work. It has been adopted also by the London County Council and other important educational bodies who give specialised training in Stock Exchange and other financial subjects. For that reason, and to supply all who desire information regarding the Stock Exchange, it is necessary to bring it as up to date as possible. That the book's helpfulness may be increased by the amendments made and information added is the author's wish as the Third Edition goes to press.



# PREFACE

## TO THE SECOND EDITION

THE welcome given to this book enables the author to write a preface to the Second Edition within eight weeks of the first. For this result two reasons appear: the need for such a work and a Press reception as remarkable as it was unanimous. *The Times* was good enough to assert 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 a standard work on the subject." This high opinion was endorsed by the *Economist*, *The Financial Times*, *The Financial News*, and daily, weekly, and monthly journals representing every shade of public opinion. Their very kind comments are acknowledged with gratitude, as indeed are all the expressions of goodwill from Journalists, Brokers, Bankers, Accountants, and others in all parts of the country.

The issue of a Second Edition gives opportunity to take advantage of criticism, but little material alteration is called for. The author and the Stock Exchange Committee have this in common, that on 2nd January, 1934, the publication date of this work, the Committee issued a reprint of their Rules and Regulations. The numerous alterations of recent years are now brought up to date. In this new edition of the Rules great care has been given to the index, which is unusually exhaustive and consequently much enlarged. It is singular that, immediately after the reprinting of the Rules and Regulations, the first to be substantially altered is Rule 1 relating to the election of the Committee for General Purposes. This Rule, which is referred to on page 41 here, is altered from the form in which it has stood since the Rules were originally framed. An ancient rule to disappear from the new book of Rules is that relating to the payment of transfer fees by the seller of Bank Stock. This particular Rule was designated as unusual in the first edition of this work, but has stood in the Stock Exchange Rules for three-quarters of a century.

It is interesting to see that the reform urged in p. 115

relating to the collection and distribution of difference cheques is answered by the Stock Exchange adopting an improved method. On the Account Day, 22nd February, 1934, the Settling Room beneath the Stock Exchange was invaded by a new army of clerks brought into the Room by the Committee's scheme. Waiters posted at the doors were carefully scrutinising this new foreign legion, examining on each a fresh badge of entrance—a yellow triangle on a green background. This badge is obtainable from the Committee for a sum of 5s. and is available for the collection of differences only. It is obvious that there are difficulties in the way of introducing the more comprehensive method of a central "Clearing House" for differences, but the present scheme is a step in the right direction.

Marked progress has also been made in the flotation of "Fixed Trusts," and while this form of investment medium would appear to be growing in popularity it is regarded with concern by some who see in its development tendencies inimical to the investor and the freedom of markets. The real test for these promotions will come with falling markets.

It is pleasing to record that the forecast on p. 1 that "depression will pass, and slowly but surely the wheels of industry will revolve once more" has happily received some justification, as has also the prediction on p. 5 that there "will be again" for Members "days . . . when everybody wanted them." Perhaps readers will bear in mind that Chapter I was written when the country was struggling to shake off the depression of the years 1929–1931, and therefore not give way to the tendency, common to the Stock Exchange profession, of going to extremes by assuming markets will always be brisk and busy and that the millennium has arrived for the City. Such a tendency can be checked by remembering the wise advice of "Autolycus," expressed a few years ago, to "wipe the spectacles of enthusiasm with the handkerchief of caution."

As this Second Edition goes to print two points may be stressed. First, that few outside the Stock Exchange were aware of the existence of its "Coat of Arms" with the splendid motto "*Dictum Meum Pactum.*" The banner of the Stock Exchange and its principles needs to be held well up, and it was fitting that the *Investors' Review* should head its scholarly

survey of this work with the interpretation of the Latin inscription—“*My Word, My Bond.*” Secondly, closer attention is being given by the authorities to the matter of Stock Exchange education as a means of entrance to the profession. Either the enlightenment of public opinion regarding the lofty ideals of the Stock Exchange or the helping of those who wish to study the subject would have warranted the publication of this book. Together they seem a complete justification for its existence. It is the author’s hope that his work will make an increasing contribution to both ends, and in this hope the Second Edition is launched.

F. E. A.





## PREFACE

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.

Several books have been written on the subject of the Stock Exchange. In some the historical side has been uppermost; in others, owing to the close connection with the commercial and business side of the nation's life, the legal aspects have been prominent. 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, and the Institute of Bankers on Stock Exchange subjects reveal the need for information written from the standpoint of the student, and the expressed need for such a work has 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. An 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 are recorded. For the reason that the pages are written primarily for the student, tolerance is sought from those who have 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 practices of the London Stock Exchange are those which are mainly outlined here. It will be found that the Provincial Stock Exchanges follow London very closely, however, in matters of routine.

The author's anxiety has been to deal accurately and worthily

with an extremely important and many-sided subject. Exhaustive treatment and simplicity of presentation are difficult ideals to reconcile. In his task the author has been fortunate inasmuch as Stock Exchange officials and the heads of the various departments connected with that institution have generously given their help. The Secretaries of various Provincial Exchanges have also co-operated. To all of these it is desired to pay grateful tribute. The author is particularly indebted to Mr. Walter Landells, Mr. J. C. Rea Price, and the late Sir Stephen Killik, who have assisted him by their spontaneous interest and informative counsel.

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.

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# THE BOOK OF THE STOCK EXCHANGE

## CHAPTER I

### YOUTH LOOKS AT THE STOCK EXCHANGE

ADVANTAGES and Disadvantages of a Stock Exchange Career—What is Required for Success—Costs of Membership and Means of Entrance

THE problem of students as to what career in life to adopt has been made more simple of recent years by the sheer inability to pick and choose. Circumstances out of their control, unique in unpleasantness and distressing to a degree, have severely limited their choice. Not the least serious aspect of the economic blizzard 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 short, they have, in many cases, been compelled to take whatever openings they could find.

This state of affairs, it must be admitted, is at once not only undesirable but unusual. Depression will pass,<sup>1</sup> and slowly but surely the wheels of industry will revolve once again. When these happier conditions prevail, time-honoured methods of carefully deliberating on the vital subject of what to do for a living will return once more, and the professions will then one by one be brought in solemn procession to the inquiring minds of students before they arrive at a final decision.

We presume in this chapter that the student either has a leaning towards a financial occupation, or has come to the conclusion that the Stock Exchange offers an outlet for his peculiar gifts. The student may be a youth who has come to the decision that this particular profession offers as good an opportunity as anywhere else. By whatever process of elimination he arrives, here he stands, and putting aside all calls to any other business Youth looks at the Stock Exchange. 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.

<sup>1</sup> See Preface to the Second Edition.



We will, in the first instance, deal with objections that can be urged against the adoption of such a career. Secondly we will refer to what is undoubtedly an important business, the points in favour of such a career, and outline at the same time approximately what it costs 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. A striking instance known to us emphasises the importance of this advice. A young man at the conclusion of his University career was informed by his father—a man of dominating personality—that he could choose one of three professions, the Stock Exchange, the Army, or the Church—providing that he chose the Army. So into the Army our young friend went. An expensive time followed, until passing out of college he took up his commission. Our soldier was extremely high-minded, and it was not long before incidents happened, disturbing to his principles, to which he took exception, and following constant complaints to, and difficulties with, Headquarters he was requested to resign. His father's next decision was for his son to go on the Stock Exchange. Here we met him, and one afternoon in a fit of desperation he threw his ledgers on a desk and confessed he was completely out of his element. It was obviously only a matter of time before he would throw in his hand, which in due course he did. The only satisfaction that young man had in life was an East End settlement, where in his spare time he would labour among boys. Here was a man obviously designed for the Church, and ultimately, by a circuitous route, into the Church he went. This example is introduced to show the unwisdom of a choice of occupation regardless of one's definite leaning. 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, Chambers of Commerce, Evening Continuation Schools, and Business and Accountancy Training Colleges throughout the country is evidence that corrective influences are at work. The Trustees and Managers of the Stock Exchange, London, are 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. Rightly or wrongly, the opinion is widely held that people in the Stock Exchange have an easy time. While holidays on 1st May and 1st November have now been abolished, the suggestion that for Stockbrokers Saturday is sacred to golf has still to be lived down. Actually the closing of the Stock Exchange on Saturdays was due to the consistent absence of business done, but it contributes to the opinion held outside the business that more leisure than is needed is enjoyed. 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 casuality 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"<sup>1</sup> 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 followed the boom-like conditions of 1928/1929, and staffs installed to meet the conditions then created had the misfortune to come daily to Town during the slump with little more tangible to do when they arrived than the crossword puzzle in the daily newspaper. This slackness was through no fault of the employee, and out of fairness to his employers it must be said that many have recognised this, and kept on their staffs, although, as the saying goes, they have "not been paying for their lead pencils."

Laudable as the action of Stock Exchange principals has been in retaining the services of their staffs in unremunerative times, the artificiality of the situation is painfully apparent, most of all to the conscientious clerk. We have yet to meet the clerk who would not rather be busy than quiet. This does not remove the difficulty which is characteristic of Stock Exchange employment, and to it we feel we should draw attention. Members, of course, are the first to feel it, and during the nerve-destroying period following the world's economic crisis, it is encouraging for them to recall that there have been days—and will be again—when everybody wanted them.<sup>2</sup>

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

<sup>1</sup> See Glossary, page 395.

<sup>2</sup> See Preface to the Second Edition.



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 Broker'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 Great War to the writer was a revelation, and the first thing that was revealed was his own limitations. As is well known, when 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 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 could fall back. The General Strike showed up the same shortcomings. 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 around touching the destiny of his country, and through his country the "market,"<sup>1</sup> 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 the 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 young man 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

<sup>1</sup> See Glossary, page 397.

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"<sup>1</sup> to transact business on his employer's behalf.

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 business. Allowances of this kind are of a most liberal amount, the usual arrangement being that no less than 50 per cent of the gross profit is retained. That this division is generous will be conceded when it is remembered that out of the 50 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

<sup>1</sup> See Glossary, page 387.



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."<sup>1</sup>

The Stock Exchange is not the close preserve of the wealthy. 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. Of recent years the Stock Exchange has given 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 Mr. Harcourt G. 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 still provides candidates for the A.B.A. Championships held each year.

<sup>1</sup> The right of "nomination" is explained on pages 13, 14, and 45.



The Stock Exchange Rifle Club meet regularly and can point to several unique achievements, one of the Club's members, Captain R. F. Davies, just before the War, 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<sup>1</sup> 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—amateur or professional.

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 present each year four 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 83 plays and has been responsible for raising nearly £700,000 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

<sup>1</sup> The May Day holiday having now been dropped, this fixture is usually held on the Saturday nearest 1st May.

existed for nearly 140 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 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; a splendid basis of standard works on financial and economic subjects is also provided. While the pride of the library staff is probably their Joint Stock Company Registers covering no fewer than 348,000 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 very much 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 "half-commission men."<sup>1</sup>

### **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. 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 600 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. Candidates must also acquire three Stock Exchange shares. The price of these shares has fluctuated of recent years between £100 and £300. A Nomination must also be purchased from a Member who is retiring. This Nomination is an extremely difficult quantity to value. Between 1928 and 1931 the price of Nominations moved from a high level of £1,850 to a low level of £50. If the candidate with the qualifications outlined can then satisfy the Committee 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

<sup>1</sup> See Glossary, page 394.



application. Each year the Committee 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 300 guineas and the annual subscription 50 guineas. They must, however, hold as a qualification one Stock Exchange share. Membership obtained in this manner is identical with that secured 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 450 clerks. The number fixed by the Committee 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 Committee 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 128 applicants. When the number to be admitted without a Nomination is fixed by the Committee, 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 this 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"<sup>1</sup> or applicants who have served no apprenticeship.

In this table definite figures are given. It must be clearly understood that the value of the qualification share and that of the Nomination are fluctuating quantities. Of the following amounts that are paid away, the value retained by the Member is only that of his Nomination (if any) and his Stock Exchange share or shares. The rest is his payment for the privilege of membership.

	(1) Clerks	(2) Three-deckers
Sureties . . . . .	Two of £300 each for 4 years	Three of £500 each for 4 years
Entrance fee . . . . .	£315	£630
Qualification Stock Exchange Share or Shares . . . . .	180	(3 shares) 540
Nomination . . . . .	—	450
Annual Subscription . . . . .	52 10s.	105
Total . . . . .	£547 10s.	£1,725

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

<sup>1</sup> "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.

The foregoing are the conditions under which students can make themselves Members of the Stock Exchange, London. 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 the Managers



personally to conduct distinguished visitors across the floor of the "House," and of recent years the public have been allowed to visit the War Memorial on a Saturday morning, when business was not in progress. Some relaxation is observable also on Armistice Day, on which occasion the presence of women-folk may have been noticed during the singing of the National Anthem. These exceptions, however, are rare. At each of the seven entrances to the "House" gold-braided "waiters"<sup>1</sup> 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

<sup>1</sup> See Glossary, page 406.

is compromised. The popular impression of most strangers to London that a more noble structure—the 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 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 to 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 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 132.) Others show foreign exchange movements, but busiest of all are the Members' indicators worked by the waiters, and the operators of the Exchange Telegraph, which latter system runs 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<sup>1</sup> 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 Committee affecting domestic matters are prominently displayed, while current news of the world, disgorged from tape machines, is pinned up in prominent places. Large, white

<sup>1</sup> 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.)

boards stare at the “House” from various walls, and these 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 are known as the *Stock Exchange Official List* and the *Stock Exchange Supplementary 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 large 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 (incidentally 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,”<sup>1</sup> 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. Frenchmen can become partners in German undertakings and *vice versa*. White men can become shareholders in companies trading in black countries, or Italian nationals desirous of taking an interest in a Japanese project need have no difficulty in giving effect to their desire. 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.

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 buying and selling 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,

<sup>1</sup> Included in the List of Officially Quoted Securities.

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.”<sup>1</sup> 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

<sup>1</sup> See Glossary, page 406.



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 Home Railway market, the American market, the Foreign market, the Oil market, the Industrial market, Argentine Railway market, Rubber market, South African Mining market, Rhodesian, West African, Deep and Westralian markets, Shipping, Insurance, Banking, Newspaper, Nitrate, Tea, Tinto, Brewery, and Trust Company markets, form the most important. Option dealers also have a market. 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"<sup>1</sup> 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

<sup>1</sup> See Glossary, page 400.

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 130 years ago. Obviously, Shares or Stock of industries that are born in process of time, such as Motor or Aviation 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.

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  $3\frac{1}{2}$  per cent War Loan, he approaches a Jobber in the Gilt-edged market with the inquiry, “What is the price of War  $3\frac{1}{2}$  per cent?” Without knowledge of what the Broker wants to do, the reply comes “ $99\frac{5}{8}$  to  $100\frac{1}{8}$ ,” that is £99 18s. 9d. to £100 1s. 3d. for every £100 Stock. If one of these prices suits the Broker he either

sells his £1,000 worth of Stock at  $99\frac{1}{16}$ , or buys the £1,000 Stock at  $100\frac{1}{16}$ . The deal is then entered in a Jobbing Book. Possibly the Broker wishes to deal at 100. 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 100.<sup>1</sup> 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 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, 35s. to 35s. 6d. 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 35s. 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  $1/64$ <sup>2</sup> either side of  $1\frac{1}{4}$ , or  $34/8\frac{1}{4}$ — $35/3\frac{3}{4}$ . 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

<sup>1</sup> This is known as "challenging at the middle."

<sup>2</sup> See "Glossary," under Fractions.

for the Jobber to take in “making a price” to the second Broker is to lower his quotation. The reason is this. By quoting 34/9–35/3 the Jobber is more likely to attract a buyer who at 35/3 will relieve him of the Shares he has purchased at 35/–. 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, 34/9. The whole principle is reversed if Broker No. 1 is a buyer. The Shares are then taken from the Jobber by the Broker at 35/6 and have to be replaced. What more natural or expedient than that the following quotation of the Jobber should be 35/3–35/9 in order to attract a seller of Shares, and thus replace at 35/3 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 quoted. Our Broker No. 1 has sold his Jobber friend 500 Courtaulds at 35/–. Not wishing to remain a “bull”<sup>1</sup>—for that is the term employed in this case—the Jobber turns to a fellow-Jobber, No. 2, and says, “Courtaulds.” “Yes, 34/9–35/3,” replies Jobber No. 2. “Sell at 35/–.” This unsuccessful conference having broken up, Jobber No. 2 lifts up his voice in the market to announce to one and all: “At 35/– sell Courtaulds! At 34/10½ sell Courtaulds! At 34/9 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”<sup>1</sup>—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

<sup>1</sup> See Glossary for explanation of these terms.



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,”<sup>1</sup> will probably decide to “nurse”<sup>2</sup> 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”<sup>1</sup> 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.”<sup>2</sup> 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. 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”<sup>1</sup> 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.<sup>2</sup> 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.

<sup>1</sup> See Glossary for explanation of these terms.

<sup>2</sup> The process of Buying-in. See page 249.

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  $\frac{3}{4}$ d. a Share here, and “cut a loss”<sup>1</sup> of  $2\frac{1}{4}$ d. a Share there on a “broken amount,”<sup>1</sup> 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 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 1,000 Courtaulds sold by the Jobber to the Broker have to be repurchased from him and replaced by 1,000 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

<sup>1</sup> See Glossary, pages 391 and 389.



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<sup>1</sup> 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 textiles, electrical undertakings, trusts, tea companies, railway 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 pitfalls 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

<sup>1</sup> See Glossary, page 391, and page 96.

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 customers at a

margin or figure below Bank Rate,<sup>1</sup> and lend it at a figure above. When money flows in and funds are in plentiful supply, in course of time Bank Rate is reduced. When money is scarce and in all directions demands arise for it, Bank Rate is raised.<sup>2</sup> In the money markets of the world our banks are well-established Jobbers, while it is fair to claim that despite the abandonment of the Gold Standard and the Economic Crisis, owing to its pre-eminent position in the Council of Nations, the Bank of England is still the world's greatest Money Jobber!

### Authorised and Unauthorised Clerks.

Before we leave our imaginary gallery 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"<sup>3</sup> and "unauthorised"<sup>3</sup> 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.<sup>4</sup> 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 distinguished by a red badge worn in the lapel of the coat. This is his passport to the Settling Room<sup>5</sup> 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.

<sup>1</sup> See Glossary, page 388.

<sup>2</sup> Bank rate was altered to 2 per cent on 30th June, 1932, since when no alteration has been made.

<sup>3</sup> See Glossary.

<sup>4</sup> See Glossary, under "Red Button."

<sup>5</sup> See page 197.

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.	(See Preface, Second Edition)
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. 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 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*<sup>1</sup>

<sup>1</sup> See Preface to the Second Edition.



## CHAPTER III

### THE CONSTITUTION AND HOW IT WORKS

How the Stock Exchange is Governed—The Trustees and Managers—The Committee for General Purposes—Rules and Regulations—Candidates for Membership—The “Hammer”—The Official List—The Supplementary List—The Marking of Bargains.

IF the business of the Stock Exchange is unusual, then its constitution and government are unique. Two bodies, both self-contained, preside over its destinies. They are—

- (1) The Trustees and Managers.
- (2) The Committee for General Purposes.

THE ORIGINAL DEED OF SETTLEMENT drawn up in 1802, when the present Stock Exchange was founded,<sup>1</sup> is the authority investing these two bodies with their respective powers. This Deed of Settlement was amended in December, 1875, but while certain clauses were more clearly defined, the two governing bodies above-mentioned were left intact.

#### The Trustees and Managers.

These are the representatives of the proprietors of the Stock Exchange as a Company, while the Committee for General Purposes are responsible for its Rules and Regulations, the admission and conduct of its Members, etc. This joint system, about which keen discussion has raged from time to time, is known as “dual control.”

At first sight this dual control seems a strange anomaly. Both bodies, however, function, and function successfully. The arrangement has an illustrious precedent in the government of the English Constitution by two bodies—the House of Commons and the House of Lords. In our case the Committee for General Purposes are the equivalent of the House of Commons. Periodically Members of Parliament have to come before their constituents for election and re-election. The Committee for General Purposes (we will call them in future the “Committee”) have to come before their constituents—the Members of the Stock Exchange—for election annually. They are a large body consisting of no less than thirty Members. The Trustees and

<sup>1</sup> See Chapter XVII, p. 375.



Managers are nine in number, and although the first Trustees were by the original Deed of Settlement appointed for life, three of them now retire every five years. Election to this position, therefore, gives a permanence not enjoyed by the Committee.

In our comparison with Parliament there is an important distinction to be observed. The House of Commons has control of the nation's purse. The House of Lords may express its opinions and use its influence, but ultimately the power of taxing and spending rests with the House of Commons. Our House of Commons—the Committee—has no control over the Stock Exchange purse. This is the prerogative of the Trustees and Managers. The Managers actually do not manage the Members, and in this respect the title is misleading. They manage the finances of the building as a property, its freehold and leasehold values. They appoint its officials, with the exception of the Secretary to the Committee and Official Assignee. They also fix and receive the fees payable by Members and their clerks. They regard the powers vested in them as a solemn obligation to ensure the making of profits for the shareholders. The Committee may have their views or may use their influence, but the Trustees levy and collect the funds, and, having made all necessary provision for the upkeep and improvement of the property, distribute the available balance in the shape of dividends. The Committee direct all domestic matters, including the important one of saying who shall be admitted as Members. So we have the strange spectacle of one body of men deciding who shall be admitted to membership, while another body, quite distinct, lays down what each Member shall pay for the privilege of admission.

Who, it may be asked, gets the dividends arising from the business that is so zealously guarded by the Trustees and Managers? The answer is, the shareholders. So it is seen that, like the gold-mining company mentioned in our last chapter, a company was formed for the purpose of providing a fit and proper place to deal in Stocks and Shares. 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 are still in progress.

From the first stone laid in 1801<sup>1</sup> the edifice has grown step by step. Now the home of the strange business about which we are learning takes in practically the whole island site with the boundaries previously mentioned, Threadneedle Street, Bartholomew Lane, Old Broad Street, and Throgmorton Street. The acquisitions and rebuilding required from time to time have been costly, and have necessitated the raising of fresh money. The present capital is £720,000, represented by 20,000 Shares on which £36 is credited as paid up.<sup>2</sup> There are also £250,000 3½ per cent Debentures. These Debentures are from time to time extinguished or paid off. Dividends at varying rates are distributed on the Shares. Recent payments have been at the rate of £13, £14, £15, and £12 10s. per Share per annum. The liability on Stock Exchange Shares is unlimited, but no more than £2 per share can be called up in any one year.

Particulars regarding the Stock Exchange as a company can be found in the usual reference books. Its Shares and Debentures are also quoted in the *Stock Exchange Official List*. The present price of the Shares is about £180, while the 3½ per cent Debentures are £97. In 1928 the Shares stood at £220, while in 1931 they were down in price to £140.

One of the conditions of membership of the Stock Exchange, London, is that one or more Stock Exchange Shares must be acquired. Therefore every new Member of the "House" must be a part proprietor. Failure to hold a Share as qualification entails forfeiture of membership. This regulation was not always in force, and there are still many Members who possess no Share qualification. There is also the strange anomaly that a number of the Shares in existence are held outside the Stock Exchange, despite the Rules which now say that Members must hold them. The explanation of this is that executors or legatees of such proprietors as acquired their shares before 31st December, 1875, are allowed to hold the testator's shares for life, although not Members. In all other cases the shares must be transferred to a Member within two years of the proprietor's ceasing to be a Member, or of his death, bankruptcy, or lunacy. The maximum number that can be held

<sup>1</sup> See page 374.

<sup>2</sup> See page 381

by one person is 200, and several Members are the registered proprietors of approximately the maximum number.

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 5,471 in 1905. 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 3,925; in 1931, 3,932; in 1932, 3,911; in 1933, 3,941; in 1936, 4,052; in 1937, 4,080; in 1938, 4,076; and in 1939, 4,099.

Existing 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 admitted before 1876 or before 1879 with two sureties . . . . .	£21
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 . . . . .	£103

The rule that no one could be elected a Member without holding the Nomination of a deceased or retired Member was introduced in 1904. A special provision, however, was made 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.

The Stock Exchange, then, as a company, is prosperous. 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. The Trustees and Managers, chosen for their eminence in the profession they serve, have to administer and safeguard valuable assets, and these tend to increase in value as time goes by. It should be mentioned that their work in this capacity for the Stock Exchange is honorary.

## **The Committee for General Purposes.**

We now turn to the Committee, who virtually are the officers in command of the Stock Exchange. Their power, apart from the purse, is unlimited. Their concern is not the distribution of dividends, but the maintenance of discipline and ordered government. There is no phase of the numerous activities of the House that does not come under the control of the Committee, and they sit practically in constant session. Several sub-committees are appointed to deal with Stock Exchange routine, the best known being: New Issues and Official Quotations; Rules; Disputes; Clerks and New Members; Notices and Damaged Bonds; Commissions; Settlement Department and Buying-in and Selling-out Department. These and any further sub-committees that may be required make their recommendations to the full Committee.

