

## To Our Members,

### Key Accomplishments

The past year was marked by renewed optimism, but also by new challenges to investors' trust in our industry.

### Dividend, Capital Gains Tax Cuts

### Mutual-Fund Reforms

### Credible Financial Analysis

### SEC Budget, Staff Increases

### Client Privacy Protections

### Defeat Of State Securities

### Transaction Tax Efforts

### Updated White Paper On Hybrid SRO

### Anti-Money Laundering Regulations

### Business Continuity Planning

### Improvements

### New Stock Market Game Program™

### Partnerships

### Investor Challenge

### Ninth Annual Investor Survey

### Expanded Library Of Educational Materials

### Professional Education Programs

### Diversity Survey

### Straight-Through Processing

### Reached Milestones

The economy showed remarkable strength this year, with the third quarter posting the best performance in 19 years. This growth was fueled by the enactment of significant cuts in the taxes that investors pay on capital gains and dividends, a goal that the Securities Industry Association worked hard with the White House and Congress to achieve. This measure is a significant step forward in helping all Americans to save and invest. Furthermore, it restores the "discipline of the dividend," exerting pressure on companies to adhere to rigorous corporate governance standards and accounting practices. The equity markets responded, with the Dow Jones Industrial Average and the NASDAQ Composite Index ending the year with gains for the first time in three years.

As the markets improved, so did optimism about the investment climate, reaching the highest level in four years, according to SIA's annual survey. Our success, though, in regaining the public's trust was limited. While satisfaction with financial advisers grew stronger over the past year, attitudes toward the industry remained about the same. Investors' top concerns included "accounting fraud at U.S. corporations" and "how corporations are governed."

It will take time to improve investor confidence, as each firm, executive, financial adviser, and employee undertakes a lengthy, introspective look to make sure that no stone is left unturned in addressing conflicts and unethical behavior. We must take the lead and do what we know is best for customers. We must commit the resources and sharpen our focus to ensure rigorous compliance.

This could not be more true than in addressing very troubling trading practices and insufficient disclosures by some mutual funds. We testified before Congress in support of major reforms, including a "hard close" to prevent late trading. We called for greater disclosures so that investors can more clearly understand a fund's performance and transaction fees. We worked closely with the Securities and Exchange Commission to ensure that investors' interests are well protected. And, we sought other reforms to ensure that mutual-fund investors receive the fee discounts, or breakpoints, they deserve.

Improving the quality and integrity of research was another SIA priority. We provided more disclosures on research reports and strengthened the regulatory walls insulating research departments from any potential conflicts of interest. We also encouraged the SEC to impose stringent requirements on public companies to report timely, accurate financial information.

Congress increased the SEC's budget and eliminated bureaucratic red tape so that the regulator could hire more professionals quickly at market-level salaries. SIA sought both changes and worked aggressively for their approval.

Wall Street's preparedness for emergencies was another factor influencing investor confidence. Business continuity planning involving firms, markets, utilities, and regulators strengthened the industry's ability to operate during a crisis. These efforts were tested during the largest blackout in our nation's history. Backup power supplies, extensive coordination, and well-rehearsed emergency plans enabled trading to continue seamlessly.

Investor and professional education programs were important industry initiatives, too. SIA's educational efforts were consolidated in a new foundation that is charged with raising the level of investor literacy in the United States. Our investor education Web site was renamed *Path To Investing*, and more features were added. New publications were provided online and in print, including one explaining how to protect yourself against identity theft. The Securities Industry Institute® offered more courses on ethics and corporate governance, as did other SIA programs targeted at branch managers. Our conferences and workshops helped legal and compliance executives learn about new regulations requiring implementation under tight deadlines.

Retirement reforms remained top SIA priorities. We made progress in our efforts as the House passed legislation that would improve employee access to financial advice given by the provider of the employer's retirement plan. Legislation to expedite the phase-in of increases in contribution limits on retirement and education savings programs also cleared the House. In both cases, these efforts failed in the Senate as the legislative clock ran out. SIA will press for enactment of these reforms in 2004.

Our industry is stronger than a year ago, thanks in part to the hard work that you, as volunteers and supporters of SIA's many initiatives, undertook to develop and implement reforms that are in investors' best interests. We appreciate your efforts. We can and should be proud of what we do for our customers and our country. We have the largest and deepest capital markets in the world because of strong regulations that bolster investor confidence.

There have been failings. But in the end, there have been and will continue to be significant reforms. We must embrace these changes as we work to do what is right for *all* of our clients. If we abide by the letter and the spirit of the laws, regulations, and standards that govern us, then our customers will have greater confidence in us. It is our character, honor, and integrity that will continue to make the difference.

Sincerely,

John H. Schaefer  
2003 Chairman

Marc E. Lackritz  
President





## Building Trust

Investors demanded reforms to address problems regulators detected in mutual-fund trading practices and corporate governance structures. SIA worked with the SEC, the self-regulatory organizations, and Capitol Hill to implement reforms to protect investors' interests. • Investors also sought better, more trustworthy financial information and analysis. The industry responded here, too, supporting Congress and the regulators in adopting tough laws and regulations to improve the quality and integrity of financial information provided by public companies. Broker-dealers broadened the disclosures made in their research reports and imposed more restrictions on analysts' behavior to avoid any potential for conflicts of interest. • A stronger SEC was also critical. SIA was instrumental in increasing the agency's budget and in ending the bureaucratic red tape that was slowing down the commission's hiring of much-needed staff. • Education for industry professionals and investors continued to be a priority. Through a variety of programs, such as the Securities Industry Institute and the Branch Management Leadership Institute held at the Wharton School of the University of Pennsylvania, firms' senior employees stay abreast of regulatory and industry changes. SIA's online Continuing Education Resource Center helps firms start and manage training programs. • For investors, SIA offers the newly renamed Web site *Path To Investing*, a library of investor education brochures available in print or online, and The Stock Market Game Program.

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### Mutual-Fund Investor Safeguards

SIA worked with regulators and Capitol Hill to address improper behavior involving mutual funds, including late trading, market timing, inadequate disclosures, and incorrect sales charges. Swift, comprehensive enforcement, thoughtful regulatory revisions, and legislation to fill existing "gaps" must all be part of the solution, Marc E. Lackritz, SIA's president, said in his [testimony](#) before the Senate Banking Committee.

In response to late-trading abuses, SIA supported a 4:00 p.m. Eastern time "hard close" for open-end mutual-fund purchases or redemptions, which could occur at the National Securities Clearing Corporation, the broker-dealer, or any other regulated intermediary, so long as the order recipient has a verifiable order-capture system.

Market-timing issues could be addressed by tightening rules, as the SEC proposed, governing funds' disclosure of policies and procedures; and by improving access to trade data so that funds can identify market-timing transactions. A redemption fee also would be an effective step to address these issues.

A third part of SIA's agenda is clear, timely disclosure to investors of all important information, including revenue sharing, differential compensation, any other brokerage arrangements among funds, their advisers, and broker-dealers, and all operating expenses.

SIA [backed](#) efforts on Capitol Hill, led by House Financial Services Committee Chairman Michael G. Oxley (R-OH) and Capital Markets Subcommittee Chairman

[Dividend, Capitol Gains Tax Cuts](#)

[Mutual-Fund Safeguards](#)

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[Industry's Commitment](#)

Richard H. Baker (R-LA), to enact reforms. The association worked with House leadership to pass, 418-2, the [\*\*\*Mutual Funds Integrity and Fee Transparency Act\*\*\*](#) (H.R. 2420), which directs the SEC to increase the transparency of fund fees and costs, strengthen corporate governance and management integrity of mutual funds, and establish measures to prevent fraudulent trading practices. The legislative clock ran out before the Senate could consider the measure.

SIA served as co-chair of a task force with the SEC and the NASD to address the failure of broker-dealers to pass on breakpoints, or discounts, provided for large purchases of fund shares. The resulting [\*\*recommendations\*\*](#) were assigned to working groups to implement quickly. These included better investor disclosures about breakpoints to clearing-and-settlement system enhancements that will enable firms to determine more easily their clients' eligibility for the fee discounts. To help investors learn whether they are eligible for the discounts, the SEC, SROs, the Investment Company Institute, and SIA jointly produced a [\*\*brochure\*\*](#) for distribution in account statements or through firms' Web sites. The task force is an excellent example of the close collaboration between the regulators and the industry to protect investors' interests.

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### **Credible Financial Analysis For Investors**

When serious questions were raised about the accuracy and integrity of research, the industry responded. SIA worked with the SEC and the SROs to implement quickly regulations required by the [\*\*\*Sarbanes-Oxley Act\*\*\*](#). Specifically, the law directed regulators to mandate disclosures in research reports and public appearances of "conflicts of interest that are known or should have been known by the securities analyst or broker-dealer." The resulting [\*\*regulations\*\*](#) strengthened the independence of research departments through specific restrictions on compensation policies, greater supervision, and extensive disclosures of existing or potential conflicts. In addition, [\*\*Reg. AC\*\*](#) (for analyst certification) requires analysts to certify, first, that the views expressed in their research reports are their own and, second, that they are not influenced by other relationships the broker-dealer may have with the company featured in a report.

