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Financial Services

Federal Reserve Cuts Heart Out of Glass-Steagall

Banks awarded corporate debt and equity underwriting powers

Highlights

- Fed expands bank underwriting powers to include *all* corporate debt. Equity underwriting powers also granted but authorization postponed until next year.
- Percentage restriction on gross revenue not expanded from current 5%. Review and possible expansion expected as early as June 1989.
- Securities Industry Association will litigate Fed ruling, but courts unlikely to issue temporary stay.
- In intermediate term, ruling is probably negative for both banks and brokerages. Longer term, ruling definitely positive for banks and negative for securities industry.
- High-yield debt underwriting most profitable segment of new powers awarded. Bankers Trust and J.P. Morgan, with strong reputations in M&A, likely to pursue most aggressively. Drexel and First Boston most vulnerable to increased competition.

The ruling

In response to applications submitted October 24 and 25, the Federal Reserve conditionally approved the expansion of existing underwriting and dealing powers of J.P. Morgan Securities, Chase Manhattan Capital Markets, BT Securities, Citicorp Securities Markets and Security Pacific Securities. These new powers include:

- Debt securities, including without limitation, sovereign debt securities, corporate debt (including non-investment-grade), debt securities convertible into equity securities (providing that at the time of issuance the conversion price is greater than 115% of the market price of the equity security into which the debt security is convertible) and securities issued by a trust or other vehicle secured by or representing interest in debt obligations; and
- Equity securities, including without limitation, common stock, preferred stock ADRs and other direct and indirect equity ownership interest in corporations and other entities.

While we had anticipated that the Federal Reserve was likely to act sometime in the first half of 1989 (see our October 26, 1988 *Update:* "Outlook for Glass-Steagall in 1989") the timing and scope of the ruling were surprising for the following reasons:

Description

The Federal Reserve's decision to expand the underwriting and dealing powers of banks to include corporate debt and equity reveals not only the Fed's lack of confidence that Congress would get around to resolving the Glass-Steagall issue once and for all in 1989 but the belief Congress would not be able to muster the necessary forces to overturn the decision. While a number of House members such as Ed Markey, Chairman of the Telecommunications and Finance Subcommittee, are threatening to retaliate, both momentum and consensus are clearly lacking. Thus, while the improbable can never be ruled out, investors can generally expect that banks will begin to appear in tombstones as co-managers of corporate debt offerings within the next month and of equity offerings within the next year.

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Brenda McCoy (212) 713-2468
Sandra Flannigan (713) 236-3349

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- Despite the fact that the Federal Reserve is by law required to respond to applications within a specified period, it had been generally anticipated that any expansion of existing powers would be limited, particularly in light of the letter sent by House Speaker Jim Wright to Alan Greenspan in early October in which Mr. Wright promised that Congress would deal with the issue in 1989. The fact that the Federal Reserve approved such broad powers only three weeks into the new year would hardly seem to represent a vote of confidence in the ability of Congress to deal with Glass-Steagall once and for all.
- In previous Fed rulings and throughout the Congressional hearings on expanded securities powers for banks in 1988, one very obvious concern raised by both parties was the potential risks associated with varying degrees of investment quality of certain types of securities. The Fed's all-inclusive ruling with regard to the underwriting of and dealing in debt (including high-yield bonds) demonstrates this issue is now moot.
- Under the most liberal proposal for Glass-Steagall reform, the "Proxmire Financial Modernization Act" passed by the Senate last March, the extension of equity underwriting powers to the banks *wasn't even to be considered* until April 1991—three years from the date of passage in the Senate. The Fed's decision to approve equity underwriting and dealing powers, albeit with a one-year moratorium, was of greatest surprise.

Had the Fed limited the award of new powers to corporate debt, the negative Congressional response seen to date would have been somewhat muted. By approving equity underwriting and dealing as well, it would appear the Federal Reserve not only anticipated that Congress would be unable to write new Glass-Steagall legislation, but that it would be unable to marshal the forces necessary to respond to the ruling as well.

The logic behind the decision

A review of the basis upon which the Federal Reserve decided to expand the underwriting and dealing powers of banks is of use for a couple of reasons. First, in the unlikely event that Congress does retaliate and rescind some, if not all, of these powers, we would presume Congress will have to not only address but find fault in the reasoning behind the Federal Reserve's decision. Second, the various factors cited by the Fed in support of its decision can be expected to be used again in the future when additional powers are awarded and existing percentage limitations are expanded.