The Committee rule with an authority which is unchallengeable and almost autocratic. Qualification for admission to this governing body is that the candidate for election must have been a Member of the Exchange for five years previously. He must be proposed and seconded, and elected by the vote of his fellow-Members. He may be either a Jobber or a Broker. The present constitution of the Committee is 13 Brokers and 17 Jobbers.

As in the case of the Trustees, despite the very great inroads on their time, the services to the Stock Exchange are unpaid.

## **Rules and Regulations.**

The first of the Rules of the Stock Exchange to appear relates to the election of this Committee. The opening words are—

On the 20th day of March in every year or if that day should be a Sunday or a Saturday or a Bank Holiday then on the following business day, a ballot by the Members shall be held for the appointment of a Committee of thirty Members who shall be called the "Committee for General Purposes," and shall hold office for twelve months from the 25th March next following the date of their election, but shall be re-eligible, etc.

In one important particular relating to the method of election this Rule has recently been altered. Prior to 1934 it was necessary to vote for 30 members—no more or less. Voting papers infringing this instruction became invalid. Under the new Rule not less than 25 and not more than 30 may be voted



for. Those who are elected have power to elect any additional number required to make the Committee up to 30.

Notice of ballot has to be exhibited in the Stock Exchange during fourteen days prior to the election. The actual names of the Committee, together with the names of fresh applicants for election, must be exhibited in like manner for three days. (In the event of the whole Committee being willing to serve, and no fresh candidate coming forward, the Committee as constituted are elected. No ballot then is needed.) Occasional vacancies are similarly filled. If a ballot is necessary, the date is fixed by the Committee. If one candidate only comes forward to fill one vacancy then, for the unexpired period of that year, the candidate is elected. Notwithstanding any number of vacancies, the Committee are still in being and continue to act until the vacancies are filled up. All elections take place at the Stock Exchange, and all Members, even one who has not paid his subscription, are entitled to vote.

The Rules and Regulations of the Stock Exchange, which govern practically all of the Committee's deliberations, contain extracts from the Deed of Settlement, Sect. 12, relating to their own duties. In them it lays down—

The said Committee for General Purposes shall regulate the transaction of business on the Stock Exchange and may make rules and regulations . . . respecting the admission (which includes re-election) 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. (Rule 5 (1).)

These, then, are their 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.

An idea of the absolute powers of the Committee can be gleaned from the Rules governing the admission of Members. This is the first task of a newly elected Committee, following the election from amongst themselves of a Chairman, Deputy-Chairman, and a Secretary. See Rule 21 (1) and (2).

The Committee 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 Committee 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 Committee in any case or number of cases shall not be liable to be disputed or challenged by any individual affected thereby. The Committee 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 Committee are proposing to act in his case, and the Committee 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 Committee 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.

These words are not ambiguous and show the Committee'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. If further evidence is needed to illustrate the power of the Committee, the following Rules may be quoted—

The Committee may censure, suspend, or expel any Member who may violate any of the Rules or Regulations. (Rule 16 (1).)

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

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

The Committee 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 Committee 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.

### **Candidates for Membership.**

In the opening chapter some particulars were given regarding the costs of and methods of approach towards membership. Supplementary information may perhaps be given here.

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 Committee 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 Trustees and Managers. 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.

Candidates for admission are required to disclose any previous insolvency. See Rule 38 (1).

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 Committee 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 enters as a clerk 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.

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 new-comer. 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 about £50 and £1,850. The Committee 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 Committee 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 Trustees and Managers. 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 Committee's Regulations. The right of Nomination is personal and non-transferable.

A Member of the Stock Exchange shall not enter into partnership with any person who is not a Member, and the decision of the Committee 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 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. (Rule 78.)

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 be hardly necessary to refer at this point. Those given serve to illustrate the standard of character and conduct required of its Members. At this juncture we approach, through the Rule forbidding Members to advertise, the position and duty of the Stock Exchange in relation to the public, and to this aspect we will next give attention after a brief reference to advertising.

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 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. 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 by the Committee. 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 Committee 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. The protection afforded by the Committee makes it difficult to understand why members of the public expose themselves to risk by negotiations with individuals or firms owing no allegiance to any properly constituted body.

Any member of the public who feels that he has a claim or complaint against a Member is entitled to lodge it for investigation by the Committee. If the claim or complaint is fitting for their adjudication, the non-Member is required to sign an agreement to abide by the Committee's award in the matter.

A Member shall not, without the consent of the Committee, 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 Committee will not take into consideration such disputes unless arbitrators cannot be found or are unable to come to a decision. The decision of the Committee as to whether a dispute affects the general interests and, if so, how it shall be dealt with, shall be final. (Rule 75 (1) and (2).)

### **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 Committee, 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.<sup>1</sup> 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.

### **Stock Exchange Daily List of Officially Quoted Securities.**

The public are able to follow the course of Stock Exchange prices, and see the record of their own transactions through the medium of this List. It is a very remarkable production. The List is published by the Trustees and Managers of the Stock

<sup>1</sup> See page 305.

Exchange under the authority of the Committee of the Stock Exchange, and the superintendence of the Secretary of the Share and Loan Department.<sup>1</sup> Therefore it can be clearly seen that the whole weight of the official organisation of the Stock Exchange is behind the List's production.

A Rule on the subject, No. 163 (1) and (2), contains these words—

A List of Securities admitted to Quotation shall be published under the authority of the Committee. There shall also be published under the authority of the Committee a Supplementary List of Securities not Officially Quoted.

It is further laid down in Clause (4) of this Rule that—

No list or record shall be published and sold by a Member without the sanction of the Committee.

The *Official List*, as it is known, is produced daily. It is beautifully printed, and together with the *Supplementary List* provides the basis for practically the whole of the transactions that are carried out on the Stock Exchange. Some idea of the importance of the *Official List* can be gained from the knowledge that on its front page the aggregate nominal value of the first 60 lines comprising the section relating to British funds amounted at 24th March, 1939, to nearly £7,000,000,000. A further estimate of what is represented in the *Official List* may be gleaned when it is seen that in its twenty tightly packed pages are particulars of approximately 5,700 securities representing about £18,000,000,000 in capital. The quoted securities include also nearly 78,000,000 Shares of no par value.

The various securities 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, Indian 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.  
 Indian Native Raj and Zemindary Loans.  
 Insurance.  
 Investment Trusts.  
 Iron, Coal, and Steel.

<sup>1</sup> See page 293.

Mines.

Nitrate.

Oil.

Public Boards, etc.—Great Britain and Northern Ireland.

Railways, Great Britain and Northern Ireland—

Do.	do.	Ordinary Shares and Stocks.
Do.	do.	Leased at Fixed Rentals.
Do.	do.	Debenture Stocks.
Do.	do.	Guaranteed Shares and Stocks.
Do.	do.	Preference Shares and Stocks.
Do.	Indian.	
Do.	Dominion and Colonial.	
Do.	American—Stocks and Shares	
Do.	do. Bonds.	
Do.	Foreign.	

Rubber.

Shipping.

Tea and Coffee.

Telegraphs and Telephones.

Trade Facilities and other Acts Securities.

Tramways and Omnibus.

Waterworks.

Against each individual Stock space is provided for the following particulars—

Authorised capital, present amount, interest dates, when ex-dividend or ex-interest, per cent, name, redemption date, quotation, and business done in the form shown in the illustration on page 51 of representative Stocks.

The value of the *Official List* can be appreciated when it is remembered that any alteration, such as the paying off of any amount of any one Stock, 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 Lists 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 6d., by post 7d., and a quarterly subscription costs £1 12s., by post £2 2s.

#### **The Stock Exchange Daily Supplementary List of Securities Not Officially Quoted.**

This List, produced under the same auspices as the *Official List*, also appears daily. It follows closely the lines of its elder

BRITISH FUNDS, ETC.

Amount	Amount Quoted	Interest Due	When Paid	Per Ct.	Name	Quotations Mar. 29	Business Done
-	21,116,830l.	5 Jan. Apr. July, Oct.	1 Mar.	2½	2½% Annuities . . . . .	67½ - 68½	67½ + 68½ (27/3/39)
-	2,398,679l.	5 Jan. Apr. July, Oct.	1 Mar.	2½	2½% Annuities . . . . .	76 - 75	75½ (20/3/39)
-	276,100,173l.	5 Jan. Apr. July, Oct.	1 Mar.	2½	2½% Consolidated Stock . . . . .	67 - 68	67½ + 68½ (27/3/39)
-	400,734,544l.	1 Feb. 1 Aug.	28 Dec.	4	4% Consolidated Loan (c) on or after 1st Feb., 1957 . . . . .	103½ - 104½	103½ + 104½ (27/3/39)
-	206,526,642l.	1 April 1 Oct.	23 Feb.	2½	2½% Conversion Loan 1944-49 . . . . .	93½ - 94½	94 + 93½ (27/3/39)
-	301,837,570l.	1 Mar. 1 Sept.	23 Jan.	3	3% " " 1948-53 . . . . .	96½ - 97½	97½ + 96½ (27/3/39)
-	739,392,011l.	1 April 1 Oct.	23 Feb.	3½	3½% " " (c) on or after 1st April, 1961 . . . . .	93½ - 94½	93½ + 94½ (27/3/39)
-	563,404,369l.	1 Jan. 1 July	25 Nov.	4½	4½% " " 1940-44 . . . . .	102½ - 103½	102½ + 103½ (27/3/39)
-	322,839,022l.	1 May 1 Nov.	27 Mar.	5	5% " " 1944-64 . . . . .	107½ - 108½	107½ + 108½ (27/3/39)
-	200,000,000l.	15 April 15 Oct.	9 Mar.	2½	2½% Funding Loan. 1956-61 . . . . .	83½ - 84½	84½ + 83½ (27/3/39)
-	100,000,000l.	15 June 15 Dec.	8 Nov.	2½	2½% " " 1952-57 . . . . .	90½ - 91½	91½ + 90½ (27/3/39)
-	143,797,508l.	15 April 15 Oct.	9 Mar.	3	3% " " 1959-69 . . . . .	92½ - 93½	93½ + 92½ (27/3/39)
-	359,193,411l.	1 May 1 Nov.	27 Mar.	4	4% " " 1960-90 . . . . .	105 - 106 ½	105½ + 106½ (27/3/39)
-	100,000,000l.	15 Mar. 15 Sept.	6 Mar.	2½	2½% National Defence Bonds, 1944-48 . . . . .	95½ - 96½	95½ + 96½ (27/3/39)
-	80,000,000l.	15 Jan. 15 July	9 Dec.	3	3% National Defence Loan, 1954-58 . . . . .	93½ - 94½	94½ + 93½ (27/3/39)
-	99,999,900l.	1 Feb. 1 Aug.	1 Feb.	1	1% Treasury Bonds, 1939-41 . . . . .	(A) 97½ - 98½	98½ + 97½ (27/3/39)
-	309,944,945l.	{ 1 Mar. 1 Sept. 1 Mar. 1 Sept.	{ 20 Feb. 20 Feb.	{ 4 4	{ 4% Victory Bonds of £50, £100, £200, £500 & £1,000 (e) 4% " " of £5,000 . . . . .	{ 104½ - 105½ 104½ - 105½	{ 105½ + 104½ (27/3/39) 107½ + 104½ (27/3/39)
-	1,911,382,836l.	1 June 1 Dec.	25 Oct.	3½	3½% War Loan (c) on or after 1st December, 1952 . . . . .	95 - 95½	95½ + 94½ (27/3/39)



and more important brother with the exception that less information is given regarding capital. Speaking generally, the Stocks and Shares quoted in this List are not of such public interest and importance as those contained in the *Official List*. An official quotation is usually courted by all companies whose Stocks or Shares are dealt in, but very strict rules exist with which all making application for an official quotation<sup>1</sup> must comply. Applications are judged by their importance to the public, and the number of dealings which take place. Anomalies, however, do occur, and inactive Stocks are found in the *Official List* and active ones in the *Supplementary List*. Rules are also strict before admission is given to the *Supplementary List*, but we are unable to answer the student who asks why important details are omitted in this *Supplementary List*, when the same price, namely 6d. a copy, is asked for its twelve pages.

The marking of bargains in the *Official* and *Supplementary Lists* is thus the 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 108 in Conversion 5 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 a little misleading, as often both Broker and Jobber will mark the same bargain. Furthermore, the clerks of the "House" do not mark the same price in one security more than three times, no matter how often it has changed hands at that price.

The theory which is constantly at work in connection with

<sup>1</sup> See page 302



the *Official* and *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."<sup>1</sup> 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."<sup>2</sup>

### The Marking of Bargains.

This is carried out in a manner described in the previous chapter. 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 slip no amount of Stock is entered, but provision is made for prices relating to bargains in unusual amounts, and these prices have to be entered in a special column. 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 the *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 384), the marking of bargains is not compulsory. The Rules dealing with the matter run—

Bargains may be marked between Half-past Ten and Half-past Three o'clock (Twelve o'clock on Saturdays). (Rule 164.)

<sup>1</sup> See Glossary, pages 387, 399, 401.

<sup>2</sup> See page 276.

While Rule 168 opens—

Bargains should be marked in the order in which they are made, etc.

Rule 90 (2) is strict on the following subject—

All bargains done with or between Non-Members must be marked without delay and the time of dealing entered on the marking slip. . . .

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.

Here is a reproduction of the marking slip referred to on page 53—

ONLY ONE SECURITY TO BE ENTERED ON EACH SLIP

DATE                    /                    /    1939

NAME OF STOCK OR SHARE	Bargains at Current Price	↓ Bargains at Special Prices	⊕ Bargains done during unofficial hours or on the previous day

**NOTICE**

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.

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

All Bargains done with or between Non-Members 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.

Signature.....

These marking slips are used by both Broker and Jobber. The first of the three columns is the one most commonly used, and the distinguishing signs at the heads of the other two 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 last column is often used, as many bargains are transacted between 3.30 p.m., the latest time for marking bargains as shown on page 53, and 4 o'clock, at which hour the official rattles again sound. (Following this 4 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."<sup>1</sup>

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, the time given, and the name of the Jobbers who have previously supplied a price must be given. On this matter the regulations are strict, as will be seen from Rule 88—

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.

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 Committee if called upon to do so. . . .

A specimen of these special marking slips is shown on page 56.

<sup>1</sup> See Glossary, page 404.

**BARGAINS EXECUTED WITH NON-MEMBERS**

RULES 88 AND 88a

ONLY ONE SECURITY TO BE ENTERED ON EACH SLIP

DATE		1930	
NAME OF STOCK OR SHARE	Price	Price if	Time of Dealing
		other than London Terms	
NAME OF JOBBER OR JOBBERS SUPPLYING MARKET PRICE		Market Price together with time of quoting	
		Price	Time

**NOTICE**

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.

All bargains done with or between Non-Members in Securities included in the Official or Supplementary Lists must be marked without delay on this slip and the time of dealing stated

The name of the Jobber or Jobbers supplying the market price, and the market price and the time of quoting must also be stated.

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

*Signature* ..

This is the explanation of the marks of business recorded. In the following chapter we will examine the activities of the Stockbroker, the person who carries out the transactions on behalf of the members of the public, and find out exactly what he charges for the service he renders.

## CHAPTER IV

# 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 6,000 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 4½.

Kreuger & Toll then quoted 47½.

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 25s. while Kreuger & Toll, owing to fraud and misrepresentation, have practically 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. 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. This throws into relief the risk that a member of the public runs who deals with an "outside" firm. Often with such unauthorised people no real transaction takes place, in which case when difficulties arise, there is no responsible body comparable to the Stock Exchange Committee from whom redress can be obtained.

### 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 90, 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, 195, 196 (1), 197, 197a, 197b, 200a, 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. 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 61 and 62 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 VI, but give on pages 63 and 64 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.

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

**EXHIBIT & CO.**  
 Stock & Share Brokers.

JOHN CHANCELLOR,  
 JAMES CHANCELLOR,  
 JOHN SURPLUS,  
 N. O. SURPLUS.

(Members of the Stock Exchange)

Telegrams

"Payment Stock, London"

Telephones

Cent 0000 (6 lines)

100 THROGMORTON STREET,

And THE STOCK EXCHANGE,

LONDON, E.C.2.....2nd January, 193.

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

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

500 Courtauld and Co., Ltd., Ordinary Shares @ 32/6  
 Commission £ 9 : 7 : 6 Stamps & Fee £ 8 : 14 : 6  
 £1,000 Great Western Railway Co., Ltd., Consolidated Ordinary Stock @ 50  
 Commission £ 2 : 10 : Stamps & Fee £ 5 : 3 : 6  
 Commission £ : : Stamps & Fee £ : :

£	812	s.	10	d.	-
	18		2		-
	500		-		-
	7		13		6
£	1,338		5		6

For Settlement.....10th January, 193.....

MEMBERS OF THE STOCK EXCHANGE, LONDON.

**EXCHEQUER & CO.,**  
Stock & Share Brokers.

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

Telegrams  
"Payment Stock, London"

Telephones  
Cent. 0000 (6 lines)

100 THROGMORTON STREET,  
AND THE STOCK EXCHANGE,  
LONDON, E.C.2.....2nd January, 193.

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

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

	£	s.	d.	£	s.	d.
£1,000 Southern Railway Company Deferred Ordinary Stock @ 25:	251	5	-	249	18	10
Commission £ 1 : 5 : 2 Contract Stamp Is.	1	6	2			
Commission £ : : Contract Stamp @						
Commission £ : : Contract Stamp @						
				£249	18	10

For Settlement..... 10th January, 193.....

MEMBERS OF THE STOCK EXCHANGE, LONDON.



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Stock & Share Brokers.

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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,.....193.

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

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

SOLD for Account.....27th March, 193.....BOUGHT for Account.....10th April, 193.....

500 Shell Transport Trading Co., Ltd., Shares

1000 United Dairies Co., Ltd., Shares

Contract Stamps 8/-

MAKING-UP PRICE	NET RATE OF CONTANGO	COMMISSION
2	5%	
52s. 6d.	5½%	

MEMBERS OF THE STOCK EXCHANGE, LONDON.

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

**ESCHEQUER & CO.,**  
Stock & Share Brokers.

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

Telegrams  
"Payment Stock, London."

Telephones  
Cent 0000 (six lines)

100 THROGMORTON STREET,  
And THE STOCK EXCHANGE.  
LONDON, E.C.2. 24th March, 193.

CONTINUED for.....

*A. Sleeper, Esq.*

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

BOUGHT for Account.....

27th March 193.

SOLD for Account.....

10th April, 193.

£1,000 Southern Railway Deferred Ordinary Stock

MARKING UP PRICE.	NET RATE OF CONTANGO.	COMMISSION
25	2 1/2%	

Contract Stamps 1/-

Where no commission is charged the remuneration is included in the rate.  
MEMBERS OF THE STOCK EXCHANGE, LONDON.

Contract." Commission in such cases is arranged by adding to or deducting 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, or to the placing of new issues.

APPENDIX 39

MINIMUM SCALE OF COMMISSIONS

(A) 2½% Consols, 2½% and 2½% Annuities	·	⅓ per cent on Stock.
Other British Government Securities—		
Indian Government Stocks	·	} ¼ " " " Stock.
Metropolitan Consolidated Stocks	·	
London County Consolidated Stocks	·	
Dominion and Colonial Government Securities	·	
County, Corporation, and Provincial Securities (British, Indian, Dominion, or Colonial)	·	
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 England and 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 . . . }  $\frac{1}{2}$  per cent on Stock.
- Bonds to Bearer other than those included in Section (A). Price 10 or under . . . }  $\frac{1}{6}$  " " " Stock.
- Bonds to Bearer other than those included in Section (A). Price 20 or under . . . }  $\frac{1}{4}$  " " " Stock.
- Bonds to Bearer other than those included in Section (A). Price over 20 . . . }  $\frac{1}{4}$  " " " Stock.
- (C) Registered Stocks (quoted per cent), Registered Debentures and Bonds—
- |                  |                                 |
|------------------|---------------------------------|
| Price 5 or under | $\frac{1}{2}$ per cent on Stock |
| " 10 " "         | $\frac{1}{6}$ " " "             |
| " 25 " "         | $\frac{1}{4}$ " " "             |
| " over 25        | $\frac{1}{2}$ " " " Money.      |
- (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 0 $\frac{1}{2}$ per share or Unit. |
| " 0 2 0 to 0 3 0 . . . . .     | 0 0 $\frac{1}{2}$ " " "              |
| " 0 3 0 to 0 5 0 . . . . .     | 0 1 " " "                            |
| " 0 5 0 to 0 15 0 . . . . .    | 0 1 $\frac{1}{2}$ " " "              |
| " 0 15 0 to £1 10 0 . . . . .  | 0 3 " " "                            |
| " £1 10 0 to £2 0 0 . . . . .  | 0 4 $\frac{1}{2}$ " " "              |
| " £2 0 0 to £3 0 0 . . . . .   | 0 6 " " "                            |
| " £3 0 0 to £4 0 0 . . . . .   | 0 7 $\frac{1}{2}$ " " "              |
| " £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 0 " " "                            |
| " £25 0 0 . . . . .            | $\frac{1}{2}$ 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.
- |   |                              |
|---|------------------------------|
| Price 25 cents (1/) or under . . . . .                            | At discretion.               |
|   | s. d.                        |
| Over 25 cents (1/) to 50 cents (2) . . . . .                      | 0 0 $\frac{1}{2}$ per Share. |
| " 50 cents (2/) to 87 $\frac{1}{2}$ cents (3 0). . . . .          | 0 0 $\frac{1}{2}$ " " "      |
| " 87 $\frac{1}{2}$ cents (3/6) to \$1 $\frac{1}{2}$ (5) . . . . . | 0 1 " " "                    |
| " \$1 $\frac{1}{2}$ (5/) to \$3 $\frac{1}{2}$ (15/). . . . .      | 0 1 $\frac{1}{2}$ " " "      |
| " \$3 $\frac{1}{2}$ (15/) to \$7 $\frac{1}{2}$ (30/). . . . .     | 0 3 " " "                    |
| " \$7 $\frac{1}{2}$ (30/) to \$10 (£2) . . . . .                  | 0 4 $\frac{1}{2}$ " " "      |
| " \$10 (£2) to \$15 (£3) . . . . .                                | 0 6 " " "                    |
| " \$15 (£3) to \$25 (£5) . . . . .                                | 0 7 $\frac{1}{2}$ " " "      |
| " \$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) 5% CONVERSION LOAN, 1944/64 . . . . . } In amounts of not less than £50,000 stock Commission may be charged under Rule 197b (1), (2), and (3).

(F)—(contd.).

4½% CONVERSION LOAN, 1940/44 . . . . .

In amounts of not less than £50,000 stock Commission may be charged under Rule 197b (1), (2), and (3), except that for the figures ½% and ⅙% in this Rule there may be read the figures ⅙% and ⅓% respectively.

SUDAN GOVERNMENT 5½% GUARANTEED BONDS, 1939/59 . . . . .

In amounts of not less than £50,000 —at discretion.

INDIAN RAILWAY ANNUITIES . . . . .  
 OPTIONS FOR MORE THAN ONE ACCOUNT . . . . .

½ per cent on Money. 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 . . . . .  
 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 . . . . .

At discretion.

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.

**Country Brokers.**

The above scale does not apply to business transacted with country Brokers. In view of their importance we give 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 (6) 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 a Stock Broker whose name appears on a Register of Country Brokers which the Committee may keep.

(2) The Committee shall determine the qualifications (Appendix 47) necessary for entry on such Register, how applications for registration shall be made and the conditions on which the same will be accepted, and the Committee shall be at liberty at any time to remove any name from the Register without giving any reason therefor and no registration shall hold good beyond the last day of



January in the year following that in which the entry in the Register was made.

(3) An applicant desirous of being placed on the Register must apply on the form laid down in Appendix 48. Unless otherwise determined by the Committee, the application must be supported by two independent Brokers or firms of Brokers who are Members of the Stock Exchange.

(4) 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 Country Broker, as defined in Clause (1) of this Rule, except that a Broker may apply to such business the provisions of Rules 195, 196, or 197b. Such Commission shall not be shared with anyone except a Clerk in the Broker's own exclusive employment. Such Clerk shall not under any circumstances either directly or indirectly divide or share his proportion of such Commission with or allow the same to such Country Broker.

(5) 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, which prohibits shunting.

(6) 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, and further he may charge the following exceptional reduced rates, viz.—

Registered Stocks (quoted per cent)—

Price £25 or under . . . . .	$\frac{1}{2}$ % on Stock
Over £25 to £50 . . . . .	$\frac{1}{4}$ % "
" £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) 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.

Numerous 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 the Account immediately following, or for cash during the same Account or during the Account immediately following. (Extract from Rule 195 (1).)