SIA made [\*\*significant contributions\*\*](#) to ensure that the resulting rules were effective without hindering the flow and availability of useful information to clients. Through conferences and workshops, firms' legal and compliance staffs learned specifically what they needed to do to implement the new requirements. A brochure, [\*\*\*How To Read Research Reports\*\*\*](#), which was made available online and in print, educated investors about how to evaluate financial information and analysis.

Additional requirements governing analysts' behavior were imposed on those 10 firms that signed a "[\*\*global settlement\*\*](#)" with the SEC, the SROs, and state regulators. SIA expressed concerns that some of the terminology and provisions of this agreement were inconsistent with existing regulations that firms worked hard to implement. The association urged regulators not to apply the agreement's terms to the entire industry. SIA's Office of the General Counsel worked with SEC officials to address these and other concerns as the commission examined the settlement's regulatory implications.

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### **SEC Budget Increased, Staff Hiring Expedited**

SIA worked with Congress and the SEC to increase the agency's fiscal year 2003 appropriation to \$716 million, a 77-percent raise. The association also worked with Congressional leaders to enact [\*\*legislation\*\*](#) (the *Accountant, Compliance and*

*Enforcement Staffing Act*) that allowed the SEC to waive civil-service rules when hiring accountants, economists, and compliance examiners. These personnel procedures had delayed the commission's hiring decisions for several months as it worked to fill 710 new positions authorized by Congress in 2002 for fiscal years 2003 and 2004.

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### **Ready Access To Credit At Competitive Costs**

Investors have benefited from laws that enable them to open securities accounts, refinance mortgages, or apply for credit cards without compromising the security of their personal financial information. They can walk into a department store and gain approval immediately for credit, or they can apply online for a mortgage and receive tentative approval after a few clicks of a mouse.

Some members of Congress, when considering legislation to continue the national credit-reporting system, sought changes that would have impaired consumers' ready access to credit. SIA demonstrated to the legislators and their staffs the many benefits that consumers would continue to receive if the *Fair Credit Reporting Act* were to be extended. A [study](#) sponsored by the association showed that because lenders can access the information they need to offer credit confidently, costs are kept competitive and investors are adequately protected from fraud and identity theft. As Treasury Secretary John Snow [said](#) in expressing the Bush Administration's support of extending the law, "the national uniform standards of *FCRA*...expand the opportunity for every consumer to access credit and financial services – essentially they make your reputation as a borrower portable."

In December President George W. Bush signed the [Fair and Accurate Credit Transactions Act](#) (S. 1753), which provides the privacy protections SIA sought for investors while maintaining national standards permitting financial services companies to share limited information needed to approve credit requests. The new law also contains strong anti-identity-theft measures that will increase protections against this increasingly prevalent crime.

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### **Addressing Changes In 'Excess' SIPC Coverage**

The [Securities Investor Protection Corporation](#) insures investors up to \$500,000 in securities and cash (with a limit of \$100,000 on cash) when a broker-dealer fails. SIPC first would retrieve those investor assets held in accounts that are segregated from the firm's own holdings. SIPC reports that 99.7 percent of eligible investors have been made whole in the 306 failed brokerage firm cases that it has handled over the past 32 years. Assuming a recovery rate of assets in liquidation of 90 percent in a SIPC liquidation, the existing limits would be adequate for a client with \$5 million in securities (in this example, SIPC would recover at least \$4.5 million and the insurance would cover the remaining \$500,000). Firms, however, have typically provided additional coverage, called "excess SIPC," to insure their high-net-worth clients. But in the three decades that this insurance has been provided, no investor claims have been filed to use it.

When three major insurance carriers announced plans to drop their excess SIPC policies, SIA immediately took steps to ensure that this news would not harm investors' trust. The association educated its members about how SIPC coverage works, which helped firms, in turn, explain the developments to their customers. [Background information](#) prepared by SIA stressed the adequacy of basic SIPC coverage and the

general financial strength of broker-dealers. Second, SIA worked with firms to explore alternative insurance carriers. These included gaining supplemental coverage through the London insurance market and creating “captives” to serve firms’ needs. Throughout, SIA’s corporate communications department regularly updated members about developments and periodically briefed the media.

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### **Guarding Clients Against Identity Theft**

SIA published a [brochure](#) outlining how individuals can protect the information they give to obtain credit, open bank accounts, or conduct securities transactions online. This brochure helps individuals protect and, if stolen, reestablish credit. It provides basic advice on guarding personal information against use by unauthorized individuals and listing essential phone numbers to call when an identity theft occurs. SIA also endorsed the use by its member-firms of an affidavit prepared by the [Federal Trade Commission](#) for reporting identity theft. Use of this form reduces the time it takes investors to alert financial institutions.

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### **Optimism Improves As Investors Value Their Adviser’s Advice**

In 2002 investors expressed disillusionment in their [attitudes](#) towards the industry and their financial consultants. Clearly affected by the equity markets’ sharp downturn and the widely publicized allegations of corporate malfeasance, investors gave the industry the lowest ratings in the survey’s nine-year history. Two messages emerged: The public wanted specific measures taken to improve the industry’s credibility and, second, they wanted more education on how to make investment decisions. SIA did both.

After dropping sharply in 2002, attitudes toward the securities industry stabilized in 2003, with a majority of investors – 55 percent – reporting “very” or “somewhat” favorable views of the industry, according to the annual [SIA investor survey](#).

Investors continued to give high marks for the services provided by their broker/financial adviser, underscoring the value that investors say they continue to place on their industry relationships. Eighty-eight percent of investors who use brokers/financial advisers said they were pleased with the service they received, with 74 percent saying the services are “good value for the money.” When asked about specific broker-dealer qualities such as account access, responsiveness, and useful advice, investors gave higher marks for those services in 2003 than in the prior year.

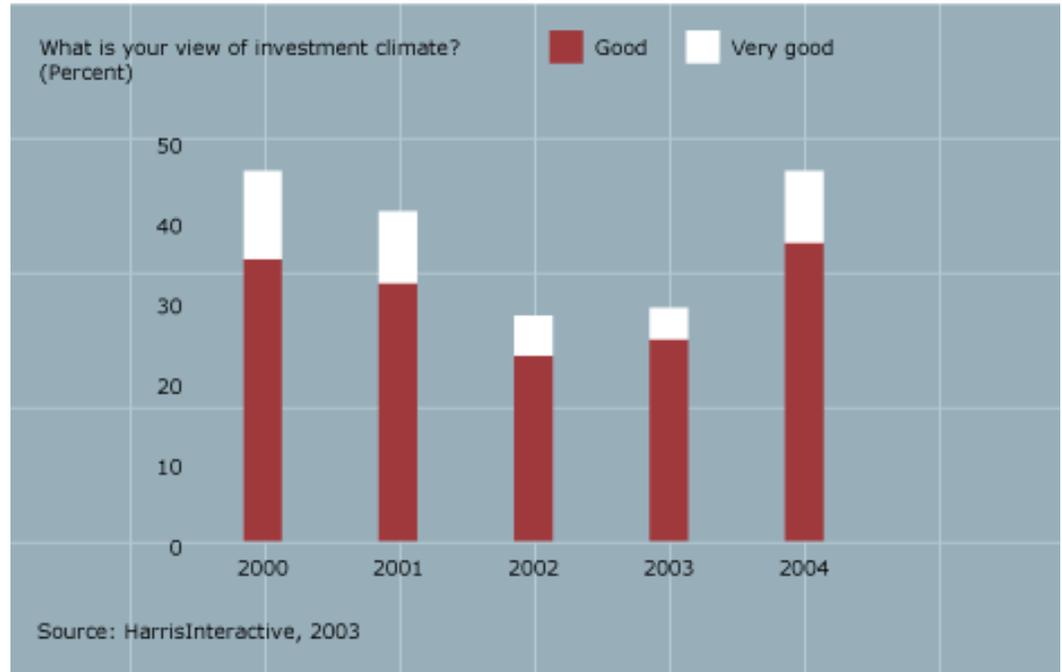
While issues of trust persisted, investors’ top concerns were “accounting fraud at U.S. corporations,” “how corporations are governed,” and “the state of the U.S. economy.” These substantially outweighed such concerns as “lack of trust in Wall Street,” “lack of trust in brokers/financial advisers in general,” and “lack of trust in your own broker/financial adviser.”

Against the backdrop of improving markets, optimism about the investment climate rose in 2003 to the highest level in four years. Forty-six percent of investors said they thought 2004 would be “good” or “very good” for investing, up from 29 percent who thought so for 2003.