The Federal Reserve's decision to award greater securities powers to the banks was largely based upon a provision of the Bank Holding Company Act which allows for the acquisition by a bank holding company of a company engaged in activities "so closely related to banking....as to be a proper incident thereto." To comply with this provision, two tests must be met: It must be demonstrated that the activities in question are, in fact, "closely related to banking" and that the potential public benefits exceed potential adverse effects.

According to a release by the Federal Reserve, the determination of whether a certain activity is in fact "closely related to banking" is dependent upon two criteria established in a 1975 court case. These criteria and the Fed's reasoning with regard to additional securities powers are as follows:

Banks generally have in fact provided the proposed activity. In this regard, the Federal Reserve notes the technological developments in the capital markets, the concurrent decline in the traditional lending activities of the banks and the move on the part of the banks into loan guarantees, private placements, securitization of loans, the syndication and selling of bank loans, and interest rate and currency swap activities—activities considered not only natural extensions of commercial banking but variations on traditional investment banking activities as well. The Fed also notes that U.S. banks are not only underwriting and dealing in both debt and equity in international markets but are among the leading underwriters in some markets.

Banks generally provide services that are operationally or functionally so similar to the proposed activity as to equip them particularly well to provide the proposed activity, or, banks generally provide services that are so integrally related to the proposed activity as to require their provision in a specialized form. In response, the Federal Reserve relies upon the historical success of the banks in underwriting and dealing in both eligible and ineligible securities. The Fed notes the demonstrated ability of the banks to originate and structure a transaction, to properly assess risk, to distribute and to deal in those securities permitted under previous laws and rulings. The Fed further argues that these functions are identical to those necessary to successfully underwrite and deal in corporate debt and equity. If anything, in the case of corporate debt, the Fed contends that the banks are *better* equipped because of their "unique expertise in performing the credit analysis function."

The second test which had to be met under the Bank Holding Company Act was that the new activity (ies) provides greater potential benefit than harm to the public. In this regard, the Federal Reserve went to extensive lengths to outline potential benefits to the public, which we've summarized below.

- *Increased competition* as the entrance of the banks into the new markets will not occur through the acquisition of existing firms but through the establishment of new or expansion of existing securities operations. Entrance of banks into the corporate debt and equity markets is expected to reduce concentration levels (i.e., market share of securities firms), expand availability of investment banking services to small businesses, thereby reducing borrowing costs, and result in greater financial innovation.

- *Increased efficiency and greater convenience for bank customers.* Increased efficiency is not only expected to be realized through potential economies of scale but through the increase in the number of dealers in corporate securities, which should improve the liquidity of those markets. With regard to the issue of greater convenience the Fed notes "bank holding companies would be able to offer their commercial customers an additional service and means of financing that *may be* [our emphasis] more economical for the borrower." *The importance of this wording lies in the fact that it clearly demonstrates a competitive advantage which the banks will enjoy over the securities industry.* As we discuss later, it's time the securities industry stops wasting money fighting a battle clearly lost last year and redirects those resources toward a battle for an even playing field.
- *Maintenance of domestic competitiveness* by enabling the banks to keep their customer base. In addition, the foreign competitiveness of U.S. banks is expected to be enhanced as their European counterparts expand in response to a proposal to take effect in 1993 which would allow for a common banking license throughout the European Economic Community.

The Federal Reserve believes that such adverse potential effects of the banks' activities in these new areas as unsound banking practices, conflicts of interest, unfair competition, undue concentration of resources and loss of public confidence are adequately dealt with through the extensive restrictions placed on the banks, as discussed below.

Revenue, capital and structural restrictions mean ruling can hardly be considered a bonanza for banks

While the breadth of the new powers awarded to the banks is perceived as a clear victory for the banking industry, in substance the battle has not by any means been won. In fact, revenue, capital and structural restrictions are such that only the very largest banks will be able to exercise these new-found powers, much less exercise them profitably. It is possible that the Federal Reserve may act as soon as this summer to ease some limitations, thereby enhancing the economic appeal of some of these new businesses to a number of the large regionals. However, as the Fed is itself restricted in the extent to which it can allow banks to actively participate in corporate debt and equity markets, the banking industry may not be fully competitive with the securities industry for some time.