Transactions dealt with under this heading are known to the Stock Exchange as "Closing Transactions."

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 rate not less than the scale as laid down in Appendix 39 [The Minimum Scale of Commissions] on one transaction and a reduced Commission of not less than half that rate on the other. The full rate must be charged on the side which yields the larger amount. (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 previous Rule relating to "Closing Transactions" may not be applied to bargains done under this Rule.

Neither may the concession which follows be applied when the "Change of Investments" Rule is used—

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 provided that in no case shall such reduced Commission be less than one-half of the Minimum Scale laid down in Appendix 39. (Rule 197 (1).)

The effect of this concession is that in large transactions, say in £25,000 Great Western Railway Ordinary 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 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.

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 greatest 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."<sup>1</sup> 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

<sup>1</sup> See Glossary, page 397.

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 Committee'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.

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

A Broker may not put business through for another Broker.

An instance of such a "put through"<sup>1</sup> transaction would be where a security stood at  $99\frac{1}{2}$  to  $100\frac{1}{2}$ , 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  $99\frac{1}{8}$  for the seller and  $100\frac{1}{8}$  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

<sup>1</sup> See Glossary, page 401.



correspondence and inquiry. Expressions of opinion are constantly being canvassed and advice sought, all of which are gratuitously forthcoming. Were the practice of the legal profession followed to charge for letters and advice, many Brokers would be in a happy position of affluence. 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.

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

### **Agents and Their Remuneration.**

Stock Exchange Rules make provision for the remuneration of clerks, remisiers, and agents. All of these gentlemen, firms or limited companies, look to Stockbrokers for, and receive from them, substantial payment for the introduction of business. Clerks and remisiers are easy to define. A clerk in a "Broker's own exclusive employment" is unmistakably clear and direct. The phrase leaves nothing to the imagination. A remisier is a person "resident outside Great Britain and Northern Ireland and the Irish Free State whose name is registered with the Committee in accordance with Appendix 40," and this too is clearly outlined in the Stock Exchange Rules. An application must be made to the Committee by the Broker employing the remisier, giving name and address and the locality for which the remisier is appointed. This information is inscribed in a register kept by the Secretary for the purpose.

For remisiers, definite Regulations exist, as will be seen from the following extracts from Appendix 40—

The Committee have full power to refuse registration to a remisier or to strike off the Register any person without reason assigned. (See Clause (1).)

No person shall be registered as a remisier to more than one Broker. (Clause (2).)

A remisier may not advertise or issue circulars to other than his own principals. (Clause (4).)

A remisier may not share his remuneration with his principal. (See Clause (3).)



A remisier may not act as a remisier for his personal business.

A remisier may be an individual or firm, but if an individual must not be a partner in a firm, or in the employ of an individual or firm. (Clauses (7) and (5).)

Furthermore, he must give the names of his principals, in whose names contract notes must be rendered. (Clause (6).)

Similar provision for registration by the Committee is made also for arbitrageurs, to whose activities we refer in Chapter IX.

All of these intermediaries, together with a larger body called agents, to whom we will shortly refer, can be remunerated by a share not exceeding one-half of the commission charged to the principal whose business they introduce. The actual payment to clerk and remisier differs slightly from that to arbitrageurs in that the latter may be charged at not less than half the usual rate of commission on their contracts. Clerks and remisiers receive their division of the commission as a separate payment.

It is when we come to agents in general that we experience difficulty in arriving at a satisfactory definition. Strange though it may appear, no decisive description of an agent exists, although a list of bankers to whom 50 per cent of a Broker's commission can be returned has been prepared by the Stock Exchange. Apart from this list of bankers, any person, firm, or institution may put forward the claim to be an agent, and ask for and receive up to 33½ per cent of a Stockbroker's commission. These agents at present comprise solicitors, accountants, financial institutions, the Public Trustee, private firms, and any individual who cares to represent that he or she is instrumental in introducing business to the Stock Exchange. The adjudication as to who is a *bona fide* agent is left completely to the discretion of the Broker. If a shoe-black or taxi-driver can introduce business to the Stock Exchange, then there is no rule against his sharing the Broker's commission, and this illustration applies with equal force to people or firms in all walks of life.

Despite the fact that agents are undefined, definite rules exist for their observance. The most important is that under no consideration must any share of the commission accepted by

the agent be handed back to the principal. Brokers are held responsible for carrying out Rule 199 (3) which runs—

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 (4) provides that

A Broker may not share with an Agent 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 any of the commission under this rule 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 (5) 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 (6) as follows—

A Broker who shares commission with an Agent 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 a Clerk in his own exclusive employment with a share of the commission charged to such outside Broker or Dealer. (Rule 198.)

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."

Many firms of Stockbrokers have attached to their staff men commonly known as "half-commission men." Often the latter are unpaid and rely entirely upon the return of commission they secure through the introduction of business. They concentrate more upon obtaining orders than actually carrying them through to their conclusion. The detail work and the expense involved in the settlement of each individual transaction have given rise to the opinion that the share of commission returned, usually one-half of the gross amount, is distinctly on the generous side. However, the arrangement is purely discretionary, and some Brokers, bearing in mind that all office expenses are borne by them, arrange mutually for a more equitable division. It is usually considered that an arrangement to receive half-commission involves the recipient in liability for half the loss in the case of a loss arising on any transaction.

### **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, 50 per cent of the whole. In view of the prominence the whole subject of the division of commission occupies at the present moment, it may be as well just to consider one or two aspects of the matter. Should banks and others receive these sums?

What undoubtedly has given rise to the apprehension felt

by many observers of Stock Exchange development is the ease with which other businesses can lay claim to share in payment of commission rightfully belonging to the Stock Exchange. The Stock Exchange is a profession with obligations and expenses not incurred by people outside its membership. The feeling, therefore, is strongly in evidence that it is not the legitimate business of others, such as the legal and banking professions, and, therefore, they should not look to the Stock Exchange for a division of Stock Exchange fees. In fairness it must be admitted that no division of commission is ever asked for by the Stock Exchange from other professions. It never occurs to a Stockbroker to say to a solicitor to whom he sends a client for advice, "Will you please credit me with half your professional fees." Neither would a Stockbroker invite the frown of a Harley Street specialist to whom he sends a sick friend if he suggested a return to him of half the specialist's professional fees in virtue of the introduction. It is not etiquette, and it is urged it is not legitimate. Similarly with banking. This is a profession built up over many years upon sound and cautious lines. In the safe keeping and lending of the people's savings a vast business has grown up. Enormous profits to various institutions have accrued under the bankers' wise administration. But banking is a field of activity clearly defined, and one on which Stockbrokers have no wish to encroach. Banking profits or fees are never shared with the Stock Exchange. Why, then, should Stockbrokers' fees be divisible? Banks, moreover, do advertise, and although no direct advertisement of the facilities offered for Stock Exchange transactions actually appears, every opportunity is taken to bring banking names prominently before the public. This, the critics of commission-sharing urge, gives the banks an unfair advantage over Members in the collection and catering for public patronage, and runs right across Stock Exchange rules, which not only ban advertisement to Members, but also forbid the sharing of commission with outside Houses who do advertise. Is, then, the banks' claim a fair one, and is the Stock Exchange consistent in honouring it?

To this problem 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 50 per cent of the whole, except where certain advantages are given to the client under what is known as the £2,500 Rule.<sup>1</sup>

### **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

<sup>1</sup> See page 69.



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, lays down the following scale—

Sect. 77 (1). There shall be charged on every contract note as defined by this section for or relating to the sale or purchase of any Stock or marketable security, the following stamp duties—

Where the value of the Stock or marketable security					
	is	£5 and does not exceed	£100		6d.
Exceeds	£100	.. .. .	£500		1s.
"	£500	.. .. .	£1,000		2s.
"	£1,000	.. .. .	£1,500		3s.
"	£1,500	.. .. .	£2,500		4s.
"	£2,500	.. .. .	£5,000		6s.
"	£5,000	.. .. .	£7,500		8s.
"	£7,500	.. .. .	£10,000		10s.
"	£10,000	.. .. .	£12,500		12s.
"	£12,500	.. .. .	£15,000		14s.
"	£15,000	.. .. .	£17,500		16s.
"	£17,500	.. .. .	£20,000		18s.
"	£20,000	.. .. .			£1

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 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."

An interesting point regarding options is mentioned on page 126.

Section 79 of the above Act provides that with such transactions one half the usual stamp is to be affixed to the option contract, the remaining half being due on completion of such option. This provision is applicable only to "Single" options. In the case of a "Double" option, full contract stamp is payable at the time the undertaking is entered into, and full stamp when a right under such option is exercised.

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 . . . . .		1	—	£175 . . . . .	1	15	—
£10 . . . . .		2	—	£200 . . . . .	2	—	—
£15 . . . . .		3	—	£225 . . . . .	2	5	—
£20 . . . . .		4	—	£250 . . . . .	2	10	—
£25 . . . . .		5	—	£275 . . . . .	2	15	—
£50 . . . . .		10	—	£300 . . . . .	3	—	—
£75 . . . . .		15	—	£350 . . . . .	3	10	—
£100 . . . . .	1	—	—	£400 . . . . .	4	—	—
£125 . . . . .	1	5	—	£450 . . . . .	4	10	—
£150 . . . . .	1	10	—	£500 . . . . .	5	—	—

and so on after £500 at the rate of 10s. for every further £50 or fractional part of £50.<sup>1</sup>

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 dealer(s) on the Stock Exchange.

This provision does not apply to contangoes or continuations, and Stock or Shares so taken up must be retransferred within two months, or the full transfer stamp falls due less the 10s. paid.

Transfers of shares in companies registered or incorporated in the Union of South Africa are liable to a stamp duty of 1s.

<sup>1</sup> Requisition Form. See page 235.

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.

The contracts on pages 61 and 62 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.<sup>1</sup> 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.

<sup>1</sup> See Chapter XI, page 221.

## CHAPTER V

### THE SCIENCE OF INVESTMENT

FOREIGN Government Stocks—Dislocated Exchanges and Depreciated Currencies—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 few years 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 developments of post-war financial experience 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. Before the War 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, Chili, Greece, and Brazil—to leave out the principal contestants in the world embroglio—were 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 dramatic developments which have completely changed the approach to the study of investments. Following hard upon it—indeed a contributory factor—is the chaos brought about by

### **Dislocated Exchanges and Depreciated Currencies.**

This is a comparatively recent complication, transient we hope, but one which has played havoc with both credit and price values. It is not so much our purpose to dissect the numerous causes which have contributed to bring about this dislocation, as to show that a factor is present in relation to investments, which has not been previously taken into consideration, and which is devastating in its effect on all preconceived ideas of investment values. Prices now move or are stable in accordance with the stability or otherwise of one country's currency in relation to another's. Even gold as a basis for Great Britain's currency has been abandoned, adopted, and abandoned again within the space of a few years, with the inevitable accompaniment of unsettled prices and a rapidly fluctuating pound sterling. Commodity values sunken to unremunerative levels have also played their disruptive part, and while the effect on national budgets, and through them on the exchanges, makes this more a problem of economics than of investment, the effect on trading companies' securities is, nevertheless, so disturbing as to render its inclusion necessary in our brief survey.

The further 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.

Electricity.

Oil.

Motor Traction.

Wireless.

Television.

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. 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 that 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 by any or all of them under Sect. 1 trustees may invest.

### **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 I—

- (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.<sup>1</sup>
- (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. . . . .
- (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.

<sup>1</sup> References to the United Kingdom are deemed to include Great Britain and Northern Ireland.

(*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. One important Amendment of March, 1926, extended the powers of trustees, allowing them to include the purchase of Preference and Guaranteed Stocks of all Railways which have paid a dividend of 3 per cent for ten years on the Ordinary Stock, while still allowing them to purchase all Debenture Stocks irrespective of any distribution on Ordinary Stock. The clause governing the payment of a dividend on the Ordinary Stock, before the Prior Charge Stocks are available for English trustees, therefore prohibits the latter from purchasing L. & N.E. Railway Debentures at the present time, but they are still available for all Scottish trusts.

The Trustee Acts are distinguished for the care bestowed in

the selection of Stocks available. Yet anomalies occur. It is strange, for instance, that English Railway Preference Stocks should be admitted to the list, while Port of London Authority Stock or Mersey Dock and Harbour Debentures should be excluded. It is singular also that the issues of a public board, such as the Central Electricity Board, with Parliamentary powers and semi-Government direction should be excluded from the list, while issues of Dominion States should enjoy full trustee status. We have during recent years seen 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 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, 1939, at 101, and redeemable 1st April, 1954, 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 recent



years, owing to Great Britain's attitude towards the Gold Standard, facetious Members have dubbed it the *Guilt*-edged market. Some surprising fluctuations have been witnessed among Stocks famous for their stability. Securities such as 5 per cent War Loan, 1929-1947 (now a 3½ per cent Loan), or Consol 2½ Stock, aristocrats among Government issues, have moved violently from 104½ to 90½ and 60½ to 49½ respectively. Issues such as Funding 4 per cent Loan, Conversion 3½ 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, financial institutions, discount houses, building societies, and other prosperous concerns invest large funds in the Stocks in which this market deals. There are numbers of 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 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, five pounds' worth or less 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 and Local Loans, Victory 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 Hungarian Transdanubian Electrical 4½ per cent Guaranteed "A" Debenture Stock, 1931–53, 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 105, the flat yield to a purchaser is less than 4¼ 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, Stanton Ironworks 4½ per cent Guaranteed Debenture Stock, 1931–45, 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 Heckmondwike also 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 3 per cent, 1940, Gold Coast 6 per cent, 1945–70, Kenya Government 5 per cent, 1948–58, Nigeria 4 per cent, 1963, Sierra Leone  $4\frac{1}{2}$  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 India and those of the Dominions of Australia, Canada, New Zealand, South Africa, and the various Colonies. Indian Stocks, while enjoying full trustee status, are not, as is sometimes supposed, guaranteed by the British Government. They are under the control of the India Council.

We have omitted in our brief survey of the Gilt-edged market the one quoted issue of the Treasury which in years to come may be regarded as unique. We refer to the £99,999,900 1 per cent Treasury Bonds, 1939-41. Indicative of the cheapness of money—and during these strange years the Treasury have been able to finance their short requirements at a few shillings per cent per annum—this loan, which reflects the credit of the British Government, is standing at 98. These Treasury Bonds are popular with banks and discount houses, but, because of their early maturity date, they are a little unsuitable for the average investor.

Following the British Government, India, 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
Coffee	Unified	First Charge
Refugee	Hypothecated	Secured
Banking and Currency	Assented	"A," "B" and "C"
Reform	Rescission	Extension
Reorganisation	Salt	Enfaced
Public Works	Agricultural Mortgage	Special
Conversion	Railway	Long Term Mortgage
Unified	Irrigation	First
Indemnity	Adjustment	Second
Coffee Realisation	Sealed	Third
Imperial Railway	International	Supply
Government Railway	Terminal	
Waterworks		

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	

One Dominion Corporation—Wellington—shows originality in the designation of its various Loans. In addition to “5½ per cent Antecedent Liability Debentures,” it possesses an issue of “Footpaths 5 per cent Debentures,” “Street Widening 5 per cent Debentures,” and also “City Paving and Surface Sealing 5 per cent Debentures.” Another Dominion municipal undertaking boasted a “Series B 5 per cent General and Refunding Mortgage Sinking Fund Gold Bonds, 1955,” issue. Probably the length of the title proved a handicap, as it has now been withdrawn from the *Official List*.

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  $7\frac{1}{2}$  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.<sup>1</sup> 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. The 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.

### **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

<sup>1</sup> See Preface to Third Edition.

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 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 VI

### THE ATTRACTIONS OF EQUITY INVESTMENTS

ORDINARY Stocks and Shares—Gear Ratio—No par value Shares—Yields and Purchase Price—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 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 to reduce dividends, despite their enormous reserves. Stocks of Gas and Electricity undertakings call for inclusion, and the difficulty is to present the securities of these industries in correct order of safety and attractiveness. Railways, Breweries, Trust Companies, Canals and Docks, Shipping, Telegraphs and Telephones, Transport, Tea, Tobacco, Iron, Coal, and Steel, Oil, 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 grudgingly offered, such as the right to apply for one Ordinary Share for every ten 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. 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.

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

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 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.

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

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such is in existence. Instances have frequently been seen where the "discount" <sup>1</sup> 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  $\frac{1}{4}$  discount to  $\frac{1}{8}$  discount, or a £1 Share 5s. paid is quoted  $\frac{3}{8}$  to  $\frac{1}{4}$  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 well-known bank with large foreign connections. In this instance the £10 Shares, £5 paid, changed hands at  $7\frac{1}{8}$  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.

<sup>1</sup> See Glossary, page 392.

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."<sup>1</sup> 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 stubborn 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

<sup>1</sup> See page 109 and Glossary, page 391.



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"<sup>1</sup> is established, he sells. The difference between the issue price and the premium established is his profit. This "staggering" 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'<sup>2</sup> 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

<sup>1</sup> See Glossary, page 400.

<sup>2</sup> See page 185.

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.” *Lloyds 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 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, and the contango account open in the Stock Exchange now is negligible in comparison. Largely, however, the contango position has been transferred to the banks, whose system of paying for clients’ Stock or Share purchases is often

only another form of a contango position. Some Stockbrokers refuse business which entails "carrying over"<sup>1</sup> or contangoing, while others do their best to discourage it, consenting only in approved cases. It must be admitted that, while there may be less transacted, business is now on a more secure basis. Contangoes, however, are still done, and are recognised as part of the service the Stock Exchange can offer.

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,<sup>1</sup> 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, Broker or 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) Bank Rate, (2) the class of security, and (3) the market "position"<sup>1</sup> in the particular Stock or Share. Most contangoes now are 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 always is arranged in such manner as to leave two 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"<sup>1</sup> or "taker"<sup>1</sup> 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 fixed by the Jobbers who know the actual prices. They are entered

<sup>1</sup> See Glossary for explanation of these terms.

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 regard 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 63-64, 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.<sup>1</sup>

### 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 Committee shall at their first meeting in September fix twenty-four Account Days for the ensuing year. The Settlement shall consist of—

The Contango Day (usually a Monday).

The Ticket Day (usually a Tuesday).

The Intermediate Day (usually a Wednesday).

The Account Day (usually a Thursday).

Should the Account be so fixed that Contango Day would in the ordinary course fall on a Saturday, the Contango Day shall be the preceding business day." Contango rates are calculated from Account Day to Account Day. The Contango Rate fixed may fall within what is known as the General Rate, say, 6 per cent to 7 per cent, which means if you are a "taker" you receive 6 per cent, and if you are a "giver" you pay 7 per cent on the money involved. The Broker's remuneration is usually  $\frac{1}{2}$  per cent or 1 per cent, which is added to or taken from the Contango Rate. In our case, as a "giver" on 500 Courtaulds, we should pay, assuming that they "make up"

<sup>1</sup> See page 286 regarding securities quoted "ex dividend."

at 30s., at the rate of, say,  $7\frac{1}{2}$  per cent per annum on £750 for fourteen days. If it is a twenty-one day Account, then we should pay or be debited with  $7\frac{1}{2}$  per cent per annum on £750 for twenty-one days. What might easily happen would be that "takers" predominate owing to the number who had sold "short," and who desired to "borrow" the Shares until the following Account Day. The presence of these "bears" or "takers" or "borrowers" wanting accommodation would make the position of a "bull" or "giver" or "lender" easy, and the tendency would be for the rate to find a lower level. An anxious "bear," instead of "taking" a rate from a "bull" or "giver," will sometimes be content to arrange the contango "even," which is naturally an advantage to a person desiring to arrange his "bull" position. In extreme cases when "givers" are scarce and "takers" only are in evidence, we get what is known as a "backwardation."<sup>1</sup> This means that our "bear" or "taker" has to give a rate instead of receiving one in order to arrange his uneven position. This Contango Rate, as we have mentioned, is usually paid by the "bull" or "giver," but in this case the position is reversed and the "bull" receives the rate. In an upward movement when many people buy and require financial accommodation for their purchases the rate rises. The expression "givers to a man" is frequently heard on Contango Days, when a Stock or Share is enjoying popularity. When no "takers" can be found someone has to provide the cash, and firms known as money brokers frequently agree to "take in" the securities purely as a money-lending proposition. The rate these money brokers fix depends on the conditions ruling in the money market and the security they accept. If it is a speculative counter, the rate is high; if it is a respectable Stock, the rate is reasonable. In some instances the anxious "giver" has to pay the stamp and fee which the "taker" charges in addition to the rate. A "bull" or "giver" is actually the owner of the security, although it may be in the name of the "taker," who is only the nominal possessor pending the decision of the "bull" either to take up the Stock himself or sell it at his discretion. During the whole time the contango is in existence the "bull" is entitled to all dividends, rights, interest, or advantages, which he would have received were

<sup>1</sup> See Glossary, page 388.



the security in his own possession. The "bull," of course, is also responsible for any call that may be made on the Shares or Stock, and the liability is his in the event of any set-back due to untoward developments.

What perplexes many clients is the latest time they are able to deal in one Account, and when are transactions done for "New Account,"<sup>1</sup> or, as Stock Exchange parlance has it, "New Time" or "New Go." A simple rule to remember is that all transactions done in the ordinary way on Contango Day are for "New Time." It follows therefore that the last day for dealing during one particular Account is the business day preceding Contango Day. Here is an example illustrating this point. The two Account Days in, say, the month of March are Thursday, 14th, and Thursday, 28th. All transactions done in the ordinary way on Monday the 11th March are for settlement not on the 14th, but on the 28th March. All transactions on subsequent days up to and including Saturday the 23rd are also for settlement on the 28th March. A person buying or selling securities on the 11th has two clear weeks in which he may close his transaction before the Settlement arrives, and when Saturday the 23rd of the month has passed he must take up, deliver, or contango whatever securities he may have open. A person buying Stocks on the 23rd March would be called on to pay for his purchases on the 28th of that month. If he made these purchases on the following business day he would not be required to finance his transactions until the mid-April Account. In the case of a seller of Stock on the 23rd March it would be to his advantage, as he could deliver his securities and obtain payment with a minimum of delay. Should he leave his sales until the Monday, he must wait until the mid-April Account Day to deliver and receive payment.

It frequently occurs that clients desire to sell for cash during the Settlement week. In this case a special bargain is arranged, but the price is usually affected. It can be seen that if we attempted to close our 500 Courtaulds because we were unable to procure contango facilities on Monday the 23rd March, it would be clear to the Jobber "which way we were." It would be fairly obvious when we approached a Jobber with a request for a quotation for "cash" that we were "sellers," and we

<sup>1</sup> See Glossary under "New," page 398.

should therefore lack the protection which a Jobber's ignorance of our position gives us when bargaining. In addition to this, the Jobber on whom we desire to shift our position has to pay for the Shares, to be out of the money for another Account, and to pay the requisite stamp and fee. Assuming the price of our Courtaulds to be 30s. to 30s. 6d., a swift calculation would probably find the obliging Jobber willing to give 29s. 10½d. for cash, or whatever price would clear him of his actual expenses.

We should here explain that Brokers, Jobbers, and clients, particularly those who make a practice of contangoing their position, 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. That is the meaning of the Settlement. Assume our 500 Courtaulds to have been contangoed continuously. For the Settlement at 14th March the "making-up" price is, we will say, 30s. For the Settlement at 28th March, a rise having taken place, the "making-up" price is fixed at 32s. 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 is rendered, what is *sold* for 14th March is *bought* for the 28th March at the same price, and what is *bought* for the 14th March

is 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 purchasing a number of Shares at 10s. which he carries over from Account to Account and which steadily depreciate 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.<sup>1</sup>

<sup>1</sup> See reference in the Preface to the Second Edition.

### 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 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”<sup>1</sup>—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. We gave an example of a cash sale in the case of 500 Courtaulds (see page 113). 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.

<sup>1</sup> See Glossary, page 394.

There is also another set of transactions, the settlement of which is ultimately merged into that of the ordinary Account Settlement; that is the business of

### Options and Forward Dealings.

Option dealing, which is not widely understood, consists 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 is known as "option money," and the advantage of giving option money to use this method is that liability can be limited to the sum which is specifically given. This sum is 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 presents itself during the period of the option, the "giver" of option money can simply abandon his claim. Although option prices are quoted in similar terms to ordinary jobbing prices, dealing in them is not restricted to Jobbers. Indeed, the largest dealers in options also act as Brokers. The public buy or sell options through their usual Stockbrokers in the same manner as ordinary security transactions. The longest period allowed is three months, which is usually referred to as the "full period." Options can be purchased for shorter periods, but, in proportion to the rates charged for the full period, are more expensive. The illustration on page 119 of a list of option quotations will illustrate this point.

Several courses are open to a person who wishes to do an option, and the one chosen depends upon his view of the particular Stock or Share which engages his attention. He may elect to do either a "single" or "double" option, and he may either "give" or "take" 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 are two kinds of single Option, i.e. the "Call" and the "Put."