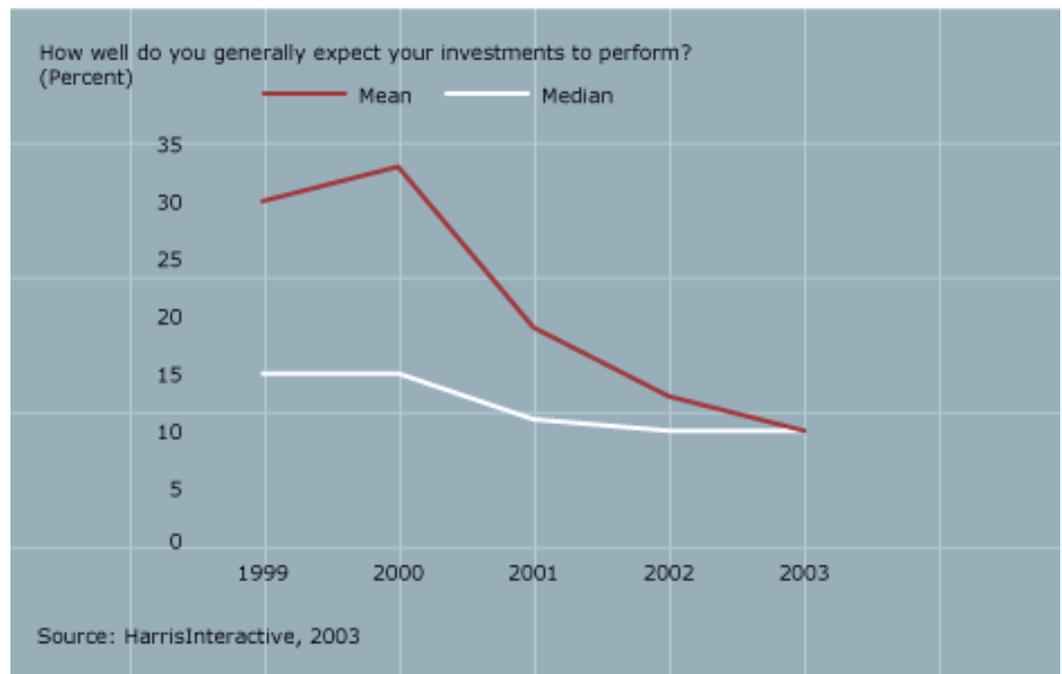
While investors continued to have high expectations for investment performance, they have grown more realistic. On average, investors expected an annual return of 10 percent in 2003, compared with a high of 33 percent in 2000.

SIA also tracks investor concerns by monitoring [complaints](#) filed with the SEC. This information is often an early warning sign that helps the industry target educational outreach efforts. After a spike occurred in complaints involving variable annuities, SIA and its member-firms worked together to ensure that this product was thoroughly explained to suitable clients. The association's weekly *Update* pointed firms to the regulators' [Web sites](#) for explanatory material. SIA's investor Web site also included [information](#) on annuities.

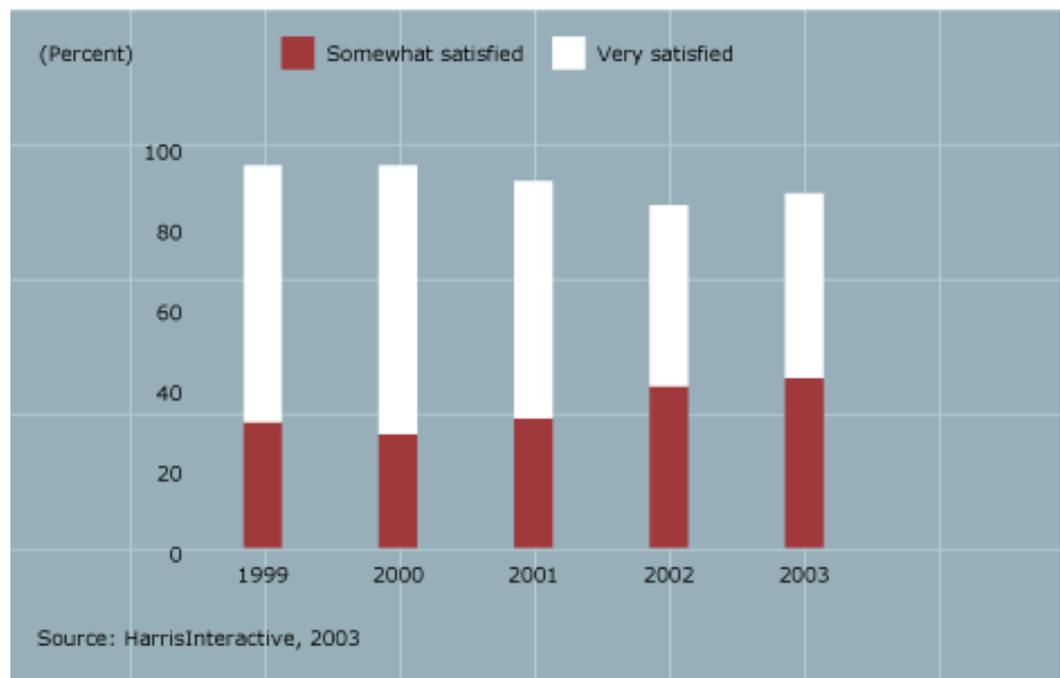
### Investors' Optimism Improves



### Performance Expectations Fall To More Realistic Levels



## Investors Value Financial Advisers' Services



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### Investor Education – An Industry Priority

More than 80 percent of the respondents to SIA's recent investor surveys think the industry should be doing more to educate the public about making good investments. In April 2002 SIA responded by launching [SIA Investor](#), an acclaimed and nationally recognized Web site designed to address personal finance topics. New in 2003 were "Topical Features," which helped visitors put the latest financial news in perspective. These included: "Can you trust the research you get from full-service brokerage firms?" and "Are you getting the discounts on mutual funds that you deserve?" SIA staff closely monitor the site, averaging more than 16,000 "hits" daily, to see which features attract the most visitors and which need to be updated. The site's name changed to [Path To Investing](#) in early 2004.

Fall 2003 saw the start of the [SIA Investor Challenge](#), which attracted many participants during its initial weeks. Based on the success of SMGP, which is administered by the Foundation for Investor Education, the challenge allows participants to apply the lessons learned from the Web site toward investing a hypothetical \$100,000. By conducting simulated securities transactions, they learn the fundamentals of savings and investing. Participants register online and within 24 hours receive a password so that they can begin "investing."

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### Teaching The Fundamentals Of Investing

[SMGP](#) participation for the 2002-2003 session increased, up five percent from 2001-2002. This growth reflected the success of several partnerships that the foundation organized with organizations as varied as the National Basketball Association, the Girl Scouts, the New York Stock Exchange, the NASDAQ Foundation, and DECA (an association of 185,000 business and marketing students). More than eight-million students nationwide have participated since the program's inception in 1977. The New York Knicks, Golden State Warriors, New York Liberty (teaming with Merrill Lynch), and Seattle Supersonics (with support from D. A. Davidson) sponsored SMGP teams in their communities. DECA, together with the NASDAQ Foundation, held a

nationwide contest in which each of the top 17 DECA teams presented their investment philosophy to a panel of judges. Three teams were singled out for distinction based on the quality of their presentations. SIA's New York District recognized a team of schoolchildren in the Bronx, New York for their portfolio's 44-percent return, achieved by using a "know the companies you invest in" philosophy. More than 200 teachers attended the NYSE's "Teach The Teacher" program thanks to the generosity of member-firms. UBS sponsored teachers in Chicago, Illinois, and Stamford, Connecticut.

### **Tomorrow's Entrepreneurs Learn Investing Basics**

One student bought shares of JetBlue Airways because her mother loves the airline's service. Another picked Johnson & Johnson because her little brother uses its baby powder. Timberland was yet another choice because the students wear the company's shoes and clothing.

"Know the companies you invest in" was the philosophy guiding these and other investment choices made by students at the Clara Barton Elementary School in the South Bronx, New York. During two sessions of SMGP, they and 500,000 other students nationwide learned the basics of investing. With a hypothetical \$100,000, teams built and managed a portfolio of stocks. In doing so, they learned about the market forces that cause companies' share prices to rise and fall. Schools tied their history, English, mathematics, and science classes to the program to broaden the learning experience. The program's Web site supported the teachers with curriculum guides, lesson plans, and online portfolio-tracking services.

The research by Clara Barton's students paid off. Their portfolio rose 44 percent from mid-September to mid-December 2002, well above the 2.3-percent gain for the Standard & Poor's 500 Stock Index. But more significant lessons were learned than just stock picking, according to the students' adviser, Essle Morris. By investigating the companies' management and business models, they saw one factor in what it takes to succeed as investors.

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### **Educating Industry Professionals**

SIA excels in providing training tailored to industry personnel at various stages of their careers.

**SII** is the cornerstone of the association's offerings, with more than 100 firms sending about 500 employees for one week in March over consecutive three years. In addition to the customary lectures by industry professionals and professors from the University of Pennsylvania's Wharton School, the 2003 program included additional courses in corporate governance and ethics.

Branch managers have their own continuing education programs – the SIA/Wharton **Branch Manager Leadership Institute** and the **Branch Manager Development Program**. These are designed to help branch managers improve their management skills and boost their office's productivity. The institute combines team exercises, interactive teaching, lectures, guest speakers, and Wharton's exceptional faculty in addressing leadership challenges and new business realities. The development program is tailored to the specific needs of the 24 attendees, including a personalized approach

with extensive follow-up after the three-day program ends. Branch managers come together in small groups for an intensive examination of their knowledge, skills, and attitudes relating to critical areas of management responsibility.