5% revenue limitation remains unchanged

In addition to the award of corporate debt underwriting powers, we had anticipated that the Fed would also expand the 5% revenue restriction to 10% at the same time. That the limitation was not increased was of some surprise but, in retrospect, was probably due to a couple of strategic factors. First, the powers awarded were already much greater than those under consideration in any of the House or Senate proposals in the past and as such it did not make sense to push too hard. Second, Congress is already spooked by the S&L mess and the lending activities of banks in leveraged buyouts. As maintenance of the 5% cap has the effect of limiting the number of banks which will seek approval to participate in these new markets (5% of nothing is still nothing), the increased risk is generally perceived to be limited.

When the banks received final approval to underwrite commercial paper, municipal revenue bonds, mortgage and asset-backed securities in June 1988, the Federal Reserve indicated that it would review the 5% restriction a year from that time. Currently, the 5% cap applies to revenues derived from the underwriting and dealing activities in "ineligible securities" which now not only include commercial paper, revenue bonds, mortgage and asset-backed securities, but revenue derived from underwriting and dealing in all other forms of corporate debt and equity as well. We very much expect that come this June, the Fed will review as promised the 5% cap now in place and perhaps raise it to 10% as early as in July. *What is not clear is whether any increase in the revenue cap would apply only to those four "ineligible" securities permitted last year or whether it would apply to all ineligible securities including corporate debt and equity.*

With regard to the percentage revenue limits, a number of very significant questions remain unanswered. For example, it is *still* not clear whether, when the Fed says that no more than 5% of total gross revenue of an underwriting subsidiary shall be derived from underwriting and dealing in "ineligible" securities, gross revenue is defined as revenue *net* of interest expense or purely gross revenue. The Fed has indicated that the compliance of the banks with the percentage cap will be determined by regular reviews of Focus data and a form which each bank will be required to complete. Presumably this form will provide some indication as to the manner in which the percentage limitations are to be calculated.

The second question which has yet to be resolved is whether or not interest and dividend income earned on "ineligible" securities would be included in the calculation of gross revenues derived from the underwriting and dealing in these securities. Since banks record interest and dividend income on what are viewed as "ineligible" securities held in their investment portfolios, one might argue such income earned in the underwriting subsidiary could be deemed "ordinary" income and be exempt from inclusion in the 5% limit. The third question is what happens to a bank that violates the 5% cap—perhaps a bank has a tremendous run of trading profits. Would it then be forced to reduce activity, or take losses?

Answers to each of these questions could have a significant impact upon not only the ultimate volume of business in which the banks are able to engage, but also on the number of banks that might open or expand existing securities underwriting subsidiaries. In addition, answers might give a clue as to the extent to which percentage limitations could be increased before the securities industry files suit claiming