"DOUBLE" OPTION. The "Put" and "Call" combined, which usually costs 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 differ from ordinary purchases and sales, we will deal with the single and double options separately.

### Single Option.

This consists 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 is profit. We will assume that we are greatly impressed with the prospects of "Eldorados," and confidently expect them to rise in price. We arrange therefore to "give" 2s. 6d. a Share for the "call" of one hundred Shares. The price at which the deal is arranged, 25s., is near the price at which they stand at present. We then have the right to become the owners of these Shares at 25s. at the date decided upon. We are not called upon to finance the Shares. All we can lose is the 2s. 6d. per Share plus expenses. What we can gain is unlimited. If the impression we have formed is correct, they may 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 is a simple and successful option deal, and the usual practice of "declaring" the option on Declaration Day would be unnecessary. This option would "declare itself." Where a verbal declaration is necessary is when, at the time of expiry of the option, the market price approximates to the option price which we fixed. Then it is for us to instruct our Broker to declare how we wish to act. If the price was just 25s. we should probably abandon our option. If it were 26s. then naturally we should call 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

# OPTIONS

SINGLE OPTIONS		SINGLE OPTIONS		25 May A/c 19th	22 June A/c 16th	20 July A/c 14th	SINGLE OPTIONS		25 May A/c 19th	22 June A/c 16th	20 July A/c 14th
declared on:		declared on:						declared on:			
Amal. Banket Areas	.	.	.	1/0	1/3	1/6	Associated Portland Cem.	.	3/0	3/6	4/0
Ashanti Goldfields	.	.	.	2/9	3/3	3/9	Austin Motors	.	2/3	2/9	3/3
Brakpan	.	.	.	2/9	3/6	4/3	Brazil Traction	.	1/4	1/4	1/4
Burma Corporation	.	.	.	1/1 1/2	1/3 1/2	1/6	British American Tobacco	.	3/6	4/3	5/0
Chartered	.	.	.	1/9	2/0	2/3	Courtaulds	.	1/9	2/1 1/2	2/4 1/2
Crown Mines	.	.	.	8/0	9/6	11/0	Daily Mirror	.	1/0	1/3	1/6
De Beers Deftd.	.	.	.	1/4	1/4	1	Distillers	.	3/3	3/9	4/3
East Rands	.	.	.	2/3	2/9	3/3	Dunlops	.	1/9	2/1 1/2	2/4 1/2
East Rand Cons.	.	.	.	0/7 1/2	0/9	0/10 1/2	Elec. & Musical Ind.	.	1/1 1/2	1/3 1/2	1/6
General Mining	.	.	.	3/0	3/6	4/0	Hydro Electric	.	3/6	4/3	5/0
Gold Coast Select.	.	.	.	1/9	2/0	2/3	Imperial Tobacco	.	1/4 1/2	1/7 1/2	1/10 1/2
Goldfields	.	.	.	2/6	3/0	3/6	Imperial Chemicals	.	2 1/2	2 1/2	3 1/2
Johnnies	.	.	.	2/6	3/0	3/6	Intern. Nickel	.	2/0	2/6	3 1/2
Kleinfontein	.	.	.	2/6	3/0	3/6	Lever Bros. N.V.	.	2/0	2/6	3 1/2
Nourse Mines	.	.	.	2/0	2/4 1/2	2/9	United Molasses	.	1/7 1/2	1/10 1/2	1/3 1/2
Randfontein	.	.	.	2/3	2/9	3/3	Vickers	.	1/7 1/2	1/10 1/2	2/1 1/2
Rand Mines	.	.	.	6/0	7/0	8/0					
Rhod. Anglo-American	.	.	.	1/9	2/0	2/3					
Rhod. Selection Trust	.	.	.	1/6	1/9	2/0					
Roan Antelope	.	.	.	1/6	1/9	2/0					
Robinson Deep "B"	.	.	.	2/3	2/9	3/3	Anaconda	.	10/9	12/6	14/3
Simmer & Jack	.	.	.	0/10 1/2	1/1 1/2	1/3	Atchison	.	3 1/2	4	4 1/2
Western Reef	.	.	.	2/6	3/0	3/6	Bethlehem Steel	.	4 1/2	5 1/2	6 1/2
West Rands	.	.	.	2/0	2/4 1/2	2/9	Canadian Pacific	.	1 1/2	1 1/2	1 1/2
							Celanese Corp. Amer.	.	9/0	10/6	12/0
Anglo-Dutch	.	.	.	2/0	2/3	2/6	Chrysler	.	5	5 1/2	6 1/2
Rubber Trust	.	.	.	2/0	2/3	2/6	Con. Edison	.	2 1/2	2 1/2	3 1/2
							Electric Bond	.	1 1/2	1 1/2	1 1/2
Anglo-Iranian	.	.	.	3/9	4/3	4/9	General Motors	.	3 1/2	3 1/2	4 1/2
Burnah Oil	.	.	.	3/9	4/3	4/9	New York Central	.	1 1/2	1 1/2	1 1/2
Lobitos	.	.	.	2/3	2/9	3/3	Southern Pacific	.	2	2 1/2	2 1/2
Mexican Eagles	.	.	.	1/0	1/3	1/6	U.S. Steel	.	4 1/2	5 1/2	6
Canadian "	.	.	.	1/0	1/3	1/6					
Royal Dutch	.	.	.	1 1/2	1 1/2	1 1/2	Berwicks I Pref.	.	2 1/2	2 1/2	3
Shells	.	.	.	3/3	3/9	4/3	" II Pref.	.	1 1/2	1 1/2	1 1/2
Trinidad Leaseholds	.	.	.	3/9	4/3	4/9	Brums.	.	1 1/2	1 1/2	1 1/2
V.O.C.	.	.	.	2/0	2/3	2/6	" I Pref.	.	2 1/2	2 1/2	3 1/2
							" 1923 Pref.	.	2 1/2	2 1/2	3 1/2
							Great Western	.	2 1/2	2 1/2	3
							South Deferred	.	1 1/2	1 1/2	1 1/2

The approximate Contangoes for three months are printed in italic.

allowing for the 2s. 6d. option money and 3d. per Share commission), then by selling we could secure 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 be only 2s. 9d. per Share. We "gave" for the "call" expecting them to advance. As our view was incorrect, we lose our option money and no more. Therein lies the advantage over an outright purchase which increases liability to the whole value of the Shares, as it is possible for them to become valueless before we can sell them and cut our loss.

Now let us assume the "put" is decided upon because we form the opinion that a Stock or Share is too high in price. The procedure is the same: we pay for the privilege or right of selling at the present existing price Stock or Shares that we expect to purchase at a lower one. It is a "bear" transaction, just as "giving for the call" was a "bull" transaction. At the end of the agreed period if our "bearish" view proves correct, we "put" or sell our Stock or Shares at the pre-arranged higher price and buy them back at the depreciated level. The difference in the two prices, less expenses, is our profit. If, instead of falling in price, a rise takes place our "put" option is abandoned, and our loss is limited to the amount of the option money and commission paid, no matter to what height the security has 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 is "given." Option money can 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 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 be ours at the end of the period. If the Shares are "called" we have to deliver them at the option price. If the Shares are not called, the option money reduces the cost

of them to us. Thus we reason as we "take" the option money offered. The view we have when we "take" money for the "put" is that we consider 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 is offered us for a view that may not eventuate. We are "bullish" and do not mind the risk, while the "giver" is "bearish" and does not mind paying for his doleful expectancy. Thus it comes about we "take" for the "put." If at the end of the period the price is lower than the option price, the Shares are "put" on us at the option price. Then we sell them and either reduce our receipts from the option money or "cut a loss." If the price is higher, we pocket the option money, and the operation would be successful from our point of view as a "taker."

In addition to the above options there is another kind of option, which, because of its greater risk and potentiality, is 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 has all the combined advantages of the single options we have outlined, and makes provision for both emergencies. A person who buys such an option is in a position to reap an advantage whichever way the market price moves. He, of course, has paid for this privilege, and the only problematical point at the time the double option is purchased, is whether the movements in the security in which he is interested will be of such proportions as will cover him for his expenditure. On the face of it, it looks as if a person who "gives" double option money cannot make up his mind which way the market is likely to go, and in some respects this is so. An operator may have a very decided view concerning a Stock or Share, but there may be such unsettling factors present as to make a measure of protection such as is 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 is limited

to the amount which is agreed at the time the option is entered into. We may remark that, unless the price of a security at the end of the period, usually three months, is exactly the same as it was at the time the double option was bought, it is impossible to lose the whole of the option money. This is a rare contingency, although such instances have occurred. Any difference either way at the expiration of the double option can be taken advantage of, and will be so much saved from the option purchase money, even if a profit is not obtainable.

In practice some surprising fluctuations occur within the maximum period allowed for options, and shrewd "givers" make this form of operating profitable, particularly in unsettled times. It must not be overlooked that "givers" of option money can, and do, deal during the period the options are in force—selling on a sharp rise and purchasing on a fall. The possession of a double option is often a valuable protection, allowing an operator to sell—knowing that he has the "call"—or purchase—knowing that he has the "put." If he can close his transaction at a profit it is usually possible to deal for settlement at the same date as the expiry of his option. This obviates contangoes or uneven positions during the unexpired period of the option, and the operator retains 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 “takes” double-option money the position is not quite so straightforward. Actually he can never tell until the Declaration Day how he stands. Market developments may give an indication, but the final destination of the Shares or Stock on which he has taken money is not known until the end of the option period. The people who “take” double-option money are usually those who feel that they cannot go far wrong in accepting cash. That is 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 is unknown. People who own Shares or Stock, the movements of which they study, are not averse to accepting what appears generous terms for the double option. Their reasoning is that they have no objection to the Shares being “called” from them as they will then be securing a considerably higher price than the present, taking into consideration the option money they receive. If the Shares are “put,” then it but adds to their present holding—if they decide not to sell them—and, again allowing for the option money, they will be cheaper than ordinarily obtainable. This is the attitude of the operator who “takes” 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 secures all or most of the option money as profit. If a pronounced rise takes place his Shares are bought from him, but at least he has secured part of the advance in his option money. If a bad fall occurs, he is asked to take Shares at a higher price than that at which he can buy them in the market, and he stands to lose, unless he has anticipated the set-back and has previously sold the Shares.

What, the student may ask, does the dealer in options do when at any time of the day a Broker may go to transact these option bargains? The answer, of course, depends on what the Broker does. If the Broker “gives” him money for the “call” of Shares, the option dealer usually buys half the quantity to store against the risk of the Shares being “called.” This is considered a fairly safe margin against such eventuality. Similar methods would be employed for a “put” option, but

here, of course, the dealer would sell half the quantity as protection against the possibility of having to take them. Another course is 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 is 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 depend upon the position of the option dealer's book. Often the risks of one option can be set off against the risks of another. With a "put and call," the efforts of a dealer are 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 becomes simply a middleman, and takes his jobbing "turn" at the expiration of the option period. If unsuccessful, he runs the risk for which he will be paid. He can, of course, take advantage of market price movements if it is desired to deal against his liability.

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

Naturally, all dividends, bonuses, rights, and other advantages accruing follow the option. If a bonus or dividend is declared during the life of an option, a "giver" who called his security would call it "cum everything." If he abandons his "call" he, of course, is not entitled to such bonus or dividend. "Rights,"<sup>1</sup> where they arise during the life of an option, are

<sup>1</sup> See Glossary, page 402.

adjusted by means of an "official valuation," as we show on page 290, 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.

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

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

The method of entering an option in the Jobbing Book is as follows: When a principal "gives" money either for the "put" or "call" or the "double option," this is treated as a purchase or *bought* bargain. When the principal "takes" money for "put," "call," or "double option," then the transaction is treated as a *sale*. In the first instance the principal has to pay the option money, and the entry will therefore be to his debit through the Bought Journal, while in the second he receives the option money, which is placed to his credit through the medium of the Sold Journal. These entries are, of course,

<sup>1</sup> LEEMAN'S ACT. This Act, 30 and 31 Victoriae Reginae, 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 England or the Bank of Ireland.

made under a separate date, later to be merged into the ordinary Account. At the time the option is done an ordinary contract note is rendered, setting forth all particulars, and on this contract note commission is 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 is mentioned—not the value of the security. If an operator duly “puts” or “calls” a security at the expiration of the option period, a further contract note is rendered which shows that the security has in fact been purchased or sold, and here the value of the security appears. On this second contract note no commission is chargeable. In effect, this is the completion of an arrangement already entered into, a charge for which has already been made, and this principle is recognised by the Inland Revenue, who allow the charge for contract stamp duty to be spread over the two contracts. No additional expense is incurred if an option is abandoned. It is possible to deal once against an option free of commission, such deal being treated as a “closing”<sup>1</sup> 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 is “called” and taken up, the stamp and fee will automatically be charged. All deals against an option are entered in the ordinary way, it being important to note the date for which they are transacted. The date on the option contract is the date for settlement, and no cash consideration is payable, and no difference that may be due, or Stock that may have to pass, need be settled until the date for which the option has been contracted.

The times for the declaring of options are 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

<sup>1</sup> See page 69.

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 125) must 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 is interesting and often exciting. The adjustment of the various option positions on this day is often reflected in market prices. The people who use options as a medium for their dealing, and the firms who specialise in them, can be considered shrewd and skilful judges of market developments. Often an inquiry as to why prices in a particular market are better is answered by the significant remark "option buying." Market operators only "give" money when they hold decisive views, and, therefore, while it is not an infallible test of which way a particular market is moving, this powerful factor commands attention, and leads one to admit that frequently "Options speak louder than words."



## CHAPTER VII

### 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."<sup>1</sup> 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"<sup>1</sup> 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,"<sup>1</sup> 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"<sup>1</sup> 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,"<sup>1</sup> 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."<sup>1</sup> A continuance of these conditions will soon see markets "blazing good."<sup>1</sup>

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

<sup>1</sup> 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 that 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."<sup>1</sup> 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.

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 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.**

Regularly on Thursday of each week the Bank of England Directors announce the official rate of discount. From this

<sup>1</sup> See Glossary, page 405.

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 30th June, 1932, 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 now 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 setback 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 either 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 132, 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 various political parties towards such questions as existing debt obligations does not always 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 Great War was 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, and tin booms, and in 1928-29 an industrial boom.

Booms are not 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 no 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 all kinds of doubtful propositions are then planted and propagated by unscrupulous promoters. These promotions spring up like mushrooms or, better still, toadstools, justifying such a vitriolic cartoon as appeared after the 1928 boom in a London evening journal showing a well-known City building with its inscription: "The Earth is the Lord's and the foolness thereof." The history of this 1928-29 outbreak, known as the "Dirt Track Boom," is rich in its records of promotions of doubtful character. It followed along the usual well-worn tracks and left behind a veritable cemetery of gravestones bearing the inscriptions of rubbishy companies foisted on an eager, avid, and gullible public. The history of all booms is the same. Yet the fact remains that it is easier to get a man to buy a Share at £15 than to focus his attention on its merit in the neighbourhood of 15s. a Share!

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 V 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 have 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 converted, 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  $104\frac{1}{2}$  to  $90\frac{1}{2}$ , 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  $3\frac{1}{2}$  from 85 to 67, and Consol  $2\frac{1}{2}$  from 60 to  $49\frac{1}{2}$ —many of the equity Shares indicated in Chapter VI, 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 VI in relation to Chapter V 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 even now cannot be regarded as sound investments, while the benefits accruing to humanity by the wizardry of wireless are certainly not reflected in the quotations for Marconi Marine Shares or Cable and Wireless Stocks.

It is not our purpose to discover whether there are more investment bargains than speculative bargains carried out on the Stock Exchange. The transactions referred to in Chapter VI under the headings of Bulls, Bears, Stags, Contangoes, and Options in the main fall definitely into the latter class. We do not say that investment deals are never contangoed. They sometimes are. By far the largest number of contangoes are, however, of a speculative order. On examination they 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 but for the "bear's" presence in the market the "bull" would frequently be without the facilities he requires 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 VIII

### THE ARTERIES OF THE BUSINESS

PROVINCIAL Exchanges—The Council of Associated Stock Exchanges—Code Laws—Glasgow—Liverpool—Manchester—Birmingham—Dublin—Edinburgh—Belfast—Sheffield—Bristol—Leeds—Cardiff—Provincial Brokers Stock Exchange—Lancashire Sharebrokers' Association—Mincing Lane Tea and Rubber Sharebrokers' Association, Ltd.—Finance (1909-10) Act, 1910—"Outside" Brokers

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 in 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,"<sup>1</sup> 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

<sup>1</sup> See Glossary, page 403.



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.

### **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, 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 two Members from each associated and properly constituted Stock Exchange, with an additional representative for every fifty Members in excess of the first fifty on its roll. A President and three Vice-Presidents are elected annually, as is a Secretary whose remuneration may be fixed by the Council. 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 will refer later. The similarity of the Rules used by several of the Provincial Exchanges is largely due to the efforts made to adopt among these Exchanges a uniform system of

### Code Laws.

The history of these Code Laws is interesting, and has been related in simple language by Mr. W. C. Watterson, late of the Manchester Stock Exchange. His story tells how the Council of Associated Stock Exchanges, having for its object the formation of a "Standard Code of Laws," gave instructions to the Executive Committee of the Council to prepare such a Code. In due course, after much thought and many meetings, a Standard Code was drawn up, approved by the Council, and forwarded to the various Stock Exchanges, together with a form of resolution suitable for its adoption. Birmingham, Leeds, Liverpool, Manchester, and Sheffield gave, on behalf of their respective Members, a provisional assent to this resolution, but notification was received from Edinburgh and Glasgow that their Committees, while of opinion that a General Code of Rules for all Exchanges would be desirable, were clear that then it was quite impracticable. These two Exchanges were opposed to a change of such magnitude as was implied, and were of opinion that further expense in connection with such Standard Code of Rules should cease, and that all reference to them should be omitted from the Articles of Constitution. "Thus," in Mr. Watterson's words, "ended the Standard Code; *Requiescat in pace.*" Before the obsequies had been performed the Liverpool Stock Exchange Committee passed a resolution regretting the inability of Glasgow to adopt the Standard Code, and, understanding that Glasgow's continued adherence to the Association would not be interfered with by the adoption of the Code by other Exchanges, they recommended that the Code should be proceeded with. Manchester Committee also passed a similar resolution, to be followed by Birmingham, Leeds, and Sheffield. Ultimately a sub-committee was formed representing Birmingham, Liverpool, and Manchester, to consider the suggested amendments and to formulate

a new Code for approval by the various Committees. After many labours, much correspondence, and frequent consultations with Counsel regarding the legal aspects of the Laws, the Code of Laws as it exists at present was evolved. It received the approval of several important Exchanges, but, although this great attempt to bring them all into line was made in the years 1892 to 1894, complete unanimity does not appear to have crowned the efforts. Mr. Watterson was one of the sub-committee, and his closing remarks breathe a fine spirit. "I cannot refrain from expressing on behalf of Mr. Margetts, Mr. Rae, and myself the hope that—as years roll on—experience will abundantly attest the usefulness and practical value of the 'Code,' and also the further hope that, when a new generation is in possession of, and fresh voices are resounding in, the respective places where 'members' now do congregate, this 'Code' if in force (and even if not in force, if superseded by another and a better one) will be considered a memento, slight and insignificant it may be, but still a memento, of the skill, and care, and thought of bygone days."

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 253 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 £534 8s. 7d.), 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 £25.)

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 £400 16s. 5d.)

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 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 one o'clock, and Members with credit balances receive bank drafts for these from the Secretary between 1.30 and 3 o'clock.

The scale of commission in force follows closely that of London, but, in Glasgow, Members are only allowed to divide commission with other Stockbrokers and professional Stock and Share dealers. This, it will be observed, automatically excludes the division with all banks, solicitors, or other agencies. On this subject Glasgow Rules are extremely strict. Brokerage on continuations or carrying-over amounts to one-quarter of the ordinary rates of brokerage.

Other distinctive Rules exist, but it may be mentioned that the main principles of the Code Laws to which we have previously referred are embodied in the Glasgow Stock Exchange Rules, although it was considered by this Exchange better to retain the Scottish phraseology.

### **Liverpool.**

The Liverpool Stock Exchange, next in order of seniority among Provincial Exchanges, has a membership of 154. Founded in 1836, the Liverpool Exchange opened its career—like London—in a coffee house. The location in those early days was the Mersey Coffee House, Old Church Yard, from

which address seven changes brought them to much enlarged premises at Dale Street and Exchange Street East. Their present meeting place is known as "The Room." The management of the Exchange is vested in a Committee of 15 Members elected annually. This Committee, subject to approval by Members, fix the Members' and clerks' subscriptions. The calling over of the Price Boards, a necessary feature of the system of transacting bargains which we have mentioned, is presided over by the Chairman, Vice-Chairman, or one of the Members of the Committee. Here, as in other Exchanges, Rules governing the admission of Members are strict. Every applicant must be not less than 21 years of age and must be 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. Further conditions of membership are as follows—

1. Each Member elected prior to 20th July, 1911, shall hold 60 £1 fully-paid Shares in Liverpool Stock Exchange Buildings Co., Ltd. (30 must be Ordinary), as qualification Shares.

2. Each Member elected after 20th July, 1911, shall hold at least 100 £1 fully-paid Ordinary Shares in Liverpool Stock Exchange Buildings Co., Ltd., as qualification. These qualification Shares must be held in one's own right, and not be loaned by other Members.

A Member must also 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. This security under certain conditions is returnable. Special provisions exist regarding the amount of this security—

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 for not less than seven consecutive years prior to his application for admission (during one year of which he shall have acted as Authorised Clerk) then the Committee shall have power to accept security from him in the sum of £1,500 in lieu of £2,500.

Entrance fees and subscriptions are as under—

(1) Members on admission shall pay an Entrance Fee of £700—except (a), (b), (c), where the Committee shall have power to reduce the entrance fee to not less than £350.

(a) Sons of Members of not less than four years' standing.

(b) Sons of deceased or retired Members of not less than seven years' standing.

(c) *Bona fide* clerks for a period with Members of seven consecutive years' service.

(2) Members shall also pay a sum equal to one Share in the General Fund of the Exchange as last declared by the Committee.

(3) The Annual Subscription, which may be paid by two half-yearly payments. Members of over 20 years' standing who have retired shall not be liable to pay more than £10 per annum subscription.

As in London, authorised clerks are sanctioned, but probably as a result of the War no Member must employ, without special permission of the Committee, anyone of German, Austrian, Hungarian, Bulgarian, or Turkish birth. Further Rules follow closely those in London and other centres, particularly those embracing the Code Laws. The only Rules calling for particular mention are those which enjoin that—

Members must be in usual attendance at the Exchange.

That—

All bargains are to be entered in respective Market Books and checked with Members as soon as possible the same day.

And that—

No stranger shall be admitted into the Room, except by permission of the Chairman, Vice-Chairman, or other Member of the Committee.

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 was founded in 1836. The Rules governing the title and constitution lay down that the Association shall be called the Manchester Stock Exchange. Its Members at present number 132, which places it numerically third in order of importance. Its Rules and Bye-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.

Among the comprehensive list of Rules which in the main follow those of London and the other large Provincial Exchanges should be mentioned the rigid regulations governing commissions. The Rules enjoin that—

A Member may share his commission with a Bank, provided that the share of the commission actually retained by him is not less than one half of the minimum scale. With the exception of the Public Trustee, to whom  $33\frac{1}{3}$  per cent commission may be returned,

a Member may not rebate commission to anyone. Furthermore, 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. Bye-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. All the Rules and Regulations of the Birmingham Exchange are known as 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 seven other Members, who together shall form the Committee of Management.

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.

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 Bye-laws.

(2) Paying the entrance fee and subscription.

(3) Providing the security which may be required by the Laws.

(4) Acquiring an "A" Share in the Birmingham Stock Exchange Trust, value about £285.

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 . . . . .	£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. The Bye-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 four. Subscriptions for these authorised clerks are fixed annually, and are also payable half-yearly.

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.

Birmingham's Laws regarding commission are practically identical with those of London, with one important reservation. "A Member may make to acting Bank Managers and to Solicitors and Accountants introducing business an allowance of one-third of the Commission charged." "In order," the Laws continue, "to meet competition from other markets, and for this purpose only, a Member may in particular cases make to Bank Managers an allowance of up to one-half of the Commission charged." This arrangement is therefore similar to that at present adopted by London. A further 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 85. 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 the Irish Free State). 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—

- |   |          |
|---|----------|
| (a) For Members who have been admitted not later than 30th April, 1913              | £21      |
| (b) For Members who have been admitted between 30th April, 1913, and 1st July, 1920 | £31 10s. |
| (c) For Members who have been admitted subsequent to 1st July, 1920                 | £52 10s. |

The annual subscription for each Member admitted since 30th April, 1913, is reduced by £10 10s. should he be the registered holder in his own right of at least 100 shares of £1 each, fully paid, in 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.