Ethical issues are also addressed in the [Professional Conduct Program](#), which uses hypothetical scenarios to generate discussion about the appropriate responses to situations where the choice between right and wrong is a gray one. Topics covered include: unauthorized trading, discretionary authorization, money laundering, churning, suitability, fair disclosure practices, “know your customer,” sexual harassment, deceptive practices, outside activities, disclosure of errors, front running, and insider information. Twelve new cases were added in 2003.

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### Media Outreach

With 13 percent of respondents to SIA’s [annual investor survey](#) citing the media as an important source of financial news and information, SIA continued its commitment to the “Day on the Street” program. More than 20 journalists from a variety of news organizations met with leading economists and senior executives in New York City in the spring. The access to decision-makers helped them develop story ideas about industry innovations and other positive developments. This was just one part of an extensive outreach program to public relations professionals at member-firms and the media nationwide. Op-ed commentary expressing the industry’s views on critical topics were placed in major publications, including one signed by former SIA N.Y. District Chair Robert Gordon, who criticized the stock transfer tax efforts in New York state.

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### Values Statement

*The statement below articulates SIA’s values for the guidance of member-firms and employees in the securities industry. Upon this foundation, SIA pledges to earn, inspire, and maintain the public’s trust and confidence in the securities industry and the U.S. capital markets.*

Recognizing their fundamental role in the continued growth and development of the capital markets, as well as their responsibility to issuers and investors, SIA member-firms uphold these values: adherence to ethical, professional standards; commitment to the best interests of clients; and, exercise of unquestioned integrity in business and personal dealings in the industry and within the firms.

SIA member-firms uphold these values through responsible management; superior products and services; thorough and ongoing professional education for employees; and, clear, consistent, and complete information for clients about products, services, and the risks and rewards associated with investing and the capital markets.

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## Helping Investors, Promoting Capital Markets

### Legislation:

[Dividend, Capitol Gains Tax Cuts](#)

[Pension Reforms](#)

[State Efforts](#)

[International](#)

### Regulation:

[Anti-Money Laundering](#)

[Market Structure](#)

[Record Retention](#)

[Home Office Requirements](#)

[Central Registration Depository](#)

SIA works closely with Congress, state lawmakers, and the regulatory agencies to ensure that laws and regulations truly serve investors and improve the transparency and efficiencies of capital markets. • The industry rallied around the efforts by the Bush Administration and Congress to cut sharply the tax rates on dividends and capital gains. • Once those cuts were enacted, the association obtained implementation guidance from the Internal Revenue Service and the Treasury Department. • With the SEC and the SROs, SIA worked to ensure that regulation is effective, efficient, and consistent nationally but that it does not have any unintended consequences that may undermine the markets, ability to raise capital. • After the Sarbanes-Oxley Act was enacted, the association filed comment letters and discussed industry concerns with the SEC and SRO staffs to ensure that the new regulations were not so burdensome and costly that client services would suffer. • SIA also stepped in when issues arose relating to compliance requirements for the anti-money laundering laws. • Efforts to address changes in market structures focused on the regulatory responsibilities and costs of SROs, access issues such as fees, and several new trading initiatives. • When the SEC raised concerns about certain fee discounts, called breakpoints, for large purchases of mutual funds, the association participated in a task force convened to address the problem. • The industry then implemented the panel's recommendations.

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### Pro-Investor, Pro-Growth Tax Reform

President Bush originally proposed a complete elimination of the double taxation on dividends. Shortly after he offered his bold plan, SIA spearheaded an effort to motivate investors and industry employees to send electronic [letters](#) to Capitol Hill in support of the proposal. More than 65,000 letters were sent, demonstrating the impact that firms have in voicing the industry's views. These letters were generated by firms' linking their Web sites to SIA's online grassroots initiatives.

SIA also partnered with the Tax Relief Coalition to leverage support for the proposal. In May, SIA held a joint fly-in to Washington, D.C., where securities industry executives joined other business leaders and the President in a rally. The group also visited their representatives on Capitol Hill, encouraging them to repeal the unfair tax burden on individual investors.

Other efforts included: SIA Chairman John Schaefer's [testimony](#) before the House Ways and Means Committee on the benefits of the proposal; SIA's board formally urging Congress to approve the President's [economic growth package](#); a [communications toolkit](#) for firms to use with clients, employees, and the media; numerous conference calls with members to discuss lobbying efforts; a letter from Chairman Schaefer to managing executives asking them to actively support the plan; and, extensive [technical work](#) with Treasury's Office of Tax Policy to flesh out implementation issues of importance to investors and firms.

SIA's economic research department published an extensive cost-benefit [analysis](#) of the plan. The dividend tax-cut proposal would eliminate perhaps the worst distortion in

our tax code, boost both growth and employment, and encourage corporate officers to focus on sustainable profitability rather than short-term price movements. SIA and member-firms also participated in White House discussions on how to generate momentum for the proposal, including a meeting with Treasury Secretary Snow.

While Congress did not fully eliminate the tax on corporate dividends, SIA's efforts resulted in an important victory – a significant reduction in the tax rates on dividends and capital gains. In late May, President Bush signed into law the \$350-billion [\*\*Jobs and Growth Tax Relief Reconciliation Act of 2003\*\*](#), the third-largest tax cut in the nation's history. The legislation slashed the top tax rate on dividend income and capital gains to 15 percent through 2008 and to five percent for taxpayers in the 10 and 15 percent brackets through 2007 and to zero in 2008. This tax relief, however, expires year-end 2008.

Since the dividend tax cuts went into effect, [\*\*S&P estimates\*\*](#) that companies in the S&P 500 Index are expected to pay a record \$160.6 billion in dividends in 2003, up from the previous record of \$147.8 billion in 2002. A total of 229 companies boosted their dividends by an average of 26 percent, with at least 14 doubling their dividends and 33 companies increasing their payout more than once. If dividend payments increase another 10 percent in 2004, [\*\*S&P estimates\*\*](#) that shareholders could earn as much as \$54.8 billion more in 2004 than they did in 2002.

Once the law was on the books, SIA went to work informing its constituency of the tax law changes, including issuing an [\*\*educational brochure\*\*](#) on how the changes could affect investors and holding conference calls with members to digest the many changes. The association also launched immediate initiatives to obtain critical regulatory guidance to facilitate implementation of the lower rates.

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### **Pension Reforms, Retirement Savings Incentives**

SIA's main retirement-savings objective in 2003: Passing the [\*\*Pension Preservation and Savings Expansion Act of 2003\*\*](#) (H.R. 1776) in the House. Initiated by Reps. Rob Portman (R-OH) and Benjamin L. Cardin (D-MD), the bill would make permanent the [\*\*retirement contribution increases\*\*](#) in the *Economic Growth and Tax Relief Reconciliation Act of 2001*, which are set to expire year-end 2010. For traditional and Roth Individual Retirement Accounts, the limit reaches \$5,000 in 2008 and remains there through 2010. For defined contribution plans (for example, 401(k) programs), the top hits \$15,000 in 2006 and stays there through 2010. Those 50 and over can make “catch-up” contributions. The Portman-Cardin proposal would make these permanent, accelerate their phase-in to 2004, and allow the limits to be indexed to inflation in \$500 increments after that. Other bill provisions would expand small-business pension coverage; raise the minimum age for IRA withdrawals to 75; enhance an employee's ability to move his or her 401(k) savings to a new employer's plan; allow for fairer pension divisions at divorce; and, strengthen women's retirement security. SIA will continue to press in 2004 for passage of this bill, which is critical to Americans' ability to plan for retirement with more certainty.

Every year investors [\*\*tell\*\*](#) the industry that it should do more to educate them about making smart investment choices. One way to do this is by improving investors' access to professional financial advice. To that end, SIA aggressively pushed for passage of the [\*\*Pension Security Act of 2003\*\*](#) (H.R. 1000), which would give employees the ability to receive financial advice about their employer-sponsored retirement account. Sponsored by Rep. John Boehner (R-OH), this legislation would also require companies to give

workers greater investment choices and periodic benefit statements. Passed in the House by a 271-157 vote in May 2003, the bill stalled in the Senate. Given that President Bush indicated that he would sign this bill if it reaches his desk, SIA will work to win Congressional passage in 2004.

SIA continued to hold discussions with the White House on other [savings proposals](#). One would create a new “retirement savings account” similar to the Roth IRA but without income limits. The other proposals would establish the “lifetime savings account” and an “employee retirement savings account.” The LSA and RSA accounts would each be funded with non-deductible contributions up to \$7,500, have no income or age limits, and require no minimum distribution. The ERSA would be similar to the 401(k) and could be funded with pre-tax or after-tax contributions. These will be SIA priorities in 2004.

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### State Efforts

**Tax Policy.** Several significant victories were achieved in 2003. SIA led the effort to quash interest in reviving the New York Stock Transfer Tax. Phased out in 1981, this tax had been imposed on the sale, transfer, or change in beneficial ownership of stock in foreign or domestic corporations. Early in the state’s budget process, labor unions and consumer groups called for re-imposition of the tax, claiming it would raise substantial revenue with little consequence to the industry in New York. SIA countered these efforts, including reaching out to the media, and the tax was not adopted in the 2004 budget.