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Table 1

Total securities industry

Dollars in millions

	Trading Revenue	Trading Rev as a % Gross Revenue	Trading Rev as a % of Net Rev	Under-writing Revenue	Under-writing Rev as a % Gross Revenue	Under-writing Rev as a % of Net Rev	Total Gross Revenue	Total Net Revenue*
1Q76	319	16.6%	17.6%	201	10.4%	11.1%	1,921	1,808
2Q76	220	14.1%	15.7%	234	15.0%	16.7%	1,559	1,404
3Q76	297	18.4%	20.9%	196	12.2%	13.8%	1,612	1,421
4Q76	372	20.6%	23.2%	222	12.3%	13.8%	1,811	1,606
1Q77	227	14.3%	16.4%	168	10.6%	12.1%	1,589	1,389
2Q77	293	17.1%	19.7%	213	12.4%	14.3%	1,719	1,491
3Q77	268	16.0%	19.3%	198	11.8%	14.3%	1,675	1,388
4Q77	266	15.2%	18.6%	198	11.3%	13.8%	1,747	1,431
1Q78	298	18.0%	22.3%	145	8.8%	10.9%	1,659	1,339
2Q78	366	15.3%	18.1%	202	8.4%	10.0%	2,396	2,028
3Q78	392	14.9%	18.0%	238	9.0%	10.9%	2,626	2,172
4Q78	255	11.7%	15.8%	156	7.2%	9.7%	2,181	1,617
1Q79	478	19.7%	24.8%	174	7.1%	9.0%	2,431	1,929
2Q79	561	20.8%	26.5%	189	7.0%	8.9%	2,703	2,115
3Q79	503	16.9%	22.2%	214	7.2%	9.4%	2,975	2,270
4Q79	630	20.0%	27.7%	192	6.1%	8.5%	3,155	2,275
1Q80	616	17.7%	23.5%	202	5.8%	7.7%	3,490	2,617
2Q80	1,101	26.9%	34.4%	357	8.7%	11.2%	4,092	3,197
3Q80	590	16.3%	19.5%	339	9.3%	11.2%	3,630	3,024
4Q80	846	17.7%	22.7%	409	8.6%	11.0%	4,774	3,729
1Q81	1,111	22.9%	31.7%	350	7.2%	10.0%	4,861	3,508
2Q81	935	18.8%	25.7%	494	9.9%	13.6%	4,971	3,636
3Q81	837	18.5%	27.7%	323	7.1%	10.7%	4,524	3,023
4Q81	1,355	24.9%	34.3%	405	7.4%	10.2%	5,449	3,953
1Q82	1,073	23.7%	34.1%	360	7.9%	11.5%	4,535	3,143
2Q82	1,226	24.8%	36.0%	436	8.8%	12.8%	4,953	3,404
3Q82	1,582	26.8%	34.0%	595	10.1%	12.8%	5,903	4,647
4Q82	2,076	26.5%	31.7%	928	11.9%	14.2%	7,821	6,542
1Q83	1,963	27.3%	32.8%	843	11.7%	14.1%	7,189	5,988
2Q83	1,768	22.2%	26.5%	1,003	12.6%	15.0%	7,973	6,681
3Q83	1,554	21.8%	28.0%	872	12.2%	15.7%	7,136	5,543
4Q83	1,561	21.5%	29.5%	812	11.2%	15.4%	7,244	5,283
1Q84	1,708	22.9%	31.8%	553	7.4%	10.3%	7,444	5,373
2Q84	1,412	20.5%	30.1%	623	9.0%	13.3%	6,900	4,687
3Q84	2,005	24.2%	34.9%	659	7.9%	11.5%	8,294	5,744
4Q84	2,430	28.6%	41.5%	871	10.2%	14.9%	8,510	5,861
1Q85	2,345	26.1%	36.1%	700	7.8%	10.8%	8,970	6,503
2Q85	2,453	26.6%	34.7%	1,008	10.9%	14.3%	9,216	7,069
3Q85	2,099	23.8%	32.3%	1,013	11.5%	15.6%	8,814	6,500
4Q85	3,037	25.9%	35.6%	1,530	13.0%	17.9%	11,739	8,537
1Q86	3,969	30.8%	40.8%	1,141	8.8%	11.7%	12,895	9,735
2Q86	2,817	22.7%	30.5%	1,523	12.3%	16.5%	12,421	9,223
3Q86	2,817	24.0%	32.1%	1,456	12.4%	16.6%	11,726	8,769
4Q86	2,992	23.0%	30.3%	1,803	13.9%	18.3%	12,994	9,867
1Q87	3,876	26.4%	34.1%	1,453	9.9%	12.8%	14,688	11,377
2Q87	1,868	14.8%	20.6%	1,479	11.7%	16.3%	12,603	9,082
3Q87	2,388	17.8%	24.9%	1,560	11.6%	16.3%	13,412	9,583
4Q87	1,801	18.1%	28.3%	664	6.7%	10.4%	9,972	6,364
1Q88	3,078	23.7%	32.0%	1,187	9.2%	12.4%	12,968	9,607
2Q88	2,661	21.4%	30.0%	1,364	11.0%	15.4%	12,452	8,864
3Q88	2,647	20.1%	31.4%	1,367	10.4%	16.2%	13,194	8,421

Net revenue = total revenue net of interest expense.

Sources: PWJ Equity Research

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that the banks are in violation of the "engaged principally" provision of Glass-Steagall. In Table 1 we have provided a quarterly breakdown of the percentage of revenue (both gross and net of interest expense) that the securities industry as a whole has derived from underwriting and dealing activities. Should the banks exceed these percentages, the securities industry will probably be able to legitimately argue that the underwriting subsidiaries are in violation of the "principally engaged" provision of the Glass-Steagall Act.