Members may relinquish the whole, but not a part, of their

Commission, in cases of charity, such cases to be those solely in which no Commission is ever to be charged.

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 £5 5s.

And lastly a Rule which seems particularly Irish—

Any Member who by reason of his absence from the Stock Exchange from any cause *except* such absence shall be caused by sickness, attendance on a Court of Justice, or other justifiable cause, may require his orders to be executed by another Member, shall pay to the Secretary 1s. for every day he shall so act by agency, and the bargains entered into on behalf of the absent Member shall be as binding on him as if entered into by himself.

All of the above Rules and Regulations, and many more, are at present followed by the words—

I, Earnan de Blaghd, Minister for Finance of Saorstat Eireann, do hereby approve of the foregoing Rules and Regulations.

Signed—(Then follows the Minister's signature in Erse.)

### 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's Square. Commencing in 1844 with a membership of seven, the number has now grown to 65. 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 and/or accountancy. 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 21 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 of the Association, or son of a deceased Member                            | £210 |
| (2) If he has served as a clerk with a Member of this or any other recognised Stock Exchange for five years | £210 |
| (3) If he is without the qualifications under either (1) or (2)   | £525 |



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 to be fixed by the Committee in accordance with the following Rule—

The Capital Funds of the Association shall consist of the Property Fund and the General Fund. The Property Fund equals the heritable property owned by the Association, and the General Fund shall consist of other free Assets, but excluding the "Cash Reserve."

This share of the Funds of the Association is non-interest bearing and costs approximately £600.

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.

There are also minor differences in the scale of commissions, as compared with London. Provision is made for the inclusion of low-priced Shares as—

Shares, price 6d. and under . . .	$\frac{1}{8}$ d. per Share
„ „ 6d. to 1s. . .	$\frac{1}{4}$ d. „
„ „ 1s. to 2s. . .	$\frac{1}{2}$ d. „
„ „ 2s. to 3s. 6d. . .	$\frac{3}{4}$ d. „
„ „ 3s. 6d. to 5s. . .	1d. „
„ „ 5s. to 15s. . .	1 $\frac{1}{2}$ d. „

Important differences in the Commission Rules as compared with London are that—

(1) Members may not divide commission with anyone except Members of other Stock Exchanges or recognised professional Stock and Share Dealers outside the City of Edinburgh; and that

(2) Members are not allowed any discretionary powers, and a fixed minimum scale is provided to include every class of security.

**Belfast.**

The Belfast Stock Exchange was founded in July, 1895. Members of this Exchange, numbering at present 39, 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, the sum of . . . . . £200
- (2) 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
- (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 this application, the sum of . . . . . £400
- (4) If he is without the qualifications under either (1) or (2) or (3), the sum of . . . . . £1,000

Within fourteen days of his election, a new Member having the qualifications under Clauses 1, 2, or 3, above, shall provide security for the sum of £1,000, and a new Member without any of the said three qualifications shall provide security for the sum of £2,500, to subsist and be maintained in each case for 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. It is noteworthy that the Belfast

Stock Exchange makes no provision for the sharing of commission with banks.

### **Sheffield.**

The Sheffield Stock Exchange was founded in 1848, at which date a much older body was reconstituted. The Committee who manage this Exchange consist of five out of the present roll of 31 Members. 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, and will not recur. 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, and the Rules allow commission to be shared with banks and solicitors, but Members may not divide brokerage, including that on new issues, with any other parties whatever.

### **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 41 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 decide.

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 . . . . .	210	1,000
(d) Entering partnership or acquiring deceased Member's business . . . . .	210	2,000

Authorised clerks are permitted to Members on payment of the subscription fixed by the Committee.

Among the Laws which conform to those in use elsewhere is one relating to commission-sharing which is worthy of note—

The word "Agent" shall be deemed to include all Bankers, Bank Managers and Sub-managers and Secretaries of Public Companies, Solicitors and Public Accountants, and other persons carrying on business as Agents, who by virtue of their position can presumably control the destination of the business in respect of which the allowance is to be made, but shall not include clerks or other persons who can obtain the business by general solicitation only, to which persons it is intended that no allowance shall be made.

### 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. 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.

### Cardiff.

This is the largest of the Welsh Stock Exchanges, and has a present membership of 23. The Committee consist of five Members, two 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, particulars shall be given to 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 each year put a value upon the securities and other substantial assets belonging to the Exchange, and the value of the share of each Member of one year's standing is announced and is payable on the death or voluntary retirement of the Member. Authorised clerks are allowed, but no firm must have more than two in number.

The Code Laws appear to be adopted by this Exchange and 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 15, Huddersfield 19, Nottingham 17, Bradford 18, Greenock 14, Swansea 12, Dundee 13, Aberdeen 11, Halifax 8, and Newport 4. 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 321. It is an

unusual organisation in that it has no Exchange in which its Members can meet, although there are Members in 100 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. In one case a Member has his office in the Isle of Man, while three 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 London Postal Area, 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 50 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 only be held 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 great importance regarding Stock Exchange problems and procedure. The Exchange issues regularly a Year Book to its Members, and this annual is packed with interesting matter relating to Stock Exchange business and procedure.

### **Lancashire Sharebrokers' Association.**

This body includes one important Stock Exchange—Oldham—with a membership of 38. This Exchange deals mainly in Cotton Mill Shares. The management of the Association comprises a President, three Vice-Presidents, and five Members of the Committee. 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 enter into an arrangement to pay an aggregate of £250 as surety for one year following election. The entrance fee is £50 or such other sum as the Committee shall fix, and the annual subscription is determined at each annual meeting. Settlements are similar to those in London, and advertising is prohibited. Any Member becoming a Member of any other Stock Exchange or Sharebrokers' Association other than the Provincial Brokers Stock Exchange ceases to be a Member of the Lancashire Sharebrokers' Association.

### **Mincing Lane Tea and Rubber Sharebrokers' Association, Limited.**

This Association, called the Mincing Lane Stock Exchange, was formed in 1909 and incorporated in 1912 for the purpose of providing a service to investors in the shares of Tea, Rubber, and Allied companies. Members, who number 32, are under the control of a committee, and recognition is given to the Association by the Finance Act mentioned below.

### **Finance (1909-10) Act, 1910.**

Finally, there are the Brokers who are registered as such with the Commissioners of Inland Revenue under Sect. 77 (3) of this Act. These Brokers, by virtue of the fact that they are so registered, can receive unstamped contracts from recognised Stockbrokers—or Members of all Stock Exchanges—where

transactions are not for their own account. In order to be registered, an undertaking is given to the Commissioners of Inland Revenue (in the case of Northern Ireland to the Minister of Finance) that for all purchases or sales for a principal a duly stamped contract note will be issued.

There are at present about 600 of these unattached registered Brokers, and their business is carried on in London, in the large provincial centres, and in remote corners of the British Isles.

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. Before turning to other organisations, including those outside this country, it should be stated that a number of firms and individuals are practising as Stockbrokers and soliciting business in Stocks and Shares who do not come under any of these headings. These we can only describe as "outside" Brokers.

### **"Outside" Brokers<sup>1</sup>**

Amongst "outside" Brokers are a number who carry on a legitimate and useful business, and whose transactions are conducted on strictly honourable lines. Others there are to whom is applied the description "Bucket Shops."

These people owe no allegiance to any institution and are subject to no supervision. They reserve the right to circularise, advertise, approach and solicit business from all and sundry, in a manner prohibited by the recognised Exchanges. At the same time, they exercise the right to make whatever profits appear to them acceptable. This is a nominally free country, and there is no law to prevent an investor from trading with unrecognised individuals if he so desires. It is not necessary, however, for anyone to take the risks involved in dealing with such firms in view of the widespread organisation we have attempted to outline which exists for the benefit of the public, and for public protection.

<sup>1</sup> A far-reaching measure of reform has now been passed by Parliament—"The Prevention of Fraud (Investments) Act." This Act, designed to eliminate undesirable "outside" Brokers, is referred to on page 182.

## CHAPTER IX

### THE ARTERIES OF THE BUSINESS (*continued*)

FOREIGN Bourses—New York—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 Tokyo and Buenos Aires, similar institutions exist. The influences they exert are of varying degree, but, in general terms, 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 is 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 been a negligible quantity. 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 War the turnover was of vast proportions, and in no other market could such vociferous bidding and offering be heard. "Lines"<sup>1</sup>

<sup>1</sup> See Glossary, page 396.



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 during the War, and the conditions laid upon us by the 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. Evidence of this was seen prior to the Great Slump of 1930-32 when American interests were identifying themselves with our electrical undertakings. To acquire Shares, price was no obstacle, and an insistent demand from New York continued at rising prices until the required number were bought. Just as America can buy, so can she sell. The proud peaks reached by Stocks of international renown have been abandoned, and price levels have since been submerged under floods of selling. The setback has been of avalanche-like proportions. Perhaps it is a good thing that London is not very intimately identified with the Stock market developments of her cousins across the Atlantic. Maybe when the exchanges right themselves, the departed glory of the old active American market may return.

New York time is nominally five hours later than London. That is to say, we in London are preparing to close our Stock Exchange as New York prepares to open hers. One official trading hour remains in London, namely, 3 o'clock to 4 o'clock, when the first cables arrive from New York opening her day's activities. In the few Stocks that can now be termed international and in which both New York and London have a joint interest, such as Brazilian Traction, International Nickels, Hydro Electric, Radio, Canadian Pacifics, and United States Steel Corporation, the question, then, is: Will New York accept our prices or will she have views of her own? When London closes its doors at 4 o'clock an adjournment is made to the "Street," where trading continues until late hours, and is naturally dominated by the prices which New York dictates. "Shorters Court," the little square nearest the cable companies' offices, has probably witnessed more colossal combats between "bull" and "bear" than any other spot outside

the floor of the "House." Now trading still progresses, but not on the grand scale. Dealers still congregate there until, driven by the elements or the absence of trade, they close their books and go home, prepared to take up the prices in the morning left by New York at her close of business.

The actual British transactions of New York, sales for them and sales to them, are invariably carried out by firms of

### **Arbitrageurs.**

Arbitrageurs abroad can be described as foreign Country Brokers. Stock Exchange firms which transact business with these foreign Brokers are also known as arbitrageurs.

For many years before the War a large arbitrage business was 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, and is still practised, but upon a very much reduced scale. The chaotic state of the exchanges has made arbitrage business extremely difficult to transact of recent years, but several firms retain the privilege they have enjoyed for years of special permission to engage in this form of trading.

The business of arbitrageurs resembles very closely the business of "shunters" referred to in Chapter VIII. Arbitrageurs' operations, however, are conducted between two countries instead of two towns. The transactions of the arbitrageur are 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 have to be allowed for. The first factor is the rate of exchange. Since this fluctuates, any alterations must be taken into consideration. Another factor is the cost of insurance and shipping,

an item by no means negligible when it is remembered that practically all securities dealt in between New York and London are bonds to bearer or certificates, and that they have 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 are for cash, while those on this side of the Atlantic are mostly for the Account. It is easy to see that some form of protection is required by an arbitrageur buying securities in London possibly at the beginning of a long Account, which securities are sold by his agent in New York where the transaction is for cash. Obviously it will be nearly a month before London can deliver. In a reverse case, where securities are purchased for cash in New York for delivery in London, these have to be paid for and "nursed" pending delivery. Thus interest charges constitute another factor. Commissions are chargeable to arbitrageurs at half the minimum scale laid down in Appendix 39 to the Rules.

In addition there are cable tolls, which, in the case of an active arbitrageur, are an indispensable and expensive necessity. It is no unusual experience for arbitrageurs to receive cables by the score during an hour of trading, and frequently this expense, owing to market conditions, is 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 is a vital necessity for arbitrageurs both in the dispatch and receipt of advices and in the accurate calculation of the margins that exist for profit. To assist in speeding up, and also for economy, messages are sent in code. Various systems are in use according to those found most suitable for trading

requirements. Many firms evolve codes of their own. When it is remembered that there must be taken into account exchange rates, commission charges, interest, cables, insurance, United States legislation, 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 is a highly skilled and technical business. Firms that engage in it have no desire to regularise the price differences existent in different financial centres—their aim is profit—but in plying their trade they require knowledge of a special kind, and considerable cash resources, as the risks they run are unavoidable.

Regarding the facilities provided for payment to arbitrageurs, it should be mentioned that sellers of securities both here and abroad are able to obtain immediate payment through the medium of Banks and Discount Houses. This is effected by means of a draft, drawn upon their buyer, for value, with the Stock attached. The rate of exchange is 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 Committee by firms carrying on this form of business, Rule 92 which gives them authority reading thus—

Subject to annual authorisation by the Committee a Member, whether Broker or Jobber, may carry on Arbitrage business outside Great Britain and Northern Ireland and the Irish Free State 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.

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* testifies to the close relationship between the two centres. 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. Many 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—

$$\$500 = \text{£}100 \text{ Sterling.}$$

$$\$5,000 = \text{£}1,000 \text{ Sterling.}$$

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 is \$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 3.50 would mean that its equivalent in London was as near 142 $\frac{7}{8}$  as could be calculated.

$$\frac{100 \times 5}{3.50} = 142\frac{7}{8} \text{ (approx.)}$$



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 3.50, and divide by 5, the nominal par of exchange, thus—

$$\frac{100 \times 3.50}{5} = \$70.$$

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. With the dollar at, say, 5.20 the position is 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 enjoyed a substantial premium when the rate of exchange stood 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.

Paris, Amsterdam, Brussels, Montreal, Johannesburg, etc., all make their contribution to the business which London must regulate. Trunk telephones to the three first-mentioned keep them in constant touch with London markets, and if securities in which these foreign bourses specialise fluctuate, or they have business to do which can with advantage be carried out in London, then speedy transactions take place. Paris specialises in Gold Mining Shares, Oil Stocks, and in the Loans of her own country. A British Share quoted in Paris will often command a considerable premium in London by virtue of the fact that it is transferable on the Paris Bourse. Keen eyes watch for "Paris Numbers<sup>1</sup>" in offices that know of the premium on such numbers. Amsterdam is largely interested in Margarine Shares, and also International Utility Companies. The securities

<sup>1</sup> See Glossary under "Paris," page 400.

of the latter companies are 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 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 "Is a change in Bank Rate likely on Thursday?" or 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 crisis which followed the years 1914-18. 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 tempest 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 has had to be faced 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 of the original Stock-holders now find 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 extremely nervous state of the investing public. 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 has been 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.

Reference was made in the Preface to the Second Edition to the marked progress shown by the Fixed Trust movement since its inception. This progress has been maintained, and it is now calculated that over £80,000,000 has been recruited from the public for this form of investment. The growth of public interest in Fixed Trusts has been stimulated by intensive advertising, and so keen has been the competition to attract the investor to them that all forms of diversely constructed portfolios have been put forward by the promoters, while novel and intriguing titles have been employed to further their recommendation. A marked feature as the movement has developed has been for managers to depart from fixed

portfolios, and in most 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, in the meantime it is still not 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 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, Mr. R. P. Wilkinson, 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.

The Prevention of Fraud (Investments) Act, introduced as a Bill in the House of Commons on 26th July, 1938, provides for the country a long-overdue and much-needed reform. Its provisions include 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 restriction of the registration of property societies. It should be mentioned that under Clause 1 of this Act 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.

Fixed Trust units or sub-units can be bought or sold through Stockbrokers or Bankers. With such orders it is necessary for, say, the Stockbroker to go direct to the Managers of the Fixed Trust concerned, the function of such Managers being equivalent to that of the Stock Exchange Jobber. The



difference between the buying and the selling price of the sub-units, when such jobbing takes place, is thus additional profit to the promoting interests.<sup>1</sup>

### **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

<sup>1</sup> See also Preface to the Second and Third Editions.

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. Many of these so-called trust companies have never been heard of previously. They bear unfamiliar names, and are 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 British Corporation, Loans from the Crown Agents for the Colonies, and Indian and Colonial issues. Gas, Electricity, and 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 6d. 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 Corporation 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.**

It is the practice of Governments and Corporations 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. Corporation prospectuses are similar, and contain particulars relating to the number of inhabitants of the district, together with details regarding the rates.

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. Full details respecting underwriting agreements must now be 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. Dividend 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.

This last in the case of Government Stock may be in Bonds, or Registered or Inscribed Stock.

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, corporation, 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,<sup>1</sup> 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 do ask for and

<sup>1</sup> See Glossary, page 406.

receive a substantial share of commission on all business which passes through them to the Stock Exchange. Commission 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 X

### THE MACHINERY OF THE SETTLEMENT

THE Account Day—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 VI the arrangements made by the Stock Exchange Committee 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 are asked 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 this sacrifice is 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<sup>1</sup> 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. A list of difference cheques is always prepared

<sup>1</sup> See preface to Second Edition.

beforehand, and can be seen pinned in a handy position to be consulted. 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 Stock Receipts for Government Inscribed Stocks and 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 registered in time to receive it direct from the company.

The latest time for delivery of transfer deeds is 1.45 p.m., and that for Bonds and Scrip 1.45 p.m. also. On Account Days, if Scrip is delivered on a Scrip Ticket the time for delivery is before 1 o'clock. Stock Receipts for Government Inscribed Securities can be delivered for payment up to 2.45 p.m. Securities under the headings of "British Funds, Dominion, Provincial and Colonial Government Securities, and

Corporation and County Stocks," if transferable by deed or to bearer, must be delivered by 2.15 p.m.

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 "units of £1 each." So far, this interesting method has worked successfully, the fear that companies would be exposed to the risk of duplication being without justification.<sup>1</sup>

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 just what transpires on the Contango Day, also what happens on the floor of the "House." It will help us if we take note of what goes on beneath it, 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 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

<sup>1</sup> See page 96.



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	CLIENT	JOBBER	AMOUNT	STOCK	PRICE	CLIENT
Smythe	500	Courtaulds	32/6		Blythe	1/-	Southern Deferred	25½	

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 column headed "Client." 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 Southern Deferred at  $5\frac{1}{8}$ " says the Broker, to which Blythe replies "Buy one Southern Deferred at  $5\frac{1}{8}$ ." 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 1/—, 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 "twenty" in Southern Deferred, 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. Where Shares are concerned a pony is 25 and a monkey 500. A dealer, Broker or Jobber, trading in a hundred pounds Stock, will usually mention the word "pounds," as dealing in a "hundred" might easily 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	CLIENT	JOBBER	B.	S.	STOCK	PRICE	CLIENT
Smythe	500		Courtaulds	32/6							
		1/-	Southern Deferred	25 $\frac{1}{8}$							

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 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 (I).)

On p. 201 is a specimen Name or Ticket containing the above particulars. In size and shape it is very similar to a cheque.



No.....2277....  
 .....500 Shs. @.....32/6.....  
 ..... Courtaulds .....  
 Consideration £812...10...0.....  
 Stamp.....8...10...0.....  
 To ....John Student.....  
 Of .....Hollywood House.....  
 .....Leytonstone, E.II.....  
 Given to.....Smythe.....  
 .....I93 .

ALL DIVIDENDS AND OTHER RIGHTS ARE HEREBY CLAIMED.

No.....2277.... } If this Ticket be divided, insert its Number and the Name  
 .....500 Shs. @.....32/6..... } of party dividing it, or the new Ticket will not be paid for. } Consideration £812 10

Stamp . . . . . 8 10  
 .....500 Courtaulds.....@.....32/6.....  
 To.....John Student.....  
 Of.....Hollywood House.....  
 .....Fillebrook Road, Leytonstone, E.II. Actuary.....  
 Given to.....Smythe.....  
 .....I93 .  
 EXCHEQUER & Co. Pay  
 (GROUND FLOOR)  
 100 THROGMORTON STREET, E.C.2.

Ten days after date please communicate,  
 otherwise this stock will be bought in.

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," 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 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.



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" 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, 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 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 £8 10s. (see pages 79 and 234), and the addition of the registration fee of 2s. 6d. increases this amount to £8 12s. 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.

100 at 32s. 6d.	£ 162 10 —	Government Stamp	£ 1 15 —
175 at 32s. 6d.	£ 284 7 6	„	£ 3 — —
125 at 32s. 6d.	£ 203 2 6	„	£ 2 5 —
50 at 32s. 6d.	£ 81 5 —	„	£ 1 — —
50 at 32s. 6d.	£ 81 5 —	„	£ 1 — —
	<u>£812 10 —</u>	Total	<u>£9 — —</u>

Here we get a total of £9 against a sum of £8 10s. for Government stamps. To this loss of 10s. 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 20s. 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.

(1) The Buyer shall issue his Ticket before 3 o'clock on the Ticket Day.

(2) 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.

(3) The passing of Tickets shall commence at Ten o'clock.

(4) Tickets 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.

(5) Tickets may be placed in the Boxes in the Settling Room up to Eleven o'clock on the Account Day.

(6) Members receiving a Ticket after 6 o'clock on Ticket Day or at any time on any subsequent day shall mark the date and exact time at which such Ticket is received.

(7) Members omitting to note the times thus fixed may become liable for losses occasioned by Selling-out.

(8) 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.

(9) Split Tickets must bear the name of the issuer of the original Ticket and must state by whom the Ticket is split.

(10) A Member splitting a Ticket shall pay any increased expense caused by such splitting.

(11) 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.

(12) 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.

(13) Scrip Tickets must not be split, except by the Settlement Department. (See page 261.)

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.

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 Committee for General Purposes, 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 Committee for General Purposes, 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 208.

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 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.



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 .....  
.....  
.....19.....  
To the Manager,  
Buying-in and Selling-out Department,  
The Stock Exchange,

Please SELL OUT for names for

.....	.....	.....	.....	.....	To be left Blank.
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

This form must be signed by a Principal or an Authorised Clerk.

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 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.

Should a Ticket have been regularly put into circulation, the holder thereof at the following times shall be responsible for Selling-out unless he can prove undue delay in the passing of the Ticket.

(a) For Selling-out on the Intermediate Day—the holder of the Ticket at Two o'clock on that day.

(b) For Selling-out on the Account Day—

(1) Of Securities which are subject to arrangement by the Settlement Department, the holder of the Ticket at Three o'clock on the Intermediate Day, unless such Ticket was in the Settlement Department at Three o'clock, in which case the holder at Five o'clock shall be liable.

(2) Of Securities not subject to arrangement by the Settlement Department, the holder of the Ticket at Twelve o'clock on the Intermediate Day.

(c) For Selling-out on any day after the Account Day—the holder of the Ticket at Three o'clock on the previous day, or Twelve o'clock on Saturday.

### Liability Times.

Summed up in brief, 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).
“ “	4 o'clock (latest time for scrip tickets to pass).
“ “	6 o'clock (for timing all names).
Intermediate Day,	12 o'clock (in cases where selling-out on Account Day takes place). Not Settlement Department securities.
“ “	2 o'clock (in cases where selling-out is done on that day).
“ “	3 o'clock (liability for Settlement Department securities if sold out on Account Day).
“ “	5 o'clock (liability as above if ticket is with Settlement Department at 3 o'clock).
Account Day,	11 o'clock (latest time for passing tickets in Name Room).
“ “	3 o'clock (liability for selling-out on following day).
Subsequent Days,	3 o'clock or 12 o'clock on Saturdays (liability for any outstanding names which may afterwards be sold out).

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<sup>1</sup> and Inscribed Stocks,<sup>2</sup> 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 Rules opposite will show how these are dealt with.

<sup>1</sup> See page 261.

<sup>2</sup> See page 275.

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 reads—

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 such Selling-out, and in no case shall such Securities be sold out before Twelve o'clock, or Half-past Eleven o'clock on Saturdays.

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, which Rule applies to buying-in as well as to selling-out—

Should the deliverer of Securities deliverable by Deed of Transfer allow Two business days from Three o'clock on the 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.

### **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 Committee. 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 transactions in Courtaulds amounting in the course of an Account to 100,000 Shares, would be called upon to pay more than a Broker whose dealing in this security was limited to one isolated bargain of 500 Shares. A system of fines for non-compliance with Rules designed for efficiency, provides a small contribution to expenses, and a modest sum is also charged for the special “Sheets” which have to be used in making the returns of business done. The department is run economically, and most firms of importance are numbered among its subscribers.

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 its workers on all through the night. For this reason the department has its own cooking arrangements, 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

**SETTLEMENT DEPARTMENT LIST**

Date..... | Name of Member.....

Name of Stock ..... Name of Member.....

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
			1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18		To be left blank

19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

### Please Write Plainly and in Ink

**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.

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. **REGISTERED STOCKS.**—Original Issuers of Tickets requiring them to be passed to any one or more of their immediate sellers must signify the same ON THEIR LIST specifying the AMOUNT OF STOCK for which the Tickets will be issued, and the NAME OF THE MEMBER to whom it is to be passed, and those who REQUIRE TICKETS IN PARTICULAR AMOUNTS must notify the same on the List.