SIA also was instrumental in enacting legislation to correct provisions in the adopted 2004 budget bills involving New York state’s tax treatment of interest expense and investment capital. The original provisions limited the deductibility of interest expense, investment capital, and dividend and royalty payments. The bill limited the state’s tax deductibility to dividend and royalty payments.

The association also helped to secure New York’s extension of *Gramm-Leach-Bliley Transitional Provisions*, which were scheduled to sunset. SIA obtained statutory language clarifying that those who filed as taxpayers under either Article 9A or Article 32 prior to the enactment of the *Financial Modernization Act* can continue to do so. Applicable tax laws recognizing the distinction were not eliminated.

In New Jersey SIA successfully preserved the Business Employment Incentive Program, which offers employers a tax credit of up to 80 percent of the income taxes paid for new jobs created in the state. Governor James E. McGreevey had sought to eliminate or reduce these incentives in the state’s budget.

The association’s efforts extended to Texas, where corporate taxpayers must annually pay the greater of the tax on apportioned income or the tax on apportioned net capital. The state’s auditors originally took the position that short-sale liabilities do not constitute debt in computing taxable net capital, and specifically claimed that they do not represent an obligation to repay a fixed sum of money. SIA convinced them otherwise and obtained statutory language clarifying that short sales are debt.

Other state proposals to tax services were aggressively opposed and stalled. To address substantial budget shortfalls, several state legislatures (including Alabama, Arkansas, and Kansas) considered taxing financial and other services. SIA argued that such a tax was unworkable and would drive business out of those states that imposed the levy. As

many as 24 states – including California and Texas – will consider taxing services in 2004.

**Privacy.** After three years of helping to defeat over-restrictive privacy legislation in California, SIA played a central role in 2003 in crafting a “reasonable, workable” financial privacy bill. Member-firms ranked the state’s privacy legislation as a top legislative priority. The industry gained an amendment to the legislation that exempted broker-dealers providing investment management, portfolio advisory or financial planning services; a much improved silo concept; more business-friendly notice and enforcement provisions; and, no private right of action. The legislation was preferable to a much-anticipated opt-in ballot initiative and to several local ordinances enacted within the state. Since the bill’s passage, federal *FCRA* legislation was enacted to preempt states from passing most legislation restricting information sharing.

In New Jersey, SIA coordinated with other financial services firms to halt a bill that would have severely limited information sharing between affiliates and non-affiliates.

**Securities.** SIA has endorsed the [\*Uniform Securities Act\*](#) and is working with the National Conference of Commissioners on Uniform State Laws and the North American Securities Administrators Association to adopt the legislation in all 50 states. In 2003 SIA supported and advanced the *USA* in Missouri and Oklahoma, the first two states to have adopted it.

In Connecticut SIA worked with the securities commissioner to stall fast-moving investment-adviser legislation that would have required advisers to take an exam administered by the banking commissioner as a condition for registration; meet continuing-education requirements; file copies of their sales literature and advertisements; notify the commissioner of any litigation that could compromise their business integrity; and, make certain disclosures to clients and prospective clients.

In California the association worked with the insurance industry to modify a variable annuities suitability bill that would have resulted in two adverse consequences: The legislation would have instituted a presumption that variable annuities are unsuitable products for seniors and, second, imposed unreasonable requirements on registered representatives to make sure that their clients understand a variable annuity product before selling it to them. The final package was much narrower in scope, dealing largely with continuing education and in-home sale requirements.

SIA scored important victories regarding securities fraud measures in several states, including Florida, New Jersey, New York, and North Carolina. In North Carolina the industry was faced with wildly popular legislation that proposed many references to punitive damages in the securities statute without referencing the limitations on punitive damages that are accorded under the general statute. SIA played a key role in reducing the punitive damages references to a single reference and then limiting such damages to three times compensatory damages or \$250,000, whichever is greater. In testimony and in meetings with state officials in Florida, SIA expressed the industry’s concerns with a bill that would have granted the attorney general enforcement authority under the securities statutes to pursue securities fraud cases. This bill was amended to address some of the industry’s concerns, but did not pass. In New York SIA commented on the attorney general’s bill amending the *Martin Act* with “select” provisions from the *USA* and made state legislators and other major business groups aware of the bill’s problems. The legislature did not enact the bill. In New Jersey SIA testified against a bill requiring firms to pay treble damages and attorney fees in securities fraud cases. The bill failed to pass.

**529 Plans.** These plans are valuable tools for families to save for their children's higher education. To encourage college savings under 529, many states have provided for preferential tax treatments for their own state plans and not for other qualified plans. By doing so, states have effectively limited an investors' investment options since a state's preferential tax treatment is a primary reason why investors choose in-state plans over non-state ones. SIA believes that this limits investors' options to choose a plan that matches their individual financial circumstance. In Maine the state's budget package included a provision that gave preferential back-end tax treatment for the state-sponsored 529 plan for tax years 2003, 2004, and 2005. SIA led the effort to get this provision repealed, thereby ensuring that all qualified 529 plans received this favorable tax treatment. Arkansas and New Hampshire likewise passed legislation giving tax parity to all qualified 529 plans.

SIA had near victories in Illinois, Missouri, and Tennessee. In Illinois tax-parity legislation for 529 plans passed both houses but the legislative session ended before final agreement could be reached. In Missouri legislation passed the Assembly but did not reach the Senate floor. In Tennessee interpretive guidance issued by the Department of Revenue indicates that earnings acquired under non-state sponsored 529 plans are subject to state income tax. SIA led an effort to make earnings on all 529 plans non-taxable. This legislation passed the Senate unanimously but was stalled in the House after the revenue commissioner objected.

**Telemarketing.** The national Do-Not-Call Registry of the Federal Trade Commission and the Federal Communications Commission undoubtedly will have significant implementation and compliance costs. SIA was involved in the FCC rulemaking process, arguing successfully for an "existing business relationship" exemption and key safe harbor provisions. SIA's state government affairs department will continue to work in 2004 with the NASD, NYSE, and the Municipal Securities Rulemaking Board on their respective telemarketing sales rules (which the SEC has required to be consistent with the federal rules).

SIA opposed several bills in New Jersey and North Carolina that attempted to prohibit telemarketing calls into the states when the calls originated from a call center outside the United States. Many firms either have or are in the process of establishing call centers abroad. Legislation on this issue was not enacted in 2003 but SIA expects the issue to reappear next year.

**Insurance.** SIA took an important first step in advancing an industry initiative to allow broker-dealers to serve in a custodial capacity for insurance assets. At its fall conference, the Financial Condition "E" Committee of the National Association of Insurance Commissioners adopted the NAIC Custodial Assets Working Group Report that supports SIA's position.

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### **International**

SIA pursued many initiatives to ensure that firms can continue to offer services and advice to individual investors and companies worldwide. The association sought to open up trade between the United States and two trading partners, Singapore and Chile. SIA continued to advise European Union member-states on pending regulations for a future common European market. The association also strongly supported the Administration's "financial markets dialogue" with the EU on problems impeding the expansion of

transatlantic opportunities for investors.

**Free Trade Agreements.** When Congress held hearings on trade liberalization with Chile and Singapore, SIA President Lackritz [testified](#) before a House subcommittee, informing the legislators that, “We believe the U.S. securities industry can add capital, best practices, cutting-edge technology, innovative products and services, consumer choice, and lower prices.” In June 2003 the United States and Chile signed a [free trade agreement](#) that provides new opportunities for U.S. investors and firms. This agreement contains ground-breaking commitments on regulatory transparency. More than 85 percent of trade between the countries will become tariff-free immediately, and most remaining tariffs will be eliminated within four years.

A [U.S.-Singapore agreement](#), signed in May 2003 by the countries’ respective leaders, allows securities firms to offer their products and services through a local office or firm, and also provides for greater transparency commitments. As predicted in a [letter](#) to Singapore’s prime minister, this FTA will strengthen protections for cross-border investments between the two countries.

**European Union.** SIA continues to work with the White House and the European Commission to encourage their participation in a dialogue on financial services issues, established at the U.S.-EU summit in May 2002. The association supports the dialogue, which created a mechanism for both sides to examine conflicts and resolve differences impeding the expansion of opportunities for investors on both sides of the Atlantic.

The most important EU goal is the [Financial Services Action Plan](#) – a single, transparent, liquid European capital market by 2005. The FSAP is in the best interests of the EU, the United States, and the global economy. It is also critical to securities firms’ ability to further penetrate EU markets.

To that end, SIA [summarized](#) concerns related to key EU directives that could impede FSAP’s goal of creating a harmonized and efficient European capital market. In a [letter](#), SIA argued that Article 25 of the Investment Services Directive would concentrate retail trades on regulated markets. This would restrict investor choice and reduce competition and liquidity by adversely affecting the quality of trade executions and the liquidity in wholesale markets, and expose broker-dealers to increased credit risk. The association also remains concerned with the [Transparency Of Obligations Directive](#). As currently drafted, the proposal would require non-EU issuers of securities listed on an EU exchange to produce reports prepared under the International Accounting Standards Board. This would be onerous for U.S. firms and may drive them away from EU capital markets. SIA sent a [letter](#) to the EU Parliament and will continue working to amend this provision.