To protect the public, capital constraints are severe

The Federal Reserve has gone to great lengths to ensure that entrance of banks into additional securities markets will not impair their financial health. Before a bank is permitted to engage in any of these new activities, it must, among other things, demonstrate that both the bank and the securities subsidiary are adequately capitalized; or it must submit and execute a plan to raise capital to a satisfactory level. The capital adequacy conditions are as follows:

- Any investment in an underwriting subsidiary treated as a capital investment must be deducted from regulatory capital. 50% of the investment must be deducted from Tier 1 capital and 50% from Tier 2 capital. In addition, the subsidiary's assets cannot be included in the holding company's consolidated assets when calculating primary and risk-based capital ratios.
- Any credit (including guarantees) extended directly or indirectly to the underwriting subsidiary must also be deducted from regulatory capital unless the credit is fully secured by U.S. Treasury or other government securities.
- Any bank or thrift affiliate is now *prohibited* from both lending to and buying and selling assets for its own account through an underwriting subsidiary, with the exception of U.S. Treasury securities.
- A bank must receive prior approval from the Federal Reserve before the bank holding company or any non-bank subsidiaries provide capital, an extension of credit or transfer assets at any time to the underwriting subsidiary (the Fed intends to review and perhaps modify this requirement after one year).
- Before engaging in any of the new activities, a bank, as mentioned above, must satisfy the Board that it and its underwriting subsidiary are already strongly capitalized or that acceptable plans to raise capital are in place.
- The underwriting subsidiary must maintain adequate capital in accordance with industry norms. This should not be read to mean that the underwriting subsidiary of a bank must merely satisfy minimum regulatory capital requirements. As the regulatory capital of virtually all brokerage firms typically significantly exceeds levels required under law, bank underwriting subsidiaries will be expected to maintain regulatory capital levels much greater than those required, as well.

Whereas the 5% limitation on gross revenues has the effect of ensuring that none but the very largest of banks begins to exercise these new powers, restrictions on capitalization have the effect of ensuring that none but the most healthy of banks engages in these activities.

If that isn't enough, additional restrictions and limitations are destined to create such a statistical nightmare for the banks that the bottom line impact of these new activities is sure to be negligible if not negative. One very timely example would be a case in which a bank not only provides both bridge and senior financing for a leveraged buyout but junk bond financing as well. One of the concerns expressed by the Fed was that the lure of combined fees from both the underwriting and bank subsidiaries might result in a reduction in credit standards. Another concern expressed was the possibility that the underwriting subsidiary might be used to sell securities of a leveraged buyout so as to reduce the risk of the affiliate bank. Under these conditions, a bank will be required to prove that the terms and conditions of any senior loan (including pricing, cash-flow-to-debt service requirements, repayment terms) "are not preferential" (i.e., are consistent with internal policy and norms). The Fed has indicated that it intends to both verify the policies and procedures already in place and to closely review such loan documentation.

SIA will litigate, but it's time to change strategy

Not surprisingly, the Board of Directors of the Securities Industry Association has just decided to sue the Federal Reserve, accusing the Fed of "a dangerous, piecemeal undermining" of the Glass-Steagall Act. However, whereas the SIA was successful in at least *postponing* for approximately 14 months the entrance of the banks into the commercial paper, municipal revenue bond and mortgage and asset-backed markets, we do not believe such will be the case this time around. Because the banks are already underwriting and dealing in the above mentioned "ineligible" securities, the award of powers to underwrite and deal in corporate debt and equity securities will likely be interpreted as the *extension* of existing powers rather than the award of *new* powers. Thus it is improbable the courts will issue a temporary stay as was the case in 1987-88.

While the Fed has in its latest ruling cut the heart out of Glass-Steagall, it has been obvious for some time that the patient was terminal. In our opinion, it's time for the securities industry to give up the ghost and gracefully acknowledge it has lost the battle. Vast amounts of resources have and continue to be directed toward this fight which should be directed toward better causes. For example, as we mentioned before, the Federal Reserve clearly indicated in its review of the basis upon which it had determined that the banks should be awarded additional securities powers, that the banks would be able to offer better service. While we can't imagine that a securities firm would want to engage in full scale commercial banking at this time, the industry

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should at the very least lobby to receive in return the revocation of the current 7% annual restriction on asset growth of non-bank banks and to receive access to the Fed window.