**SCRIP STOCKS.**—Tickets will be issued for Subscribers who have to take Stock, and the Issuers will be informed to whom the Tickets have been passed. Where Subscribers are in possession of Tickets issued by OTHER MEMBERS, these will be accepted and passed on account of balances they may have to take. When, in consequence of alterations, a Ticket has to be passed by the Department to the Member whose entry for the larger amount proves to be correct, or whose entry which had no contra is correct, he may pass on such Ticket to the Member who made the error, by whom the Stock must be delivered.

**All Tickets are to be passed through the accounts at the Making-up Price of the first Making-up Day and the stock or shares paid for at that price.**

Notices of Alterations and Omissions will be placed in Members' Boxes in the Settling Room.  
In cases of FAILURE, Subscribers having Accounts open with the Defaulters should apply to the Department to ascertain what may be their consequent liability.

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 214–215) 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 7 o'clock on the Contango 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*

*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 Members. 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 firm'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 task to which the Settlement Department addresses itself, and the harmonising of 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, are matters that 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 25 in. by 20 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 7 o'clock 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. On this list the *registered* securities are plainly indicated by an asterisk, and against all securities which have no asterisk are printed the multiples in which they must be entered. Shares range from 5 in the case of Rio Tintos, and many others, to 100 in the case of British American Tobacco. In the case of one Share—Royal Dutch—any number may be entered. Bearer Stocks range from multiples of £10 in the case of China 5 per cent 1925–47 Gold Bonds to £500 in the case of Northern of France 6 per cent Railway Bonds and others. 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.

For example, with a transaction in 125 British Columbia

Power Corporation "A" Shares, in which the Settlement Department undertakes the settlement in multiples of 10 Shares, 120 would be entered, leaving 5 Shares to pass direct. With a transaction in £200 Brazil 4 per cent 1889 Stock this would be left to pass by direct delivery, as the Settlement Department clearly states that it undertakes the settlement only in multiples of £500.

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. All Tickets for securities of which the Department undertakes the settlement are to be passed through the accounts at the making-up price of the Contango Day, and the securities must be paid for at that price.

## CHAPTER XI

### HOW TITLE IS TRANSFERRED

REGISTERED Title—Deed of Transfer—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 Committee do not recognise bargains with this provision attached, as it automatically negatives the means provided by the Committee 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 may buy, and thus enter into ownership of securities for which, apart from a contract note, no evidence of title is held. Yet all the privileges and responsibilities of ownership devolve upon the buyers in precisely the same way as would be the case if they held the Bonds or registered securities in their possession. A buyer, under such circumstances, may be the owner for three months of a security which he then sells. During the whole time he has never seen his Stock, and when it is sold it never passes through his hands. If the buyer decides to "take it up," that is, pay for his purchase, then immediately begins the task of his Broker, namely, the production of final proof of Stock- or Share-holding in the shape of an official document which can 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 235, 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 225.

### **Consideration Money.**

This is the first point to be noticed, 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

Certificate for £ Stock forwarded to the Company's Office by

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

of 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.

1 Witness to sign here {	in the presence of		SEAL
	Signature <sup>1</sup> _____		
	Address _____		
	Occupation _____		

Signed, sealed, and delivered, by the above-named

1 Witness to sign here {	in the presence of		SEAL
	Signature <sup>1</sup> _____		
	Address _____		
	Occupation _____		

Signed, sealed, and delivered, by the above-named.

1 Witness to sign here {	in the presence of		SEAL
	Signature <sup>1</sup> _____		
	Address _____		
	Occupation _____		

Signed, sealed, and delivered, by the above-named

1 Witness to sign here {	in the presence of		SEAL
	Signature <sup>1</sup> _____		
	Address _____		
	Occupation _____		

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 4).

INSTRUCTIONS FOR EXECUTING TRANSFERS

<sup>1</sup> 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 Clergyman, Magistrate, Notary Public or by some other Person holding a public position—as most Companies refuse to recognise Signatures not so attested. When a Witness is a Female she must state whether she is a Spinster, Wife, or Widow, and if a Wife she must give her Husband's Name, 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*.

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 79. Nominal consideration is also allowed under the provisions of 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,<sup>1</sup>

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 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.

<sup>1</sup> *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.”



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 Trustees and Managers or Committee of The Stock Exchange as being liable for the due or accurate performance of those duties, the Trustees and Managers and Committee 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 Committee 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 Committee 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 recently 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 comprise 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 is 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 Committee 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 IV, page 79, 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 IV 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

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

*STAMPS required from Stock Exchange Stamp Office by*

*STAMPS required from Stock Exchange Stamp Office by*

Date.....19....

Date.....19....

Consideration not exceeding	No.	Amount			Total.			No.	Amount			Total.		
		£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
£ 5		0	1	0				0	1	0				
10		0	2	0				0	2	0				
15		0	3	0				0	3	0				
20		0	4	0				0	4	0				
25		0	5	0				0	5	0				
50		0	10	0				0	10	0				
75		0	15	0				0	15	0				
100		1	0	0				1	0	0				
125		1	5	0				1	5	0				
150		1	10	0				1	10	0				
175		1	15	0				1	15	0				
200		2	0	0				2	0	0				
225		2	5	0				2	5	0				
250		2	10	0				2	10	0				
275		2	15	0				2	15	0				
300		3	0	0				3	0	0				
350		3	10	0				3	10	0				
400		4	0	0				4	0	0				
450		4	10	0				4	10	0				
500		5	0	0				5	0	0				
550		5	10	0				5	10	0				
600		6	0	0				6	0	0				
650		6	10	0				6	10	0				
700		7	0	0				7	0	0				
750		7	10	0				7	10	0				
800		8	0	0				8	0	0				
850		8	10	0				8	10	0				
900		9	0	0				9	0	0				
950		9	10	0				9	10	0				
1000		10	0	0				10	0	0				
1050		10	10	0				10	10	0				
1100		11	0	0				11	0	0				
1150		11	10	0				11	10	0				
1200		12	0	0				12	0	0				
1250		12	10	0				12	10	0				
1300		13	0	0				13	0	0				
1350		13	10	0				13	10	0				
1400		14	0	0				14	0	0				
1450		14	10	0				14	10	0				
1500		15	0	0				15	0	0				
1550		15	10	0				15	10	0				
1600		16	0	0				16	0	0				
1650		16	10	0				16	10	0				
1700		17	0	0				17	0	0				
1750		17	10	0				17	10	0				
1800		18	0	0				18	0	0				
1850		18	10	0				18	10	0				
1900		19	0	0				19	0	0				
1950		19	10	0				19	10	0				
		TOTAL .			£			TOTAL .		£				

Total in words.....Pounds

Signature.....

.....shillings.....pence.

Signature.....

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 235.

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's office 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.

### **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? 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.

It is usual for transfer deeds to be left by a seller at the buyer's office, and a call made later for a cheque. This gives time for the buyer to make a careful examination of all deeds. When pressure of work is not great, payment for transfers may sometimes be obtained at once. It is the exception rather than the rule for a deed to be returned to the deliverer. Assuming the Stock or Share transfer to be in order, a cheque is drawn in settlement, and the deed is taken over by the Broker or Jobber whose business it now is to complete the second stage of its 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, 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 Committee 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 XII

### HOW TITLE IS TRANSFERRED (*continued*)

SPECIAL Transfer Forms—Power of Attorney—Buying-in Department—  
Letters of Indemnity—Times for Delivery—Bearer Bonds—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 Cunard Steamship Co., Ltd., also require their own form, as do The Manchester Ship Canal Company 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	—	None
Bank of Scotland . . . .	No	Yes	2 p m. (after Directors approval Tues. Frid.)	—	2s. 6d. per deed
Barclays Bank . . . .	No	Yes	1 day	Yes	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 Ltd. . . . .	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.
Scottish Union and National Insurance Company . . . .	Only in special circumstances	Yes	Generally same day	Yes	£100 or more, 10s. 2s. 6d. up to 100 “A” or 30 “B” shares
South Australian Co. . . . .	No	Yes	3 clear days	Yes	5s. above 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
Westminster Bank Ltd. . . . .	Only in special circumstances	Yes	1 clear day	Yes	2s. 6d. per deed

The Debenture Stocks of the last-mentioned company are transferable on a common form of transfer, and the remarks regarding special forms apply to Ordinary and Preference Stocks only. 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.
In any other case	: : : : :	5s.
(2) For General Power	: : : : :	10s.

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, must always be legalised by bearing the stamp duty of 1d.

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 only granted 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 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 are in common use in connection with Inscribed Stocks. To consideration of this practice we shall shortly turn. While a bank will issue a Power of Attorney to apply to more than one Stock, in most cases a separate Power is required for practically every transaction. 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 effectuating 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 are 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 \_\_\_\_\_, 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 \_\_\_\_\_, 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) which reads—

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 X, 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 251.

In connection with buying-in, the following points should be observed—

1. Buying-in notices should be issued before 12 o'clock and in any case not later than 12.30 p.m.

2. The form must be signed by a principal or an authorised clerk.

3. It is usual, but not obligatory, to give notice to the seller that the securities are to be bought-in.

4. Buying-in cannot be effected on Saturdays.

The explanation of point 1 is Clause (3) of Rule 149—

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.

Clause (4) gives the precise time for the procedure—

Buying-in shall take place between Half-past One and Three o'clock.

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 Great Western 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.<sup>1</sup>

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

<sup>1</sup> See p. 207.

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 :—*

.....	<i>against</i> .....
.....	” .....
.....	” .....
.....	” .....
.....	” .....
.....	” .....

for 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 Committee 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 Committee.

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), which 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 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 must bear a 6d. stamp. 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.....



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.

In some cases bearer Bonds can be registered, that is, written into a name which is noted by the company or the Government concerned. While these cases are not in a majority, some notable instances occur, the most important being that of Victory 4 per cent Bonds. In the case of a sale of such "registered" bearer Stock, some delay is experienced, as it is necessary for the Stock to be what is known as "demobilised," that is to say, made into bearer as distinct from registered bearer. Victory Bonds provide a good example of how the mobility or negotiable value of bearer Stock is interfered with the moment it is written into a "name" for protection. Most American Railway Shares which are in bearer form have on their face a registered name. This is explained by the fact that the companies are registered in America. Similar to transfers which are signed in blank, these American Shares are signed or endorsed by the persons in whose names they stand, and, providing the signatures are properly witnessed, the Shares are negotiable in this country. On these Share certificates provision is made for fresh registration particulars. If such Shares, however, are registered in a "good" (that is, a well-known) name, there is little object in sending them to America for re-registration, but many buyers, preferring their Shares to stand in their own names, take steps to register them accordingly.

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. What constitutes a "good" name on a Share certificate it is difficult to lay down. Generally, however, where a name is not easily recognised, and difficulty may be experienced in getting a dividend claim honoured, a buyer is counselled to proceed to a fresh registration. 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.

### Stamp Duty on Bearer Securities.

The stamp duty for those bearer securities which 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 . . . . .                       | 10s. per cent.   |
| (2) Bearer Bonds (other than Colonial Government and Municipal Securities) signed after 6th August, 1885 . . . . .                              | 4s. for every £10 or fraction of £10.  |
| (3) Colonial Government Securities . . . . .  | 5s. per £100.  |
| (4) Colonial Municipal Securities bearing date after 3rd June, 1862 . . . . .   | 2s. 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 . . . . . | 4s. for every £10 or fraction of £10 of the nominal value of the Share or Stock. |
| (6) American and Foreign Share Certificates . . . . .   | 3d. 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, and in case of his death, failure or retirement from The Stock Exchange, such responsibility shall attach to each Member in succession, through whose hands the Securities, or the Scrip Ticket representing such Securities, shall have passed.

This rule, in addition to laying down responsibility regarding the genuineness of bearer title, also introduces the matter of

**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) 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.

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.

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 or signing away is done over a 6d. stamp. 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 ordinarily 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 dealings in Letters of Rights (subject to Rule 159) shall be for cash and shall be settled by the delivery of Letters of Rights duly renounced.

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 this new Rule 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.

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 XIII

### HOW INSCRIBED STOCKS AND DIVIDEND TITLE ARE TRANSFERRED

INSCRIBED Stocks—Tickets and Receipts—Application for Power of Attorney—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 is usually asked whether “Bearer,” “Registered,” or “Inscribed” is required. Any one of these forms of Stock is obtainable without extra charge. If the decision is left to the Broker he usually recommends

#### **Inscribed Stock.**

There is 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 is recommended is that the risks attaching to holding bearer Stock are absent, and any delay that may be experienced when registered Stock is sold can be avoided. Inscribed Stock can 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 is issued by the bank in cases of inscribed Stock is of no negotiable value, and, should it be lost, title to the Stock is in no way invalidated.

Inscription of Stocks, the third method whereby title can be transferred, simply means the writing in and out of holdings at the place where the records are kept. In the case of British Government Loans, Dominion and Colonial Loans, and most of the Corporation issues, the records are kept at the Bank of England; or at one of the large joint-stock banks in the City

of London. Loans floated under the auspices of the Crown Agents for the Colonies are transferred at the office of the Agents. Here at these banks or offices, Stockholders or their Attorneys attend personally when inscribed transfers are being made, the signatures in the books of records and a receipt taking the place of the ordinary transfer form and a certificate. Strangely enough, the buyer's presence at the bank is not required. Stockholders are, however, advised as a protection to let the authorities have their specimen signatures. Any amount of Stock may be put into a name without attendance. If, however, the smallest part of a holding is sold, then, before it can be transferred, the attendance of the Stockholder or his Attorney is required, and the signatures of either of these must appear in the bank's records. Should the seller be known to the bank, his signature is accepted; if he is not known, "identification" is required from a Member of the Stock Exchange, a banker, or other accredited person.

Inscription of Stocks in the books or registers kept at the Bank of England and other institutions goes on each day from Monday till Friday inclusive, with the exception that, should the 1st January, 1st May, or 1st November fall on one of these days, the Bank of England is closed for that purpose. No fees in the ordinary way are charged. By arrangement transfers can be made on Saturday, but for this a fee of 2s. 6d. must be paid.

### **Tickets and Receipts.**

The procedure adopted when inscribed Stock is being transferred is for the seller to obtain or prepare these forms relating to the particular Stock. Tickets and Receipts are obtainable from the bank. Strictly speaking, the Ticket should come from the buyer to the seller, but, as most sales are made into well-known Jobbers' names, it is more often made out by the selling Broker himself. The Ticket, which we illustrate later, should give particulars of the Stockholders, the amount of Stock to be transferred, together with full details regarding the buyer. This Ticket is lodged with the bank before 11.30 a.m. on the day the transfer is to be made, and is an intimation to the bank that the Stock is to be transferred. The bank officials, providing the Ticket is not "stopped" for some irregularity,



will then enter the particulars in their records and await the arrival of the seller or his attorney. Whoever attends will then read over the particulars to the official, and sign the Ticket or bank book transferring the Stock, together with the Receipt which is witnessed by the bank's official. It is this Receipt which is evidence to the buyer that the Stock has been transferred to him, and on production of it to the buyer payment is made. The Ticket is retained by the bank. An ordinary Bank of England Ticket and Receipt are shown on pages 269 and 270.

It will be noticed that the examples of Ticket and Receipt which are in common use at the Bank of England bear the number (1) in the left-hand corner. Printed particulars appearing on the back of both Ticket and Receipt show that these particular documents are available for various Conversion and Consolidated Loans in addition to  $3\frac{1}{2}$  per cent War Loan, 4 per cent Funding Loan, and also Treasury Bond issues. On the back of the Receipt are also given the dates when dividends on the various Stocks are due.

Similar Tickets and Receipts are used bearing different index numbers for the many other Government Loans sponsored by the Bank of England. From these Tickets and Receipts two points of interest stand out—

(1) The Ticket put forward now becomes the actual record of the transfer and is thus of value to the bank.

(2) The Receipt is not proof of title and is therefore of no value except as a memorandum.

The Ticket, through the reorganisation of the bank's records, is now printed on stout parchment paper, and, when passed to the bank, actually becomes part of one of their many loose-leaf ledgers. The holes at the side of the Tickets will show that they are thus preserved. Stock Exchange clerks may know that when the bank ask them, as they do, on their Ticket to "Please write distinctly," it is because the writer of each Ticket is now contributing to the bank's permanent records.

That the Receipt is not proof of title is shown by the fact that it is not necessary to surrender it when the Stock is sold or transferred. It is thus unlike a registered Certificate or Bond, which must be given up when the Stock is sold. However, if a Stock Receipt is lost the record in the bank books is intact and title is undisturbed. If desired, inscribed Stock

①

No.	
-----	--

**PLEASE WRITE DISTINCTLY**

*The Date must be inserted in Words and not in Figures.*

I  
We

The Stockholder or his Attorney must attend at the BANK OF ENGLAND to execute this Transfer—signature before lodgment will result in the cancellation of the Form.

Fo. \_\_\_\_\_ Dr. \_\_\_\_\_

Fo. \_\_\_\_\_ Cr. \_\_\_\_\_

B.Ver. \_\_\_\_\_ S.T.Ver. \_\_\_\_\_

this \_\_\_\_\_ Day  
of \_\_\_\_\_ in the Year of our Lord  
One Thousand Nine Hundred and Thirty  
do ASSIGN and TRANSFER

£	s.	d.

Interest or Share in the Capital of

Examined by

forming part of the National Debt, transferable at the BANK OF ENGLAND, together with the proportional Dividend attending the same, unto

Witness to the Identity of

CR O/A or N/A

Executors, Administrators or Assigns.  
Witness Hand

Witness

Put forward by—

do freely and voluntarily ACCEPT  
the above Interest or Share transferred to

Witness

①

# Stock Receipt

RECEIVED this	Day of	19	of
hereinafter called the said Transferee	the Sum of		
being the Consideration for			
Interest or Share in the Capital of			
<p>forming part of the National Debt, transferable at the BANK OF ENGLAND, and all property and interest in and right to the same, and the Dividends thereon, by this day transferred to the said Transferee</p>			
		<i>Witness</i>	<i>Hand</i>

This Receipt is of no negotiable value. Stockholders, to protect themselves from FRAUD, can ACCEPT by themselves or their Attorneys all TRANSFERS made to them. Should it be inconvenient to attend at the Bank to accept Stock, Stockholders can obtain a confirmation of the fact of the inscription of the within-mentioned sum of Stock by forwarding this document, with a request for confirmation, to the Chief Accountant, Bank of England, E.C.2.

£. s. d.

*Transfer days*

Monday,

Tuesday,

Wednesday,

Thursday,

Friday.

*Holidays excepted.*

Should it be desired that the Dividends be paid to a Banker, Firm, or person other than the FIRST, OR SOLE, STOCKHOLDER, the necessary instructions must be lodged at the Bank. Fresh instructions are not required upon an alteration in the amount of an existing account.

can afterwards be converted into bearer or into registered form without cost.

When personal attendance at the bank is inconvenient, Stockholders, wherever they reside, can overcome the difficulty by the use of the Power of Attorney.

With the exception of certain Corporation and Colonial Stocks, Powers of Attorney are obtainable free of cost. This method of effecting the transfer is adopted in the majority of cases.

To obtain a Power of Attorney, application must be made to the bank or office at which the records are kept. Application forms which are similar in character are supplied by the various authorities. On page 272 is a reproduction of the best known

### **Application for Power of Attorney.**

This form is used for all of the Stocks inscribed at the Bank of England.

Applications for Powers of Attorney to other authorities are less elaborate, but bring out the same particulars. In making an application for "Powers," great care is necessary to state precisely the particulars which the banks or agents have inscribed in their records. Long delay is often caused by inability to supply with minute exactitude the particulars asked for under the heading, "Residence and Quality or Occupation as in Bank Books." These jealously-guarded particulars are not to be obtained by application to the bank officials, who maintain a rigid reserve on the subject. It is very trying to find applications for Powers repeatedly "stopped" because of apparent trivialities, but the meticulous care exercised by the authorities must be interpreted as necessary for the Stockholder's protection.

The particulars the bank ask for on the application for the Power should be in the seller's possession, but, as few details appear on the Receipt which the seller holds, the complete particulars are sometimes difficult to obtain. However carefully a Broker may be in noting the particulars when the Stock is first inscribed, if it is sold through a different agency delay may ensue in making a transfer. A means of tracing the particulars required is to ascertain from the Stockholder the address to which dividends are posted.





As stated in the left-hand corner of the Application Forms, they must be lodged before 11.30 a.m. in order that the Powers may be available on the same day. On Saturdays applications must be lodged before 10.15 a.m. In cases of urgency Applications will be accepted up till 1.30 p.m. (Saturdays 11 a.m.) on payment of a 2s. 6d. fee. If the particulars are in order, the Powers prepared by the bank for signature are available, and can be collected by the Broker about 4 o'clock or by 12 o'clock on Saturdays. The Powers are then dispatched to the sellers with a request that they sign or execute the Power of Attorney, have their signatures witnessed, and return the document without delay.

While the Member who has applied for the Power is thus obtaining the seller's signature, the bank takes the precaution of advising the Stockholder separately that Application for a Power of Attorney has been made for the purpose of transferring the Stock in question. This gives the Stockholder opportunity to object if the Application is not in order. The actual Power of Attorney is a simple document appointing another to act on his or her behalf.

This Power, duly signed and witnessed, is lodged with the authorities before 12.30 p.m. (10.15 a.m. on Saturdays), and is known as an executed Power. Here, it should be mentioned, comes to light the explanation of the bank's recommendation found on the Stock Receipt in these words—

Stockholders, to protect themselves from fraud, can accept by themselves or their Attorneys all transfers made to them.

If Stockholders have taken the precaution to provide the bank with their signature it is a simple matter for the bank to check such signature on the lodgment of the executed Power of Attorney.

Assuming the Power to be quite in order, it can be acted upon the following day. The Ticket is then put forward as explained, the records at the bank are examined, the Attorney attends, and, by virtue of the authority bestowed by the Power of Attorney, his signature takes the place of the actual Stockholder's, and the transfer of Stock takes place.

Separate Powers of Attorney are required for every Stock. Should £500 Stock be sold or transferred from a holding of

£5,000, and a Power is raised for the former amount, it does not hold valid for further transfers of Stock. Powers of Attorney used for inscribed Stocks are for specific amounts of Stock. The closing signature of an Attorney who has attended for the purpose of making a transfer is the one on the back of the executed Power which reads—

I demand to act.....  
 this .....

Signed.....

Attorney.

The Power of Attorney, having thus played its part, is then dead.

Under the Finance Acts all Powers of Attorney for the sale, transfer, or acceptance of Government or Parliamentary Stocks or Funds are exempt from stamp duty. This does not apply to Colonial Powers of Attorney, which cost 10s., the amount of stamp they bear. The unusual arrangement whereby Sellers were liable for the transfer fees on Bank of England Stock is now regulated by withdrawal of the Rule which had been in existence for over eighty years.

The identification referred to on page 267 plays an important part in the prevention of fraud, and testimony to its effectiveness is seen in the vast aggregate of property which is transferred without any question of irregularity. In the case of the Stockholder personally attending at the bank to make a transfer, it is his or her signature which first is taken on the Ticket by the bank official. On the left-hand side is space for the signature of the witness to the seller's identity. This identity established, the bank's official will attest the seller's signature on the Receipt, the witness not being required to sign again on this document. All transfers, whether personally attended or by Power of Attorney, must be completed by 2 o'clock in the afternoon of the day the Ticket is put forward, or a fresh Ticket may be necessary on the following day.

The same buying-in machinery for obtaining delivery of overdue inscribed Stocks can, if necessary, be put in motion, as will be seen from Rule 148, which we quote.

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 quote in full on page 249.

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 are laid down by Rule 116, which says—

(1) Stock receipts must be delivered by a Quarter before Three o'clock.

(2) If a deliverer elect under Rule 106 to deliver a Stock receipt to the Member with whom he has dealt, such Member not being the issuer of the Ticket, he shall deliver such receipt by Half-past Two 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 XI, 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  $100-\frac{1}{4}$  the amount to be deducted the following morning would be 6 months' dividend at £4, equals £2, less tax at 5s. in the £, namely, 10s., the net amount being £1 10s.

The opening quotation would therefore be "Consolidated 4 per cent Stock  $98\frac{1}{2}-\frac{3}{4}$ ." 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 Committee—

(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 and except also 4 per cent Victory Bonds, 2½ per cent National Defence Bonds, 1944-48, and Guaranteed 4½ per cent Bonds (created under Northern Ireland Land Act, 1925), which shall be made ex-dividend ten days prior to the date of payment of the dividend.

(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.

(3) Securities to Bearer (other than those referred to in Clause (2)) 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.