**Basel II Regulatory Capital Proposal.** The U.S. banking regulators published their proposed new Basel Capital Accord in the form of an [advanced notice of proposed rulemaking](#). Four large securities firms represented on SIA’s Risk Management Committee undertook a detailed study of the impact of the ANPR on their operations. Their [comment letter](#) to the Federal Reserve Board highlighted a number of problems with the ANPR. In particular, the letter identified problems with securities financing transactions; the treatment of over-the-counter derivatives; and, the substantive differences in the charges for similar assets depending upon whether they are carried in the trading book or the banking book. SIA has continued a dialogue with the Federal

**Sovereign-Debt Restructuring.** SIA and other private-sector organizations submitted to G-7 finance ministers and central bankers their [integrated approach](#) to crisis management when doing business in emerging markets. The proposals include suggestions for enhancing debtor-creditor relations; the mitigation and resolution of crises in emerging markets; and, a code of conduct. These ideas, which are part of a continuing effort, have contributed to substantial progress on promotion of financing FOR international development. SIA and other business representatives also reaffirmed the private sector's continued [commitment](#) in a presentation before the united nations, and urged the public sector to remain steadfast in implementing last year's Monterrey Consensus (that included the agreement that a market-based approach to strengthening crisis management holds the only promise for success in sovereign-debt restructuring).

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### **Protecting The Nation's Economy From Money Laundering**

The industry has long been strongly supportive of efforts to combat money laundering, and broker-dealers have been subject to federal laws that impose extensive reporting and record-keeping requirements. The [U.S.A. PATRIOT Act](#), passed in the response to September 11 terrorist attacks, included additional provisions that financial services firms had to implement under tight deadlines.

[SIA](#) worked directly with regulators to fashion workable regulations. The additional requirements included "policies and procedures" programs, suspicious account-activity reports to federal officials, more elaborate customer-identification standards, and special due diligence for certain foreign accounts. The goal was to ensure that the regulations were effective at deterring money laundering without imposing undue burdens that would constrain the ability of firms to serve clients.

SIA made three primary [recommendations](#) to the regulators. First, it suggested that broker-dealers and other financial institutions should be allowed to rely on intermediaries to conduct certain anti-money laundering functions. This would avoid the inefficient allocation of resources. Second, SIA called for improvements in the information flow among regulators, law enforcement, and the industry, and suggested a process whereby the regulators would provide greater guidance to the industry on *PATRIOT Act* interpretive issues and offer more comprehensive information to help detect suspicious activity. Third, the association encouraged greater coordination among domestic and international regulators to avoid duplicative efforts and to harmonize the regulations.

Finalizing the broker-dealer [requirements](#) for customer identification programs was a key accomplishment this year. Taking effect on October 1, 2003, the final rule imposes three obligations: verify the identity of any person seeking to open an account; maintain records of the information used to verify the person's identity; and, determine whether the person appears on any lists of known or suspected terrorists or terrorist organizations. As with other *PATRIOT Act* provisions, SIA acted as a central resource for its member-firms to educate and advise them on compliance.

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### **Market Structure Issues**

SIA devoted considerable effort to critical market structure issues, guided by the view

that if the U.S. capital markets are to remain preeminent in the world, they must be allowed to maximize technological advantages and adapt to investors' ever-evolving demands for transaction services. SEC Chairman William H. Donaldson **committed** his agency to a comprehensive review of U.S. equity markets that will address four major issues: the definition of an exchange; the self-regulatory model for market supervision; access to markets; and, the proper regulatory framework for market data.

The industry supported Donaldson's commitment to address these concerns. To ensure that the markets remain fair and efficient, and to foster public trust and confidence, SIA **reaffirmed** its support of the core principles of the national market system. These are: transparency of information regarding quotes and trades; economically efficient execution of securities transactions; ease of obtaining best execution; fair competition among markets and intermediaries; and, the opportunity, consistent with the other goals, for investor orders to be executed without dealer participation. SIA President Marc Lackritz **testified** before the House Capital Markets Subcommittee about the industry's views on these issues.

In **testimony** before the House Subcommittee on Capital Markets, Insurance, and Government-Sponsored Entities, Lackritz suggested that the industry's self-regulation has worked well but "can only survive if the public maintains its trust that the system works properly." Lackritz stressed the importance of the self-regulatory organizations, the challenges facing them, and significant points to consider as regulators and others ponder the future of SROs. Lackritz noted different approaches to self-regulation as identified in the association's **white paper**, which looks at the SROs' dual role as a marketplace and a regulator. The white paper examines the existing self-regulatory structure, possible alternatives to the system, and describes guiding principles that should be considered in any attempt to change the regulatory regime. For each alternative described in the white paper, SIA examines whether that concept is technically and practically feasible and if investors would benefit from its implementation.

### **Record Retention – Balancing Regulatory Needs And Technological Capabilities**

By law broker-dealers must keep many records. Electronic storage requirements, and in particular, rules regarding the retention of emails, have caused considerable confusion in the securities industry because the rules are unclear. This problem is further complicated by the SEC's mandate of a specific electronic-storage technology that does not allow for the prompt and efficient archiving of internal emails. The industry has worked proactively with regulators to resolve these issues and ensure that investors are protected. In responding to SEC **guidance**, SIA **called** for a standards-based rule on electronic record retention that does not specify technologies.

### **Home Office Requirements**

In a **letter** on an NYSE-proposed amendment, SIA opposed a registration requirement for a home office if an employee works from his/her home for more than 50 days a year. This proposal would subject a home to the same registration, inspection, and regulatory requirements as branch offices. Instead, office function should be the deciding factor in determining what constitutes a "branch office."

### **Central Registration Depository Revisions**

SIA worked with the NASD on substantially modifying the proposed Public Disclosure Initiative, which would provide the public with additional information about registered representatives. The association expressed its concerns that the proposal is inaccurate, irrelevant, and misleading and remained committed to work with the regulator on a prototype of the new system.

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## Supporting Members

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SIA offers a broad range of unique educational programs to help industry professionals remain current with changes in regulations, policies, market structures, and business models. • SII continues to be the centerpiece of the association's efforts. Industry executives spend one week each spring over three consecutive years learning about management, public policy, regulatory developments, business trends, finance, and ethical approaches to decision-making. • Two other programs focus on the special training needs for managing brokerage offices. Over three days, managers learn how to set goals, develop business plans, and both coach and counsel their staffs. • The Professional Conduct and Institutional Ethics programs present real-life scenarios to teach participants how to identify, analyze, and resolve ethical conflicts. • Three Critical Issues Conferences addressed the headline-making issues of the year, including *Sarbanes-Oxley*, anti-money laundering, research analyst objectivity, and ethics. • Roundtables provide a more informal approach to training. These are targeted at specific professionals, such as public relations and advertising executives or legal and compliance attorneys. During these sessions, as many as 30 executives from across the country participate, sharing their experiences and learning from one another. • SIA continued to play a critical, unique role as a manager of industrywide initiatives. In 2003, the association focused on business continuity planning and straight-through processing. "Best practices" were developed for internal business continuity plans. • Firms continued to benefit, too, from a variety of SIA services that lowered overhead, provided industrywide data, and enhanced the performance of industry professionals. These included: a guide for finding the best-qualified employees; an online industry job bank; a study of minority employment as part of the industry's diversity initiative; numerous industry surveys, including two on compensation; and, more than 20 conferences covering such topics as the global settlement, research, and retirement savings.

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### **Straight-Through Processing**

Financial services firms believe that automating the trade process from execution to confirmation and settlement is not only cost effective, but also will result in improved service, elimination of redundant processes, better information flow, reduced risk, and a more efficient query resolution process.

SIA and GartnerG2 conducted a [survey](#) assessing the status of STP efforts at firms, specifically the progress that has been made and the benefits that may be realized. Overall, firms said that they expect the move to STP will reduce the cost of doing business by 33 percent, while providing for a more efficient process. Survey results highlighted the fact that STP projects remain on schedule. The survey also revealed that work continued towards achieving project deliverables including: the Automated (stock loan) Recalls Management System, the automation of corporate action processes, the Depository Trust and Clearing Corporation's centralized hub efforts, and street-side processing improvements.

SIA's efforts in achieving [STP](#) realized significant progress during 2003 in several

areas, including institutional trade processing and matching utility user requirements (establish baseline expectations for U.S. matching providers). A [“code of practice”](#) was created to outline the benefits of matched affirmed confirmations and conformance guidelines. ARMS went “live” in 2003, automating a former manually intensive telephone and fax process for securities lending recalls. Corporate actions saw gains made with the development of liability notification hub business requirements, and the standardization of data for corporate actions announcements (i.e., stock splits, voting materials, etc). Work on the phase-out of physical certificates (dematerialization) continued with the development of a [“how to”](#) guide for industry professionals, and a [“toolkit”](#) to educate retail clients on the benefits of “going paperless.” In addition, an industry cost analysis of processing physical certificates was completed.

Looking forward, SIA has undertaken an overall project assessment and identified several areas of focus for 2004, building on the momentum of 2003 accomplishments. These include: central matching for institutional trades; the automation of corporate actions announcements and liability notices; the dematerialization of physical certificates; continuing educational campaign on the use of the Automated Clearing House for payments; and, the adoption of industry standards.