"Just what we need, more capacity"

It is somewhat perverse that at a time when the securities industry is reeling from the effects of overcapacity in many of its markets, the banks are invited in to exacerbate what is already a wretched situation. While industry profits are believed to have more than doubled in 1988 from 1987, returns are still dismal and headcount cuts and decisions to completely exit some businesses continue at not only the U.S. brokerages but foreign securities firms and U.S. banks as well. In a sense it's unfortunate that the banks will have to comply with so many restrictions and limitations should they decide to exercise their new powers, because it virtually ensures, at least in the near term, that nobody (but maybe the customer) will benefit.

For a variety of reasons, we do not believe the Fed ruling will have a material impact on most of the brokerages in the near term. First, only a handful of banks will be able to exercise these new powers and their presence will be limited as a result of the 5% revenue restriction. Second, most if not all lack the domestic distribution capability necessary to sole manage these deals. Third, the banks can generally be expected to be fairly cautious in the exercise of these new powers—one major foul-up and Congress will retaliate. Finally, with regard to underwriting, as can be seen in Table 2, gross spreads on corporate debt offerings are already extremely thin.

Based on Focus filings, we estimate that less than 4% of 1988 gross revenue of the securities industry was generated from underwriting corporate debt securities—including mortgage and asset-backed. The one very profitable segment of the business for the securities industry has been the underwriting of high-yield debt which, while accounting for only 12% of total dollar volume of corporate debt issues in 1988, accounted for roughly 48% of underwriting revenue in the

Table 2

Average fee percentages

Corporate debt

	1984	1985	1986	1987	1988
Investment Grade*	0.636%	0.662%	0.804%	0.665%	0.567%
Mortgage Related	2.263%	1.681%	1.140%	0.752%	0.546%
Non-Investment Grade	3.003%	2.848%	2.936%	3.088%	3.014%
Convertible	2.693%	2.662%	3.419%	3.045%	3.548%
Average	2.149%	1.963%	2.075%	1.888%	1.919%

Includes asset-backed debt.
Source: IDD

form of gross spreads (see Table 3). Those firms which enjoy significant share of the market for junk bond issues are particularly vulnerable to increased competition from the banks—particularly such banks as J.P. Morgan and Banker's Trust which have been developing very strong reputations in the M&A field. However, as can be seen in Table 5, the two top firms—Drexel and First Boston—which together accounted for 57% of total volume in 1988 are, of course, private. We do not believe the remaining firms would suffer materially even in the event that their individual market shares were halved.

This is not to say by any means that the ruling is of no consequence for the industry. As the 5% revenue limitation is expanded (and it probably will be on an annual basis), as new powers are approved and as a greater number of banks participate in the markets, the pie will continue to be sliced into smaller pieces and profit margins which in many businesses are already negligible to nonexistent are sure to be driven down further. At this time, the segment most vulnerable to the effects of competition from the banks is that of the capital markets firms which, in part as a result of the ruling, are likely to become even more niche oriented over an extended period. However, as the impact of the Fed's ruling is not expected to be felt for at least a year, maybe longer, we are not revising our ratings at this time.

Additional information is available upon request.

Table 3

1988 fee income from corporate debt issuance

	# of Issues	$ Volume	% of Total	Total Fees	% of Total
Investment Grade	780	$93,686	39.7%	$489	25.4%
Mortgage-Related	1,003	96,358	40.8%	378	19.6%
Asset-Backed Debt	71	15,421	6.5%	64	3.3%
High Yield	158	27,516	11.7%	915	47.6%
Convertible	37	3,141	1.3%	78	4.0%
Total	2,049	$236,122	100.0%	$1,924	100.0%