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 last-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 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 is common practice in such cases where coupons are payable abroad for them to be either sent out of the country, or sold to firms who make a business of purchasing them for collection abroad. Another factor of importance is the question of exchange. Where, for instance, a coupon is encashable abroad, and the existing rate of exchange makes such collection abroad profitable, it is 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  $3\frac{1}{2}$  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 101 and, at or approaching the end of the six months, 102, 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."<sup>1</sup> These Treasury and other such securities are settled with accrued interest calculated from day to day. A seller of, say, 1 per cent Treasury Bonds, dividends payable 1st February and 1st August, would receive credit on his contract note for interest at 1 per cent from the day the last interest was paid to the following business day after the bargain was contracted. This amount would be charged to the

<sup>1</sup> See also Glossary.

## Regulation. Rules 132 and 133.

Dividends which are settled under Rules 132 and 133 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 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 (3), 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

.....193 .

MIDAS & CO. *Claim of Messrs.* .....

*the*.....*on*.....

*Transferred from*.....*to*.....

*and paid for*.....193

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 hint we gave in the last chapter, page 258, 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, as we explained on page 258, has made 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. Always the Share certificate is stamped with such words as "Dividend claim received \_\_\_\_\_, 193.." With such well-known houses the settlement of dividend claims is a considerable business, and a nominal charge is sometimes made

for the facilities placed at the actual owner's disposal. Where there is difficulty in obtaining a dividend, Rule 141 assists by allowing sufficient time for the buyer who may be in doubt regarding recovery of his dividends to have the Shares re-registered. Dividends will then be sent direct to the Shareholder or a nominee of the Shareholder.

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 possibly 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. This is also the case with inscribed 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* relating to the dates on which securities are quoted ex dividend or ex coupon is invaluable, and it was a boon when the principle of publishing these details was extended to include securities listed in the *Supplementary List*.

An interesting point relating to the quotation of securities ex dividend is that, despite the fact that such securities are quoted ex dividend on Contango Day, it is the practice to fix the "making-up" prices of these securities at cum dividend prices. The adjustment, therefore, of dividends on Stocks open in the Account takes place at the following Settlement. The reason for this is that the "making-up" price is designed to settle the preceding Account's transactions, all dealings for which have been cum dividend.

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  $3\frac{1}{2}$  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,

$$3 \text{ Old Shares at } \pounds 10 = \pounds 30.$$

This holding gives the right to

$$1 \text{ New Share at } \pounds 2 = \pounds 2.$$

Therefore, 4 Shares can be acquired for  $\pounds 32$  or  $\pounds 8$  per Share. As the price of the old Shares was  $\pounds 10$ , the value of the rights to the Shareholder is therefore  $\pounds 2$  per old Share.

The above stated as a simple formula is as follows—

$$\frac{OH + NO}{NH} = NP$$

$$OP - NP = VR$$

OH = Old holding

OP = Old price

NO = New offer

NP = New price

NH = New holding

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).

(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.

Where Renunciation Letters are issued, the holder need not send in, of course, any claim for the Shares to the company.

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.

The question of the valuation attaching to rights is important and is officially determined, as will be seen by the Rule having special reference to Options. Rule 115, Clause (1), provides—

When Securities on which Options are open are made "Ex Rights" an official price will be fixed for the Rights upon application to the Secretary of the Share and Loan Department.



(2) All Rights in respect of Options shall be settled by the allowance of such valuation in the Option price.

What this means, to quote a simple example, is that a man having given, say, 2s. 6d. for the "call" of Shares at, say, 40s. would call such Shares when his option expired, even if they stood at 39s., provided that there had been deducted from the price of the Share a value of, say, 5s. for rights during tenure of his option.

### 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 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, bearer Stock, and inscribed 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 XIV

### INFORMATION FOR THE SENIOR STUDENT

THE Share and Loan Department—Permission to Deal—Official Quotations—Stock Exchange Official Intelligence—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—

- (1) Certification of registered transfer deeds (Chapter XI);
- (2) Fixing the price of coupons (Chapter XIII);
- (3) Fixing the value of dividends payable in foreign currency (Chapter XIII);
- (4) Fixing the market value of drawings (Chapter XII);
- (5) Fixing the value of rights on option Stock (Chapter XIII);
- (6) Temporary settlement of rights (Chapter XIII);

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* and *Supplementary Lists*, as we saw in Chapter III, 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 touching the progress or fate of any such company should be immediately communicated.

All companies of importance which seek public support desire to obtain

### Permission to Deal.

This permission to deal in their securities is imperative before transactions are allowed to take place on the London Stock Exchange. Without such permission no bargain is officially recognised. In the past, extensive commitments have been entered into, "subject" to this permission being given. This practice is now discouraged, it being doubtful whether such transactions are in order. It is certain that such bargains are null and void if the permission to deal is withheld, and if permission is forthcoming, should any dispute arise, the premature transaction could hardly expect official sanction or decision. Permission to deal, therefore, must be sought if a market is desired in a particular security, and the conditions necessary to obtain this permission are extremely strict. Rule 159, Clause (1), reads as follows—

Dealings will not be permitted in any New Issue until allowed by the Committee unless excepted from this Rule under Appendix 34*d* or 34*e* (*vide* Appendix 34).

A sub-committee which we mentioned in Chapter III sits to decide these applications, and it may be taken for granted that unless the requirements laid down in Appendix 34 are complied with no such permission is granted. Rule 159 continues—

(2) Dealing in "Results" is not allowed.

(3) In addition to the powers contained in Rule 163 (2) and (3) the Committee may withdraw or suspend the record, but order that bargains be marked, or withdraw or suspend Permission to Deal in any security for any cause and in particular in the case of a Company which fails to publish a Statutory or Annual Report within the prescribed period or in the case of serious default by underwriters or sub-underwriters in meeting their commitments.

(4) The decisions of the Committee regarding—

(i) Rejections of applications for Permission to Deal;

(ii) Withdrawal or suspension of Permission to Deal;

(iii) Withdrawal or suspension of Permission to Record Bargains in accordance with Clause (3) of this Rule and Clause (3) of Rule 163;

will be posted in the House and, when ordered by the Committee, communicated to the Exchange Telegraph Company for announcement on the tape.

"Results" referred to above in Clause (2) are the unknown amounts that may be allotted in respect of an application for



a new issue, and not results, for instance, of an election or a sporting event.

It can be seen from Clause (4), Section (ii) of this Rule that, if for any sufficient reason the Committee consider it necessary, permission to deal can be withdrawn or suspended. Withdrawal of permission to deal does occasionally take place, such action having, for example, been taken in the case of a company whose Shares were the medium of an intensive campaign by interested people who flooded the country with telegrams advising the public to buy. Clause (4), Section (iii) of Rule 159 refers to withdrawal or suspension of permission to record bargains, and a reason which might be deemed sufficient for this to become operative will be found in Clause (3) quoted above.

A close examination of Rule 159 Clause (3) shows that it is possible for securities to be "marked," but for the "record" to be withheld. That is to say, the Committee can, and sometimes do, withhold from publication "records" of business done. Justification for this unusual course would be where marks of business done were not above suspicion. Such marks might represent transactions deliberately designed to give to the public an erroneous impression of a state of activity in a security, which activity, in fact, did not actually exist. Isolated cases have been known in which the system of marking bargains has been abused. The subject has indeed been mentioned in the High Courts, but a close supervision is kept by the Committee on such markings, and they can be dealt with under the above Rule if necessity arises. The intention of the marking system is to provide a record of *bona fide* transactions. It is not meant to serve the sinister purposes of Share-pushers and manipulators who may desire to use its publicity for their own unscrupulous ends.

The powers referred to in Clauses (2) and (3) of Rule 163 are as follows, the words omitted in Clause (2) having been already dealt with in Chapter III under the heading of the "Stock Exchange Daily List of Officially Quoted Securities."—

. . . In the case of a Company, no part of whose Share or Loan Capital is already dealt in, the title of the Company shall be inserted and remain in italics for 18 months, unless otherwise ordered by the Committee. The Committee may order that the bargains in certain securities be marked but not recorded in the lists.

The first part of this Rule explains the distinctive type with which certain entries are recorded in the *Supplementary List*.

Clause (3) provides —

A Security may be removed from the record in either List on the authority of the Chairman, Deputy-Chairman or two Members of the Sub-Committee on New Issues and Official Quotations. Any action taken under the authority conferred by this Clause shall be reported to the Committee at the first available opportunity.

While the subject of the removal of securities from the Lists is under consideration it may be of interest to point out that one of the Rules relating to the *Supplementary List* is that twice a year an official overhaul or audit is conducted for the purpose of weeding out inactive issues. Securities which enjoy no quotation, and against which no transaction appears for six months previous to the 1st May or the 1st November, are then eliminated. This half-yearly examination is the explanation for the disappearance of certain securities which takes place in the *Supplementary List* published on and after the 2nd May and 2nd November respectively.

Securities quoted in the *Official List*, however, have a greater degree of permanency. If no transactions are recorded in these securities for a period of nominally two years, they are liable to be removed from quotation. In the case of transactions taking place after removal immediate reinstatement is made. This applies to both *Official* and *Supplementary Lists*, with the provision that in the case of the *Official List* if the period which has elapsed since a previous transaction exceeds five years special application to the Committee for such reinstatement must be made.

Despite the care which has always been exercised before permission to deal or admission to quotation has been granted, irregularities have come to light during recent years. In consequence the regulations governing both privileges have been completely overhauled by a committee specifically set up for the purpose, and the most rigorous inquiries are now instituted with a view to the prevention of abuses. It is when we turn to Appendix 34, to which reference is made in Rule 159, that we find how exacting these regulations are. In the straightforward case of an ordinary request for permission to deal, Appendix 34 provides—

A. The following documents and particulars should be sent to the Secretary of the Share and Loan Department, when application is made for Permission to Deal—

1. (a) Certificate of Incorporation (in the case of a Company registered abroad notarially certified copy or translation of Certificate of Incorporation and of Bye-Laws), (b) the Certificate entitling the Company to commence business (if required), and (c) Memorandum and Articles of Association and copy or draft of Trust Deed (if applicable).

2. Copy of Resolutions authorising issue.

3. Certified Copy of Agreement relating to issue of Shares credited as fully-paid and of any other contracts mentioned in Prospectus.

4. In the case of an issue for cash, copy of Prospectus, Offer for Sale or Circular of Issue, stating all material conditions relating to the flotation of the Issue, and (in the case of a new Company) to the formation of the Company and if publicly advertised, copy of principal London newspaper in which the full Prospectus was advertised. In the case of an issue by Prospectus, Offer for Sale, or Circular, it must be stated whether any Shares are under option and if so at what prices, when such options expire and the consideration (if any) given for such options.

The London Broker's name must appear on any Prospectus or offer for Sale, but this regulation shall not apply to issues by Foreign Governments or Foreign Municipal Authorities.

5. Specimen (or advance proof) of Allotment Letter, and, if possible, of Scrip and Definitive Certificates. Allotment Letters must be serially numbered and be printed on good quality paper. Any Renunciation Letter attached to an Allotment Letter for fully-paid Shares must not be current for a period exceeding six weeks and for partly-paid Shares for a period exceeding one month from the date of the final call. When, at the same time as an allotment is made for Shares issued for cash, Shares of the same class are also allotted, credited as fully-paid, to Vendors or others for a consideration other than cash, the period for renunciation may be the same as, but not longer than, that allowed in the case of Shares issued for cash. The form of renunciation on Allotment Letters (and Letters of Rights) must be printed on the back of, or attached to the document in question. Split Allotment Letters and Split Letters of Rights must be certified by an Official of the Company.

NOTE. In cases where an Issuing House or other body or person has purchased an issue of Stock which is subsequently offered to the Public, a certified copy of the Resolution or other document, evidencing that the Purchaser has received due authority to issue Scrip on account of the Seller, must be supplied. If no such authority has been given, the Scrip must be en faced "Contractor's Scrip." "Contractor's Scrip" may not be issued in cases of issues made by County Councils, Municipal Corporations, or other Local Authorities of Great Britain and Northern Ireland.

In order to facilitate the certification of transfers it is suggested that the Allotment Letters should contain the distinctive numbers of the Shares to which they relate.

6. Letter (*a*) giving distinctive numbers—

(1) Of Shares for which Permission to Deal is being applied for, distinguishing those to be allotted:

(*c*) for Cash ;

(*v*) to Vendors or others for a consideration other than Cash or in exchange for Cash ;

(*o*) in pursuance of an option.

(2) Giving number of Shares unissued or for which Permission to Deal is not applied for, distinguishing those:

(*v*) allotted to Vendors or others for a consideration other than Cash or in exchange for Cash ;

(*o*) under option ;

(*r*) reserved for future issue.

(3) In the case of a further issue stating whether or not the Shares are identical<sup>1</sup> in all respects with existing Shares.

7. Approximate date when Definitive Certificates will be ready for Issue.

8. List of allottees or present holders—name, address and holding (when required).

9. In all cases other than Government and Municipal Loans, and issues by Statutory Boards, Companies incorporated by Special Act of Parliament and other similar authorities, whether the issue is made by Prospectus or otherwise, particulars of any underwriting or commission must be disclosed and a copy of the underwriting agreement and of sub-underwriting letter, if any, together with (if required) a list containing the names, addresses and descriptions of sub-underwriters and the amount sub-underwritten must be lodged with the Department.

10. An undertaking under the seal of the Company in the following form and to the following effect (printed copies of such undertaking are available in the Share and Loan Department)—

(1) To split Letters of Allotment and if a "Rights" issue to split Letters of Rights, and to have any such "Splits" certified by an official of the Company.

(2) 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.

(3) To notify the Share or Stockholder as soon as a transfer out of his name has been certified by the Company's Officials or notification of Certification has been received from the Share and Loan Department or any Associated Stock Exchange.

(4) To issue all Allotment Letters simultaneously numbered serially 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,

<sup>1</sup> A statement that Shares are in all respects identical is understood to mean that—

(1) They are of the same nominal value, and that the same amount per Share has been called up.

(2) They carry the same rights as to unrestricted transfer, attendance and voting at meetings, and in all other respects.

(3) They are entitled to dividend at the same rate and for the same period, so that at the next ensuing distribution the dividend payable on each Share will amount to exactly the same sum.

so that the Notice shall appear on the morning after the Letters of Allotment have been posted.

(5) To certify transfers against Allotment Letters.

(6) Where power has been taken in the Articles to issue Share Warrants to Bearer, in the event of the Company deciding to make such an issue: (i) to issue such Warrants in exchange for Registered Shares within three weeks of the deposit of the Share Certificates; and (ii) to certify transfers against the deposit of Share Warrants to Bearer.

(7) To notify the Share and Loan Department without delay—

(i) Of any changes in the Directorate by death, resignation or removal;

(ii) Of any extension of time granted for the currency of temporary documents.

(8) To forward to the Share and Loan Department—

(a) Three copies of the Statutory and Annual Report and Accounts as soon as issued (unless such provision is contained in the Articles of Association).

(b) Three copies of all Resolutions increasing the Capital and all notices relating to further issues of Capital, call letters or any other circular at the same time as sent to the Shareholders.

(c) Three copies of all Resolutions passed by the Company in General Meeting other than Resolutions passed at an Ordinary General Meeting for the purpose of adopting the Report and Accounts, declaring dividends, and re-electing Directors and Auditors; and

(d) To advise the Share and Loan Department by letter of all dividends recommended or declared immediately the Board Meeting has been held to fix the same.

II. In issues made by County Councils, Municipal Corporations or other Local Authorities (hereinafter all referred to as the "Local Authority") the following regulations must also be complied with.

(1) If Scrip Certificates are to be issued—

(a) The denominations must be stated in the Prospectus or the advertisement published under Appendix 34B.

(b) They must be ready for issue within 21 days of allotment.

(c) They must bear an autographic signature and there must be supplied to the Committee and (in cases where the official signing is not the Registrar or his officer) to the Registrar of the Stock, specimen signatures of the official or officials of the Borrower, Bank or Issuing House authorised to sign together with the distinctive numbers of the Scrip signed by each official.

(2) The following letter, signed by a duly authorised official of the Borrower, must accompany the application.

TO THE COMMITTEE FOR GENERAL PURPOSES,  
THE STOCK EXCHANGE.

In connection with the issue of £.....Stock of the  
.....(Local Authority) I hereby certify that arrange-  
ments to the following effect have been duly made—

*If the issue is made by Prospectus.* All moneys received by the



Bank  
Issuing House under the Prospectus dated.....  
 .....on behalf of the.....(Local Authority) and to which they are entitled will be paid within the following periods to the.....Bank at..... being the ordinary Bankers of the ..... (Local Authority) for credit to a special account which has been opened in the name of the Stock—

Moneys paid prior to allotment—3 days after allotment.

All other moneys—24 hours after collection.

*If the Stock has been sold outright to a Purchaser.* Allotment letters and Scrip Certificates are not being issued by..... (Purchaser) on his (or their) own behalf but by or on behalf of the.....(Local Authority). No such document will be issued until the.....(Purchaser) has paid to the.....(Bank) at.....being the ordinary Bankers of the.....(Local Authority) for credit to a Special Banking Account which has been opened in the name of the Stock all sums due from the.....(Purchaser) in respect of the amount certified in the document to have been paid by the holder thereof.

The.....Bank  
Issuing House will supply the Registrar :

(1) As early as practicable with a complete record of the Scrip Certificates issued by them showing in each case the number and other identification mark of the Certificate, the amount of Stock to which it relates and a description of the manner in which it has been authenticated and

(2) Will notify the Registrar immediately payment has been made in full on any Scrip Certificate.

(NOTE. Where Scrip Certificates are not to be issued the above Clause to be amended so that it applies to allotment letters.)

OR

(In cases where the Bank or Issuing House are also Registrars of the Stock.)

The.....Bank  
Issuing House are the duly appointed Registrars of the Stock.

The Registrar will not register or inscribe any person as a holder of the Stock except on surrender for cancellation of fully-paid Scrip Certificates for that amount. Provided that if a Scrip Certificate is lost or destroyed the Registrar may not earlier than the first day on which Scrip Certificates can be lodged for registration or inscription register or inscribe a person claiming to be the holder of the lost or destroyed Scrip upon such indemnity being given as may be required.

NOTE—

(1) If Scrip Certificates are not to be issued amend by substituting “fully-paid allotment letters” for “Scrip Certificates.”

(2) This Clause will not be required in cases where the Local Authority themselves carry out the issue of the allotment letters and Scrip Certificates and the Registrar of the Stock is their officer. In such a case it will be sufficient to state the fact.

The above regulations apply in all cases where a prospectus has been published containing all the particulars which are necessary and which govern such issue. It is to meet such instances as that of a company where no prospectus is issued and where no public appeal for cash has been made, but yet in the Shares of which permission to deal is sought, that the Regulations have been principally tightened up. Briefly, what is asked is that in those cases where the money has been found and the issue "placed" privately all the relevant facts should be made public by advertisement.

Sect. B of Appendix 34 provides—

In the absence of any Prospectus publicly advertised in this country, or Circular to Shareholders, the Committee will also require an advertisement in two leading London Morning papers giving all material conditions relating to the formation of the Company and to the flotation of the Issue, and headed as under—

"This notice is not an invitation to the Public to subscribe, but is issued in compliance with the Regulations of the Committee 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."

A copy of the advertisement must be signed by or (with the consent of the Committee) on behalf of all the Directors, and a signed copy, together with a properly certified copy of the Resolution of the Board of the Company approving and authorising the advertisement, must be lodged with the Share and Loan Department, except that in the case of foreign companies the Committee may dispense with a copy of the advertisement so signed on receiving satisfactory evidence that it has been approved and authorised by a Resolution of the Board of the Company.

A copy of each of the newspapers in which the advertisement appears must be supplied.

The Rules governing this advertising are subdivided into four sections. These sections provide for different contingencies, and must be studied and complied with in every case. As the provisions are lengthy (under Sect. 1 there are no less than 25 clauses requiring exhaustive compliance) reference

must be made to them in the Rules and Regulations if the necessity arises. We will, however, briefly outline the various Sections.

Sect. 1 deals with companies other than those incorporated by a special Act of Parliament, no part of whose capital is dealt in on the Stock Exchange, and whose annual accounts for at least two years have NOT been made up and audited.

Sect. 2 deals with cases as in Sect. 1, but with the exception that it includes companies "whose annual accounts for at least two years HAVE been made up and audited." The requirements here run into nineteen long detailed clauses.

Sect. 3 deals with companies other than those incorporated by a special Act of Parliament, where leave to deal in or a quotation for any of its Share or Loan capital has already been granted. Here the requirements are less rigorous, as the stages outlined under Sect. 1 or 2 have previously been complied with.

Sect. 4 deals with the cases of Government and Municipal Loans and issues by statutory boards, companies incorporated by special Act of Parliament, and other similar authorities.

It is not unusual to see in a newspaper what at first glance appears to be a prospectus. An examination, however, will show at the head of the announcement the words given on page 301, and which commence—

This notice is not an invitation to the Public to subscribe, but, etc.,

and such an announcement is one which is called into existence by the Rules and Regulations of the Stock Exchange and the provisions of Appendix 34B, Sects. 1 to 4.

Attention was drawn in Chapter III, page 52, to the importance attached to

### **Official Quotations.**

All matters affecting this important branch fall automatically to be dealt with by the Share and Loan Department. The Rule governing the conditions under which such quotation may be obtained is 162, which provides—

(1) The Committee may order the Quotation in the Official List of any security of sufficient magnitude and importance and in which there is sufficient public interest.

(2) Applications for Quotation must be made to the Secretary of the Share and Loan Department and must comply with such conditions and requirements as may be ordered from time to time by the Committee, and as laid down in Appendix 35, except in cases where the Committee may determine to waive one or more of such conditions or requirements.

(3) Three days' public notice must be given of every application.

(4) A Broker, a Member of the Stock Exchange, must be authorised to give the Committee full information as to the Security and to furnish them with all particulars they may require.

The provision of a Broker to support applications for permission to deal is not so clearly set out in the Rules and Regulations, but the Committee, in practice, require such application to be put forward by a Broker instructed by the Company concerned, as in the case of official quotations.

Appendix 35 A sets out the

#### CONDITIONS PRECEDENT TO AN APPLICATION FOR OFFICIAL QUOTATION

(1) That the Memorandum, Articles of Association, Bye-laws, or Charter of Incorporation, and Trust Deed (in the case of an Application for Debentures or Debenture Stock so secured), or other authority under which the Share or Loan Capital has been created and issued shall be in a form approved by the Committee.

(2) That the Stock Certificate, Share Certificate, Debenture, Bond or other document representing the Security shall be in a form approved by the Committee.

NOTE. The relevant documents referred to in (1) and (2) above must be submitted (in duplicate) to the Secretary of the Share and Loan Department for approval before application for Official Quotation is formally made.

(3) That Permission to Deal in the Security shall have been given or that (prior to August, 1914) a Special Settling Day in the Security had been fixed. In the case of Securities dealt in prior to August, 1914, and for which no Special Settling Day had been fixed, or Permission to Deal granted, inquiry should first be made of the Secretary of the Share and Loan Department to ascertain the requirements under this heading.

(4) That the Definitive Stock or Share Certificate, Debenture Bond or other Security, shall have been or shall be ready to be delivered.

(5) That at least the first Annual Report and Accounts shall have been issued. (This condition does not apply to Government and Municipal Loans and the like.)

(6) (Rule 162 (1).) That there is sufficient public interest in the Security, and that it is of sufficient magnitude and importance.

Then follow requirements falling under headings (B), (C), (D), and (E) which owing to their length we will but mention.

(B) deals with the thirteen provisions which must be contained in the Articles of Association.

(C) deals with the seven provisions which must be contained where Trust Deeds and Debentures not secured by Trust Deed are concerned.

(D) deals with six provisions relating to Definitive documents, Share and Stock Certificates, and Debentures, and takes in also four provisions relating to Bonds.

(E) The provisions contained under this heading become operative after an intimation has been received from the Secretary of the Share and Loan Department that documents called for in Appendix 35(A), (1) and (2) are in order. Their requirements consist amongst others of Certified Copies of Memorandum and Articles of Association, Prospectuses, Offers for Sale, Advertisements under Appendix 34(B), Resolutions, all material Contracts, Agreements, Concessions, Reports, Accounts, Share, Stock and Debenture Certificates, together with notarially certified translations of all documents not in the English language. There is also required a written history of the Company, together with a Statutory Declaration by the Chairman and Secretary that all legal requirements have been complied with. The particulars here given are by no means complete, and are but briefly sketched in order to show that extreme care is taken before such quotation can possibly be obtained. For full particulars reference must be made to the Rules and Regulations as in the case of "Permission to Deal."

In addition to the duties relating to permission to deal, official quotations, the certification of transfer deeds, the multitudinous details relating to the *Official* and *Supplementary Lists*, 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 3,670 pages, every one of which is tightly packed with official facts



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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—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 publication is also issued a rather melancholy supplement containing references to about 15,000 defunct and other companies which are laconically stated to “have disappeared in the course of time.” Information regarding the volume of the *Official Intelligence* or *Year Book* in which such companies were either liquidated or their activities last recorded is also given. This supplement is known 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 Committee shall appoint an Official Assignee, who must be a Member of the Stock Exchange, 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 Committee 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 Committee, 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 Committee may from time to time direct. The net proceeds of the collections after payment thereof 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 Committee) 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,<sup>1</sup> 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.