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### **Diversity Efforts**

The industry is deeply committed to a diverse workforce. To encourage innovation in the policies and programs that firms use to attract and retain minority employees, SIA awarded its second annual [Diversity Leadership Award](#) to Quick & Reilly, the brokerage arm of FleetBoston Financial. This award honors one firm's commitment to building a strong diversity initiative that is implemented proactively. It also showcases the depth and variety of diversity programs within the securities industry, helping firms to learn from the successful experiences of others.

The Diversity Committee continued to help firms build programs to develop multicultural workforces. The [benchmark survey](#), which helps track industry employment of minorities and women, was a significant accomplishment in 2003. It showed that the percentage of women and minorities in key securities-industry management positions is increasing, but especially in large firms, as efforts to diversify workforces expand.

More firms are committed to developing a more inclusive workforce. They are increasing their efforts not only to recruit women and minority employees, but also to advance and retain them.

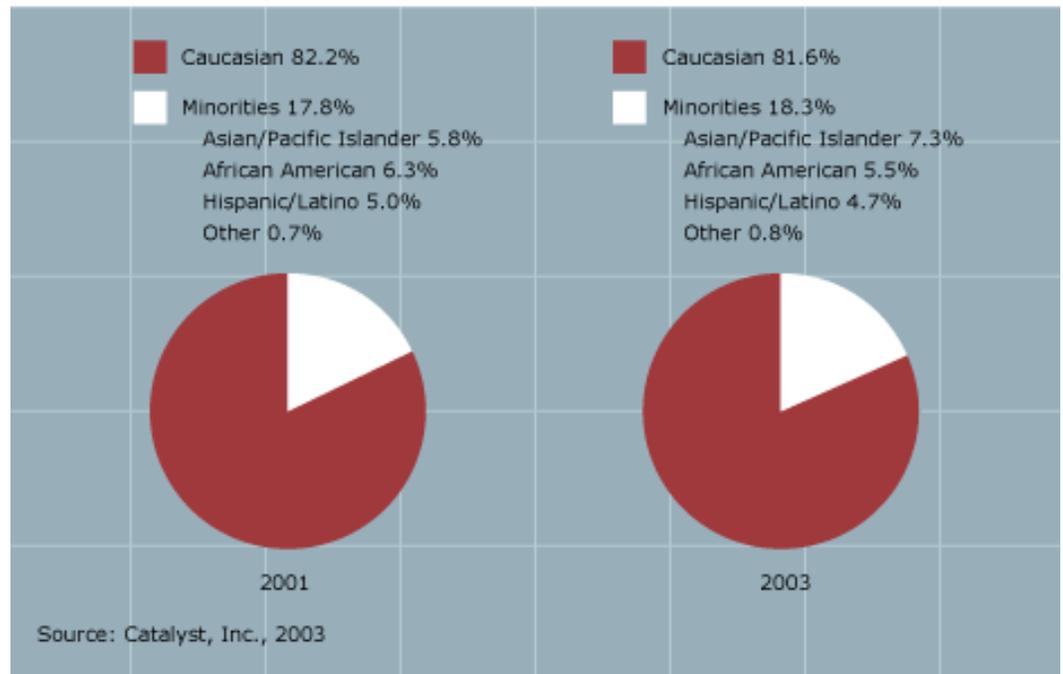
Large firms (8,000 or more employees) reported significant increases in the representation of women and minorities in key management and line positions, according SIA's third biennial survey. Twenty-seven percent of those employees categorized as “executive management” are either women or minorities, as compared with 20 percent in 2001. Representation among branch office managers remained consistent at 15 percent; among managing directors, it increased slightly from 17 to 20 percent.

Thirty-three percent of the investment bankers in large firms were either women or minorities, a nine-percent increase from 2001. Twenty-seven percent of traders at the large firms participating in the survey were either women or minorities, compared with 23 percent in 2001. These two groups accounted for 22 percent of the brokers at the large firms (20 percent in 2001).

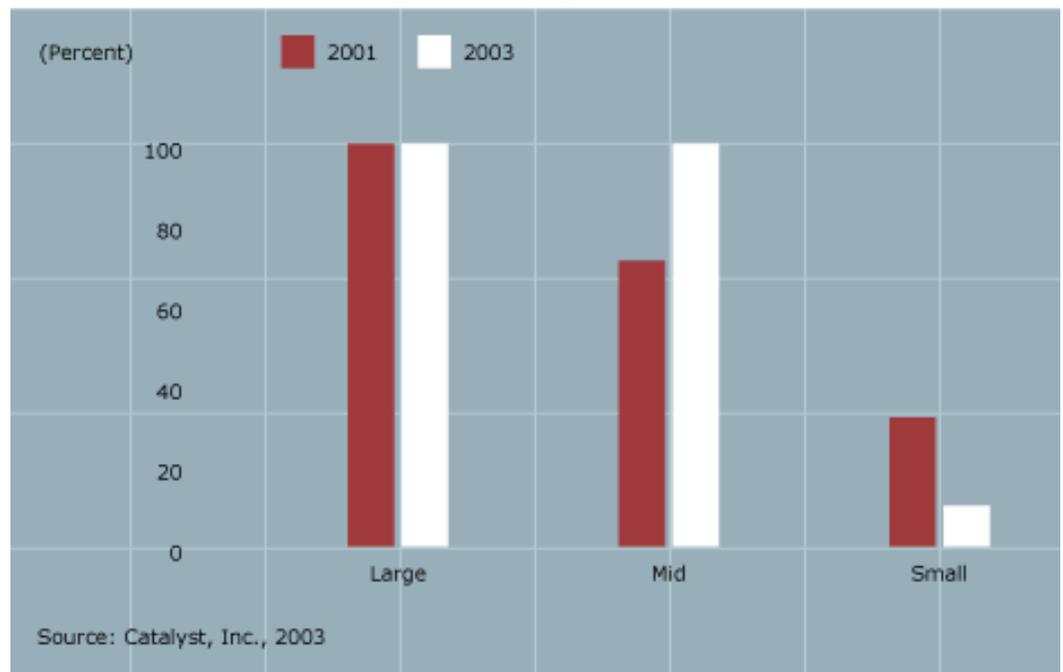
As in 2001 all of the large firms had diversity initiatives in place in 2003, with some firms noting that they plan to add and expand activities worldwide. All of the large firms have diversity training included in their employee orientation programs, as compared with 89 percent in 2001. And 92 percent of the large firms responding had formal mentoring programs in place, up from 78 percent in 2001.

This year the committee improved SIA's Web content by providing more information on how firms can design and implement effective recruitment and cultural awareness programs. The [HR/Diversity Tools](#) section offers guidance on strategic hiring and performance management. Links to other online resources and an events calendar are also available. Through conference calls and meetings, human resources managers and diversity-training specialists can share experiences and suggestions that help strengthen their own firms' initiatives.

### Securities Industry Workforce Profile Shifts From 2001 To 2003



### More Mid-Size Firms Adopt Diversity Initiatives



## Performance Management Guide

This new guide is an important addition to the [Human Resources Toolkit](#), which builds upon the comprehensive [Handbook For Strategic Hiring](#). The publication provides performance management tools that bring the concepts of competency building, goal setting, and achievement together with the concepts of competency language and position descriptions. Manager and employee versions are available. The handbook is a multimedia guide for finding the most qualified candidates. The publication identifies core competencies that prospective employees should have: personal resilience; critical thinking; productivity; team skills; and, technical capabilities. It also includes in-depth descriptions of 12 jobs and lists key interview questions to assess candidates.

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## Career Resource Center

The [center](#) provides information to those interested in career opportunities in the industry—whether they are high school or college students, recent graduates, or those interested in a mid-career change. In-depth job descriptions, skill and education requirements, internship opportunities, and a [Job Bank](#) are available online. The Job Bank posts employment opportunities within the United States and its territories. Personnel managers list job openings at a minimal cost while the public can search for positions. With more than 130,000 visitors monthly to SIA's Web site, the Job Bank is an effective way for firms to advertise openings to target audiences.

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## Forums For Independent, Small Firms

Two committees specifically for independent and small firms address the particular needs of these segments of the securities industry. Both meet frequently with the regulators on the operations and challenges of these firms. Conference calls alert firms to regulatory developments and other news. The Independent Firms Committee took the lead role in developing questions that formed the basis of the NASD's ["Frequently Asked Questions on Mutual-Fund Breakpoints."](#) Both committees contributed to SIA's comments on NASD's proposal to require firms to register the primary residences of associated persons as branch offices if they work from home 50 or more days a year. The association argued that this proposal would impose substantial costs and logistical difficulties. There are more issues impacting independents and small firms today than ever before, and the committees are working hard to address these. They include: defending the classification of workers as independent contractors; surprise inspections; chief executive and compliance officers' certifications; heightened supervision requirements; and, variable annuities.

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## Industry Surveys

Each year the association conducts numerous surveys on topics such as operations, employee compensation, broker production and earnings, institutional business activity, retail client fees, and employee benefits. Firms typically use the data to benchmark their company's performance against comparable firms and the entire industry. One such survey, [The 2002 Report On Production And Earnings Of RRs](#), showed that average gross commissions and fees and average RR earnings continued to decline from 2001 to 2002, although the rate of decline was somewhat less than the decline experienced from 2000 to 2001. The report also showed that financial advisers were

very experienced, averaging 12.1 years in the industry and 8.7 years with their current firm. The survey results are based on responses from 35 member-firms, which collectively employed more than 51,000 RRs and reported almost \$18 billion in gross production during 2002.