Source: IDD

Table 4

M&A transaction volume

Dollars in millions

Firms	1987 # Deals	1987 $ Volume	1987 Rank	1988 # Deals	1988 $ Volume	1988 Rank
Goldman Sachs	132	$64,321	1	158	$93,410	1
First Boston	178	56,923	2	153	78,223	2
Shearson Lehman Hutton	175	27,313	5	211	74,146	3
Morgan Stanley	117	41,466	3	125	74,063	4
Drexel Burnham Lambert	127	23,081	7	158	39,024	5
Wasserstein Perella	NA	NA	NA	19	35,652	6
Lazard Freres	47	25,505	6	59	34,729	7
Salomon Brothers	78	22,058	8	124	31,827	8
Merrill Lynch	93	31,703	4	116	24,822	9
Kidder Peabody	70	12,775	9	73	17,754	10
Blackstone Group	0	0	NA	7	9,081	11
Bear Stearns	37	4,714	17	54	8,951	12
County NatWest	1	1,328	34	22	8,068	13
Hellman & Friedman	1	160	84	1	7,420	14
Bankers Trust	43	6,201	13	52	6,765	15
Dillon Read	41	11,078	10	33	6,545	16
Donaldson, Lufkin & Jenrett	45	8,334	11	46	5,650	17
Conning & Company	0	0	NA	1	5,309	18
Rothschild Inc.	6	2,968	24	9	5,022	19
J. Henry Schroder Wagg	0	0	NA	2	4,962	20
PaineWebber	69	4,726	15	60	4,744	21
Prudential-Bache	40	4,704	18	46	4,489	22
Smith Barney	38	4,720	16	48	3,990	23
Allen & Company	10	7,291	12	8	3,865	24
Veronis Suhler & Associates	2	168	83	7	3,758	25

Source: IDD

Table 5

1988 high-yield debt issuance

Dollars in millions

Firm	$ Amount	Market Share
Drexel Burnham Lambert	$11,907	42.8%
First Boston	3,908	14.1%
Morgan Stanley	3,133	11.3%
Merrill Lynch	2,098	7.5%
Salomon Brothers	1,751	6.3%
Prudential-Bache	1,182	4.2%
Goldman Sachs	805	2.9%
Donaldson, Lufkin & Jenrette	776	2.8%
Smith Barney	696	2.5%
Kidder Peabody	551	2.0%
PaineWebber	360	1.3%
Shearson Lehman Hutton	350	1.3%
Bear Stearns	281	1.0%
R.G. Dickinson	16	0.1%
Industry Totals	$27,813	100.0%

Source: IDD

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Table 6

1988 straight debt issuance

Dollars in millions

Firm	$ Amount	Market Share
Merrill Lynch	$20,073	18.4%
Salomon Brothers	17,560	16.1%
Goldman Sachs	16,338	15.0%
First Boston	14,742	13.5%
Shearson Lehman Hutton	11,418	10.5%
Morgan Stanley	10,603	9.7%
Smith Barney	2,350	2.2%
Kidder Peabody	2,277	2.1%
Drexel Burnham Lambert	1,946	1.8%
Chemical Bank	1,907	1.8%
Citicorp	1,901	1.7%
Bankers Trust	1,743	1.6%
Dillon Read	1,305	1.2%
Bear Stearns	1,125	1.0%
Allen & Company	572	0.5%
Industry Totals	$108,822	97.3%

Includes asset-backed debt.
Source: IDD

Table 7

1988 convertible debt issuance

Dollars in millions

Firm	$ Amount	Market Share
Merrill Lynch	$1,005	32.0%
Morgan Stanley	626	19.9%
Drexel Burnham Lambert	547	17.4%
Kidder Peabody	300	9.5%
Edward D. Jones	150	4.8%
First Boston	150	4.8%
Montgomery Securities	100	3.2%
Robinson-Humphrey	95	3.0%
Advest	50	1.6%
Donaldson, Lufkin & Jenrette	50	1.6%
Dain Bosworth	25	0.8%
Eastlake Securities	15	0.5%
Bond Richman	7	0.2%
J.C. Bradford	6	0.2%
Fitzgerald, DeArman & Roberts	6	0.2%
Industry Totals	$3,141	99.7%

Source: IDD

Prices of companies mentioned as of 2/15/89:

Bankers Trust BT $38¼
Chase Manhattan Capital Markets CMB $31⅞
Citicorp* CCI $27⅜
J.P. Morgan JPM $36

*PaineWebber Incorporated and/or Rotan Mosle Inc., an affiliated corporation of PaineWebber Incorporated, has acted in an investment banking capacity for this company.

Brenda McCoy (212) 713-2468
Sandra Flannigan (713) 236-3349

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