<sup>1</sup> See page 48.

(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 Committee for General Purposes 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—

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.

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 Committee. 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 Committee, in order that the Member in default may be

immediately declared: and in case the Committee 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 125, 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 Committee; the Creditors or the Committee 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 Committee; 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 Committee.

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 Committee, 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 Committee.

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 Committee, be posted without recommenders in the Stock Exchange, at least Twenty-one days, and the Committee 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 Committee 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 Committee 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 £.

From the foregoing it will be seen it is possible for Members to return to the Stock Exchange despite the very distinct setback 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 XV

### 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, Half-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 over thirty years ago by the late Sir Stephen Killik, and first produced by courtesy of the author. While more elaborate systems of Stock Exchange book-keeping



may be in existence, the one referred to can scarcely be improved upon 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 198, 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 at once 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 or where options and forward bargains are entered into, 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 321.

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



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 counter-foil 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, as this sum is due to him. This entry is also folioed. If the items entered 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 must be charged. The commission and the contract stamp in this case



are deducted from the gross amount instead of being added. Otherwise, as will be seen, the two journals are alike.

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 page 198. 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 takes into 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.

Thus—

SUDAN	PLANTS		SHELL	
500 Spinner, B.			50 Bore & Co. 150 Field & Co. 500 Gusher & Co. 100 Crude & Co.	Gusher & Co. 25
	Cotton, A. 500			
SALT	UNION		100 Robinson, D. 25 Green, E.	Smith, A. 50 Brown, B. 250 Jones, C. 500 Evans, F. 100
50 Cellar, B.				
	Grain, A. 50.			
SOUTHERN	DEFD.			
	Pullman, O. 1/-			
1/- Sleeper, A.				<b>S</b>

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 Southern Deferred, 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 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 is arranged this List Book is affected, and if, in the case of Shell Shares, Jones were to arrange 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 be the agreed rate.

The first entries to be made in this List Book 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 Contango 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 is never 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 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 329) 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," Powers of Attorney, 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 324, 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 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 332.

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 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 are 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 109. 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 335) 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 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 are worked out: 4 per cent, 5 per cent, etc., on the capital sums involved for 14 days. After the calculations are checked, the capital sums involved are again posted in the Clients' Ledger to the debit of Mr. Jones, together with the net amount



# 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		
				27th March a/c	27th March a/c	18	4					10/4/3. Dr.	27/3/3. Cr.	27/3/3. Dr.	10/4/3. Cr.	
Mar. 24	500	2	1,000	4%	1 10 8	1 18 4	7 8	2/-	Jones, C.	Gusher & Co.	75	75	27/3/3. Dr.	27/3/3. Cr.	2	2
	1,000	52/6	2,625	4½%	4 10 7	5 10 8	1 1	6/-	Do.	Pasture Lands	75	75			3	3
Mar. 24	1/-	25	250	31%	6 8	4 9	1 11	1/-	Sleeper, A.	Pullman	27/3/3. 23	10/4/3. 23	27/3/3. 6	10/4/3. 6	6	6

for the rate, while the Jobbers' Accounts, Gusher and Pasture Lands, are 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" his £1,000 Southern Deferred, which contango was also arranged. This requires a separate entry in the Contango Journal which we give beneath the two "bull" contangoes. Here it will be seen that the same ruling can be used, and if the number of such entries is small the same page of the Contango Journal can be utilised. As this "bear" contango is 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 Southern Deferred he has open; therefore the entry for the 27th March Account is to his debit. When the rates have been worked out, his account for the 10th April is credited with the capital amount involved, together with the net contango rate. The Jobber's position is 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 are debited with the capital amount and the gross rate which they have agreed to give.

These are the "positions" of the clients as far as contangoes are 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, desire again to "continue" their securities, the procedure is repeated if possible. Otherwise, Mr. Jones makes arrangements to pay for his "Shells" and United Dairies, and Mr. Sleeper, not having bought his Stock back, decides to deliver his Southern Deferred, for which in due course he will 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 is 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 are not always arranged with Jobbers, it frequently happening that Brokers are able to accommodate one another’s requirements in the same way that Jobbers may deal one with the other. The column in our Contango Journal “Jobber’s Ledger Folio” is thus headed to indicate the firm with whom the contango is arranged. The column is used for Brokers’ folios when a Broker takes the place of the Jobber, and this applies to all books when similar conditions are present.

Contangoes having been arranged, 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 201. On these Tickets are given, if possible, the full registration particulars of the buyer, 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 202, 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 338.

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. 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 340 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 324. 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” are common in busy times between the Provinces, the Continental Bourses, and London. That the method of making them up is extremely useful in short-circuiting unnecessary movements in securities will be seen by quoting two examples—

(a) A Paris arbitrage firm which has bought 5,000 Mexican Eagle Shares through its London Broker is informed that the client has sold these Shares to London through another Paris firm. The journey of the Shares in question across the Channel and back again is, under such circumstances, a fruitless one, and can be avoided if the Shares are “made-up” at an agreed price. The Shares will then pass from one London firm to another.

(b) A Liverpool firm of Brokers sells £5,000 London Midland & Scottish Railway Ordinary 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."

Another important point is that the majority of securities that pass are brought to account at the making-up price, and not at the price of the Ticket.

Rule 122, Clause (3), lays down—

All Tickets representing Securities which, at the time, are subject to arrangement by the Settlement Department, and all Tickets representing Securities dealt in in the Mining Markets or in the Rubber section of the Miscellaneous Market which are included in the "*Stock Exchange Official List of Making-up Prices*," shall be passed through the accounts at the Making-up Price of the Contango Day, and the Securities paid for at that price; but the consideration money in the deed must be at the price on the Ticket.

This Rule particularly 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 the last sentence in the Rule just quoted 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 Rule 122, Clause (3)—that is, all securities that "clear," and all that are dealt in in the Mining and Rubber markets. It may be observed that this embraces the majority of securities that pass, and these are entered in the books and paid for as laid down, at the official "making-up" price.

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 XVI  
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 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 will 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 some of 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:

		£	s.	d.
193. 20th April	To Balance as per Cash Book . . . . .	11,251	5	2
	Add cheques not yet presented—			
		£	s.	d.
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 . . . . .			
		£	s.	d.
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 reconciliation 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 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' account on 500 Shell Transport (see page 329) 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' 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' account. All dividends are thus brought and kept together in the Dividend Book for easy reference. It follows that, where 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 page 203, 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' 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 X. 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 325)—

SUDAN PLANTS

500 Spinner, B	Cotton, A 500
----------------	---------------

This is how the Clearing Sheet shown on page 214 would appear—

SUDAN PLANTS

To TAKE STOCK OF Spinner, B 500	To DELIVER STOCK TO
------------------------------------	---------------------

This is the entry in the Clearing Book—

SUDAN PLANTS 2½

7th April, 193.

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 Southern Deferred, 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, and 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.

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, 193.

	£	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 358-9.

## TRANSFERS DELIVERED

Sent for Signature	Stock (Give distinctive numbers of shares)	Transferor		Transferee	Delivered to	When Delivered
		Name	Address			



### **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 361 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 362). The column headed "Name" will only be required in cases where the Shares or Bonds are in a registered name. 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, 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







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 364 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.



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 XVII

### 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 Mirror 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 Committee Room.

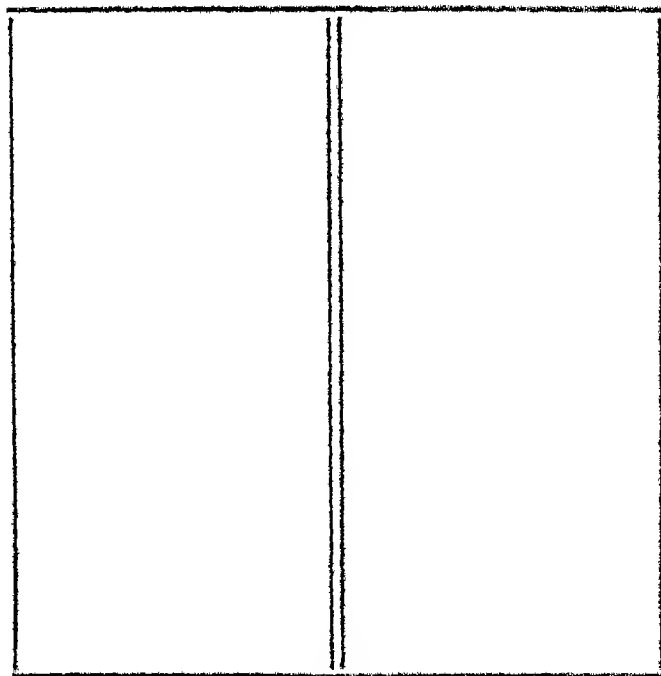
### **Foundation Stone of the Stock Exchange.**

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 nineteen quotations of our present *Official List*, which give the larger part of our present outstanding internal Government Loans, show a tenfold increase at a figure approximating to six 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  
WILLIAM STEER  
THOMAS ROBERTS  
GRIFFITH JONES  
WILLIAM GREY

*Managers.*

ISAAC HENSLEY  
ROBERT SUTTON  
JOHN BRUCKSHAW  
JOHN CAPEL  
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 INVIOLETE 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." In this respect the original Trustees and Managers were different from those who, in the present age, hold this distinguished office for a period of five years before coming again to the proprietors for re-election.

### **Original Deed of Settlement.**

This Deed of Settlement of the Stock Exchange, dated 27th March, 1802, thus appointed nine Trustees and Managers, and this number is preserved as a maximum to the present day. 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 thirty-eight 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



Charles Hiatt 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 to the present day.

### 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	James H. Renton . . . . .	1870-1895
William Steer . . . . .	1802-1824	Edward Routh . . . . .	1870-1881
Griffith Jones . . . . .	1802-1809	Sidney Vardon . . . . .	1870-1881
John Bruckshaw . . . . .	1802-1810	Samuel G. Sheppard . . . . .	1874-1894
John Capel . . . . .	1802-1833	William Trotter . . . . .	1874-1908
Thomas Roberts . . . . .	1802-1823	Robert H. Bristowe . . . . .	1874-1887
Robert Sutton . . . . .	1802-1848	Andrew K. Hichens . . . . .	1881-1906
Isaac Hensley . . . . .	1802-1833	Lawrence J. Baker . . . . .	1881-1887
John Barnes . . . . .	1802-1815	Alexander J. Scrutton . . . . .	1881-1908
Francis Baily . . . . .	1824-1833	H. Doughty Browne . . . . .	1887-1907
Charles Gibbes . . . . .	1824-1846	Alfred L. Cohen . . . . .	1887-1898
Robert Podmore . . . . .	1824-1830	Richard Winch . . . . .	1887-1914
Charles Laurence . . . . .	1824-1833	Edward Clark . . . . .	1887-1915
Thomas Greenwood . . . . .	1824-1842	Herbert W. Symes . . . . .	1895-1919
John I. Hensley . . . . .	1833-1855	Frederick G. Banbury . . . . .	1895-1907
Robert Sutton, Jnr. . . . .	1833-1863	S. Ernest Kennedy . . . . .	1900-1933
Francis Wakefield . . . . .	1833-1841	Edward Cazenove . . . . .	1907-1924
Antony Hammond . . . . .	1833-1843	A. St. G. Mac. A. Laurie . . . . .	1907-1910
John F. Maubert . . . . .	1833-1849	Henry W. Henderson . . . . .	1908-1931
William Amory . . . . .	1833-1848	Charles W. Trotter . . . . .	1908-1927
Harry W. Hitchcock . . . . .	1843-1863	Alfred J. Waley . . . . .	1910-
Robert Field . . . . .	1843-1855	John A. Mullens, Jnr. . . . .	1910-1931
James Capel . . . . .	1843-1873	William H. Askew . . . . .	1915-1924
Robert Hichens . . . . .	1843-1863	James A. Ross . . . . .	1915-1920
Henry Tudor . . . . .	1851-1873	William A. Barron . . . . .	1920-1927
William H. Mullens . . . . .	1851-1869	Edward L. Gosling . . . . .	1920-1938
George J. Steer . . . . .	1851-1873	Eustace C. Mordaunt . . . . .	1924-1938
George Peckett . . . . .	1863-1866	Sidney H. Ricardo . . . . .	1924-
Percy Ricardo . . . . .	1863-1870	A. Ernest Baker . . . . .	1927-
Frederick Harrison . . . . .	1863-1869	Arthur G. Greig . . . . .	1927-
Conrad Wilkinson . . . . .	1863-1870	Hon. A. P. Henderson . . . . .	1931-1931
Charles J. Brown . . . . .	1863-1869	E. S. Cripps . . . . .	1931-
Lawford Richardson . . . . .	1869-1870	H. L. Urling-Clark . . . . .	1933-
Thomas Biehl . . . . .	1869-1881	R. H. Twining . . . . .	1933-
Edwin H. Lawrence . . . . .	1869-1887	W. R. Simpson . . . . .	1938-
Lionel Cohen . . . . .	1870-1887	L. Smithers . . . . .	1938-

**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—

<i>Chairmen</i>	<i>Year</i>	<i>Deputy-Chairmen</i>	<i>Year</i>
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
R. B. Pearson . . . . .	1936	H. F. Chamen . . . . .	1923
		R. B. Pearson . . . . .	1933
		R. P. Wilkinson . . . . .	1936

**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 eight 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. SATTERTHWAITTE	.	.	.	.	1897
A. L. F. GREEN	.	.	.	.	1929

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."

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 130 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, 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. 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, 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.

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. 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 never been adopted, and remains but a recommendation of some sixty 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.





## 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 Committee for General Purposes, 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 113).

(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 and Supplementary 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 52).

**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  $99\frac{7}{8} - \frac{1}{8}$  would be closer than  $99\frac{8}{8} - \frac{1}{8}$ .

**Arbitrage.** The business carried out by arbitrageurs. The adjustment of values between two financial centres such as London and New York (see page 169).

**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 page 34).

**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 is receiving one; and a "bear," instead of receiving a rate for similar accommodation, has to give one (see pages 112 and 337).

**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 264 and 286).

**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 228). (3) The process of balancing all the transactions entered in the office records is known as finding the "Balance" (see page 354).

**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 is still made on Thursdays, but no change has been made since 30th June, 1932, when 2 per cent was fixed (see pages 34 and 131).

**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 106 and 140).

**Bearer.** Securities obtainable in Bond form without the need for a transfer (see page 256).

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 199).

**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 129).

**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 34).

**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 136).

**Bottom Fallen Out.** The sudden collapse of market prices, when no support is forthcoming.

**Break.** A sharp setback in price.

**Box.** When securities are taken up in the course of business or on clients' account they are said to be put in "box."

**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 advertise for Stock Exchange business. They are under no supervision, and persons who deal with them thereby incur risks (see page 166).

**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 106).

**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 249).

An intimation to a seller that the buyer is issuing a notice to this Department (see page 252).

**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 189).

2. The purchase of a single option (see page 117).

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 228).

**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 198).

**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 197).

**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 281). 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 211).

**Close.** A Stock Exchange fraction,  $\frac{1}{8}$  of 20s. or  $3\frac{1}{2}$ d. a share. When a price is small and quoted in pence only, "close" is usually understood to be  $\frac{1}{8}$ d.

**Close to Close.** A term used to indicate that a price is  $\frac{1}{8}$  or  $3\frac{1}{2}$ d. either side of a given fraction. For example,  $\frac{1}{8}$  "close to close" would mean 10s.  $11\frac{1}{2}$ d. to 11s.  $6\frac{1}{2}$ d. "Close to  $\frac{1}{8}$ " would mean 10s.  $11\frac{1}{2}$ d. to 11s. 3d., and " $\frac{1}{8}$  to close" would be 11s. 3d. to 11s.  $6\frac{1}{2}$ d.

**Closing or To Close.** Buying or selling to close securities opened in the same Account or the one following can be treated as a closing transaction and may be free of commission. The term can apply also to Stock or Shares that have been "open" for a longer period, but commission must then be charged. To close an open position or bargain means to get even (see page 69).

**Closing of Books.** The procedure adopted by banks and companies



when about to make a distribution. Sometimes called "shutting" (see page 276).

**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 encouraged, 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 page 65).

**Consideration.** The amount entered on a transfer deed (see page 224).

**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 109).

**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 96).

**Coupon.** A small certificate or warrant detachable from a Bond or Certificate to be exchanged for some form of value (see page 257)

**Cum-.** Prefix meaning "with." Cum-dividend means "with dividend," cum-rights "with rights," and cum-all "with all advantages" (see page 277).

**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 95).

**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 or inscribed Stock (see page 223).



**Defaulter.** A Member of the Stock Exchange who is "hammered" or posted by the Committee as a defaulter. One unable to fulfil his engagements (see pages 47 and 305).

**Defunct.** Applied to companies that have been wound up.

**Demobilised.** A term used to describe the process of converting registered bearer securities into bearer (see page 258).

**Differences.** Amounts which pass each Account due to and from Members and clients (see page 114).

**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 133).

**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 263).

**Dried Up.** A term applied to a market where interest has evaporated and dealings are scarce.

**Dual Control.** Refers to the joint system of Stock Exchange administration by Trustees and Managers and the Committee for General Purposes (see pages 37 and 384).

**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 ½ or 7½d. either side of a given figure or fraction. For example "either side of the nine" would mean "½ either side of ½." As ½ 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 99).

**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. Applies also to a contango where no rate is given or received (see page 112).

**Ex-.** Meaning without. Ex-dividend means "without dividend," ex-rights "without rights," and ex-all "without all immediate advantages" (see page 277).

**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 273).

**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 92, 93 and 129).

**Floater.** 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.,  $\frac{1}{32}$  = 7 $\frac{1}{2}$ d.,  $\frac{1}{64}$  = 3 $\frac{1}{2}$ d. 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 7 $\frac{1}{2}$ d.) are referred to as being "under to" a fraction or that fraction "to over." Thus "under to  $\frac{9}{16}$ " equals 10s. 7 $\frac{1}{2}$ d. to 11s. 3d., while " $\frac{9}{16}$  to over" equals 11s. 3d. to 11s. 10 $\frac{1}{2}$ d. 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 3 $\frac{1}{2}$ d.) the terms used would be as follows: "Close to the nine," meaning 10s. 11 $\frac{1}{2}$ d. to 11s. 3d. or "Nine to close" which means 11s. 3d. to 11s. 6 $\frac{1}{2}$ d. "Close either side" of a fraction, as explained, means 3 $\frac{1}{2}$ d. below to 3 $\frac{1}{2}$ d. 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. 7 $\frac{1}{2}$ d. to 11s. 6 $\frac{1}{2}$ d., while "close under to over the nine" means 10s. 11 $\frac{1}{2}$ d. to 11s. 10 $\frac{1}{2}$ d. The further stage is when a quotation is given "Over the nine close to close," which, interpreted in pounds shillings and pence, means 11s. 6 $\frac{1}{2}$ d. to 12s. 2 $\frac{1}{2}$ d. 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 Committee, 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 116). 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 87).

**Givers.** The state of a market where on Contango Day all desire to "give" a rate. "Givers to a man" indicates the existence of a large "bull" account (see page 112).

**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 69).

**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, not necessarily a Member, who introduces business and takes 50 per cent of the gross commission is known as a "half-commission man" (see page 75).

**Hammered.** A Member of the Stock Exchange who fails to comply with his bargains is hammered and declared a defaulter (see pages 47 and 305 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 313).

**Holding the Baby.** Sums up the position of those left in possession of securities which they cannot sell (see page 137).

**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."

"Hot" Treasury Bills. See "Treasury Bills" (page 406).

**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.

**Identification.** A regulation of the Bank of England and other transfer agents when Stockholders personally attend to make transfers (see pages 267 and 274).

**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 255).

**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.

**Inscribed.** Indicates that particulars of Stock-holding are kept at a bank where attendance in person or by Power of Attorney is required for purposes of transfer (see page 266).

**Interim.** Applied to a partial dividend distribution as distinct from a final announcement.

**Irredeemable.** Enjoying no redemption date (see page 94).

**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 25).

**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 313).

**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 262.)

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 105, or to responsibility arising in connection with the passing of Tickets (see page 210).

**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 187).

**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 25).

**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 52 *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 285).

**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 70).

**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 113)

**Monkey.** A term meaning £50,000 Stock or 500 Shares (see page 199).

**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 110).

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 111, 200 and 203).

**Names.** Tickets issued by buyers on which are entered the purchasers' registration particulars (see page 201).

**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 68).

**New.** Dealings for "New" are for the next, and not the current Stock Exchange Account (see page 113).

**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 13, 14 and 45.

**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.

**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 Committee decline to recognise bargains with this condition attached. Such bargains are sometimes marked N.B.I., which means "No buying in" (see page 222).

**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 305).

**Officially Quoted.** Stocks and Shares which are given a quotation in the Stock Exchange List of Officially Quoted Securities. Securities found in the Supplementary List are sometimes said to be "unofficially quoted."

**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 199).

**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 can be purchased for a consideration (see page 117).

**Option Dealers.** Those who specialise in and make quotations for options (see page 117).

**Over.** Commonly used, it refers to  $\frac{1}{4}$  of £1. Over  $\frac{1}{2}$  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 108 and 186).

**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 53).

**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." 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 102).

**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 command a premium (see page 173).

**Parity.** A parity price is the equivalent quotation of a given security in a different currency (see page 172).

**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 282).

**Pony.** A term meaning £25,000 Stock or 25 Shares (see page 199).

**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. Applications for such in relation to Stock transfers are dealt with on page 271, and for other documents, page 246.

**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 108).

**Prior Charges.** Securities that rank in front of Ordinary Stock or Shares in respect of dividend distribution are known as Prior Charges. (See page 91 and "Fixed Charges.



**Probate.** Proof of death. (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  $\frac{1}{2}$  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.  $1\frac{1}{2}$ d. and 25s. 3d., 25s. 3d. and 25s.  $4\frac{1}{2}$ d., or alternatively 25s.  $2\frac{1}{2}$ d. and 25s.  $3\frac{1}{2}$ d. 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 page 71).

**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 53).

**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 and Supplementary Lists. For information regarding Official Quotations see pages 48 and 302.

**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 fixed each Account for contango facilities (see pages 110 and 112).

**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 202).

**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 34).

**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 60).

**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 72).

**Renunciation.** An allotment letter which gives the original allottee facilities to renounce his holding in favour of another (see page 262).

**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 287).

**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 31).

**Scrip.** Securities in bearer form and not registered as in the case of transfers (see page 256).

**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 206).

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 ¼ and a Jobber made 99½ - 100½ 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 281).

**Shunters.** Term applied to Brokers who "arbitrage" with Provincial Stock Exchanges (see page 142).

**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 135).

**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 204).

**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."

**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 staged" (see page 106).

**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. 6s. or £3 2s. 6d. are Stock Exchange amounts, the former being equivalent to  $\frac{1}{4}$  per cent on £5,000 Stock or  $\frac{1}{4}$  on 100 Shares, and the latter equivalent to half that amount or, say,  $\frac{1}{8}$  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 4 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. The last to disperse is the American market in Shorters Court, as 4 p.m. in New York, is equivalent to 9 p.m. in London (see page 168).

**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 steady-in 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 pages 110 and 112).

**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 Committee.

**Taken.** 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 129).

**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 191).

**T.F.A.** Stocks issued under the Government Trade Facilities Act. Such issues are full Trustee Stocks (see page 89).

**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 15).

**Thrown Out.** A contango position suddenly terminated.

**Ticket.** Name issued by buyers on which are entered registration particulars (see page 200).

**Ticket Day.** Day on which the passing of Tickets commences (see pages 111, 197, and 200).

**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 131).

**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 129).

**Topy.** 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 202.)

**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" or by inscription (see page 223).

**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 281).

**Trust Company.** A company formed for the purpose of specialising in the purchase of other securities (see page 175).

**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 84).

**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 25).

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 34.)

**Under To.** Means  $8\frac{1}{2}$  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 185).

**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 18 and 366).

**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 13).

**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



.6s. 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 dealer 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 93).



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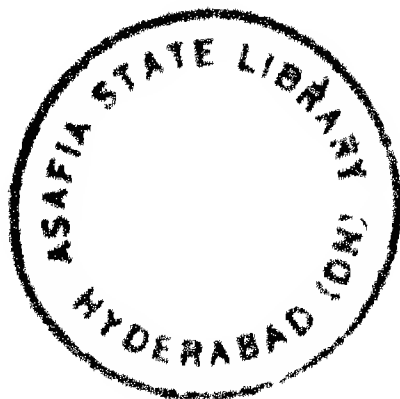
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