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### **Conferences, Exhibits, Roundtables, Research Exchange**

SIA held more than 20 conferences, bringing together industry professionals, regulators, government officials, and vendors to focus on key industry issues. The programs – focusing on such topics as anti-money laundering, straight-through processing, retirement and savings, small firms, technology, and operations – demonstrated SIA's value in keeping the industry abreast of rapidly changing trends, regulations, and laws. New conferences in 2003 included:

**529 Plans Conference.** This one-day conference, held in January, focused on the marketing, operational, and regulatory aspects of 529 plans that are critical to participating effectively in this growing market.

**Critical Issues Conference.** Sessions were held in three cities to discuss the industry's most significant issues – the anti-money laundering provisions in the *U.S.A. PATRIOT Act*, regulations resulting from the landmark *Sarbanes-Oxley Act*, business ethics, market structure, and research analysts' issues.

**The Research Conference.** This intense one-day conference helped senior research analysts, directors of research, and legal and compliance officials master the broad array of difficult implementation issues following approval of regulations governing the behavior of research departments.

### **SIA/Arnold & Porter Webcast On The Impact Of The “Global” Settlement On**

**Broker-Dealer Research.** The two-hour interactive Webcast, in partnership with the law firm of Arnold & Porter, featured a panel of senior lawyers from inside and outside the industry to discuss the requirements contained in the settlement agreement and the implications to broker-dealers.

**Roundtables.** SIA holds more than 20 roundtables annually. As many as 30 executives with similar job responsibilities meet to discuss common challenges, share views on work-related topics, and gain counsel from their peers on projects they are developing within their own firms. Roundtable members set the agenda and lead the discussions. At the CEO Roundtables for small broker-dealers, the agendas included recruiting and retention, regulatory challenges facing small firms, clearing services, cost-cutting measures, and revenue-generating ideas.

**Regional Research Exchange.** This informal coalition of regional firms provides members with access to a larger and more diverse pool of research than the firms would otherwise obtain. Each month, firms circulate monthly statistical reports to other exchange members.

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## **Joint Purchasing Deals, Discounts, Incentives**

SIA offers firms opportunities to save on telecommunications plans, shipping services, rental cars, and travel. These programs include:

**Verizon.** SIA members receive competitive pricing, terms, and conditions through a new discount program with Verizon, which is SIA's preferred provider. Savings opportunities cover domestic and international long-distance voice and data services and both business continuity and disaster recovery services. This augments other discount telecommunications services, which are also offered by Verizon. The cost benefits to SIA members are projected to approach \$100 million annually by 2006.

**Rental Car Services.** SIA provides discounts on cars rented from Avis, Budget, and Hertz for business and leisure travel. Available to firms' employees and their families, rental-car discounts are available by using the free SIA discount card. In addition, Avis and Budget allow members to reserve automobiles online and enjoy the SIA discount.

**Airline Ticket Discounts.** SIA continued offering firms' employees discount airfares on American and Delta Airlines flights when traveling to and from SIA conferences. Discounts apply to the lowest round-trip fare (first class or coach) when passengers meet all tariff rules and restrictions.

**Shipping Services.** Through an agreement with Airborne Express, SIA offers firms low-cost, high-quality delivery services to virtually any destination in the United States and more than 200 countries. The agreement also gives firms free pickup service from most locations every day and offers Sky Courier service for same-day deliveries.

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**Markets**

**Share Volume**

Performance

**Industry**

Income, Expenses

Profits, ROE

Debt, Equity Underwriting

**International Activity**

Gross Transactions

Net Transactions

Largest Owners

**Equity Ownership**

1992, 2002 Comparison

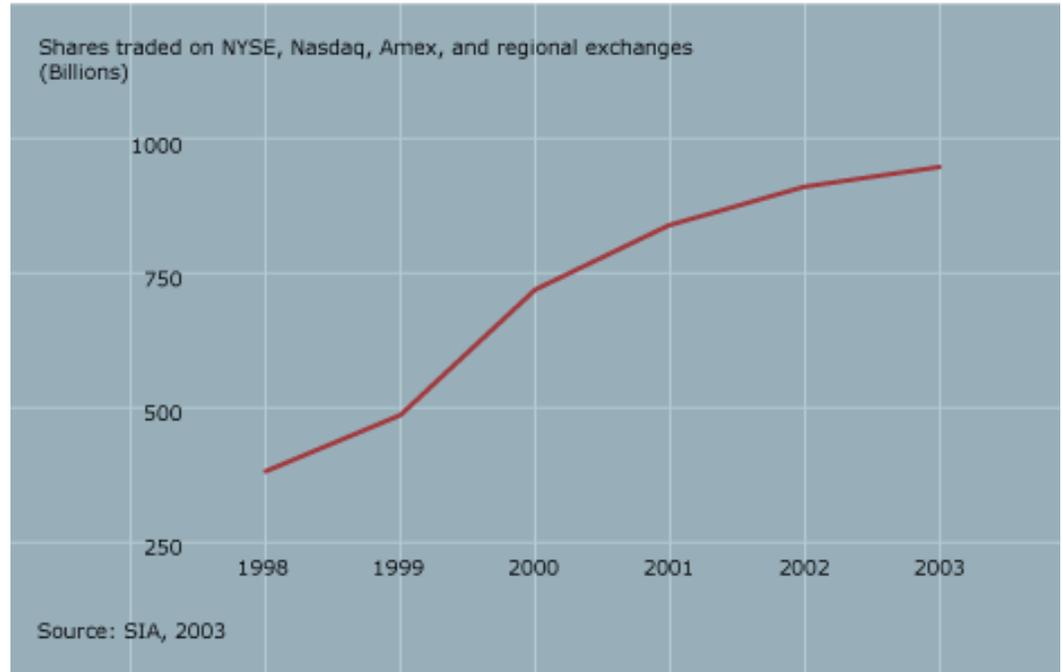
Trend, 1983-2002

Methods

Experience, Assets

Demographic Profile

## Share Volume Hits Record



## Markets

[Share Volume](#)

**[Performance](#)**

## Industry

[Income, Expenses](#)

[Profits, ROE](#)

[Debt, Equity Underwriting](#)

## International Activity

[Gross Transactions](#)

[Net Transactions](#)

[Largest Owners](#)

## Equity Ownership

[1992, 2002 Comparison](#)

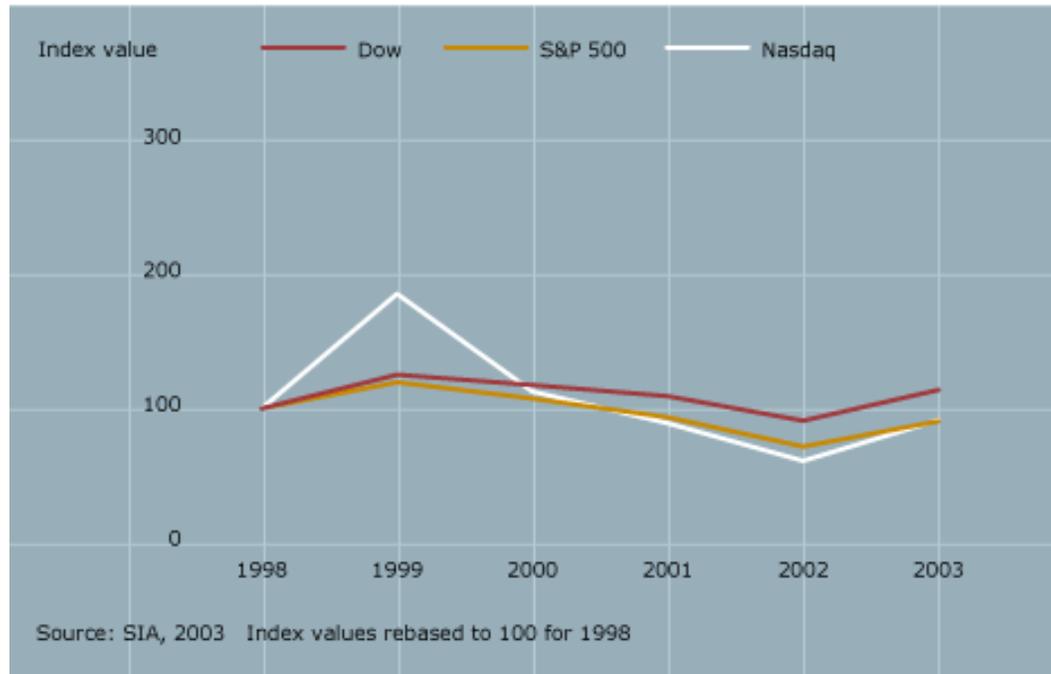
[Trend, 1983-2002](#)

[Methods](#)

[Experience, Assets](#)

[Demographic Profile](#)

## Stock Market Performance Improves



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**Markets**

[Share Volume](#)

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**Industry**

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**International Activity**

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**Equity Ownership**

[1992, 2002 Comparison](#)

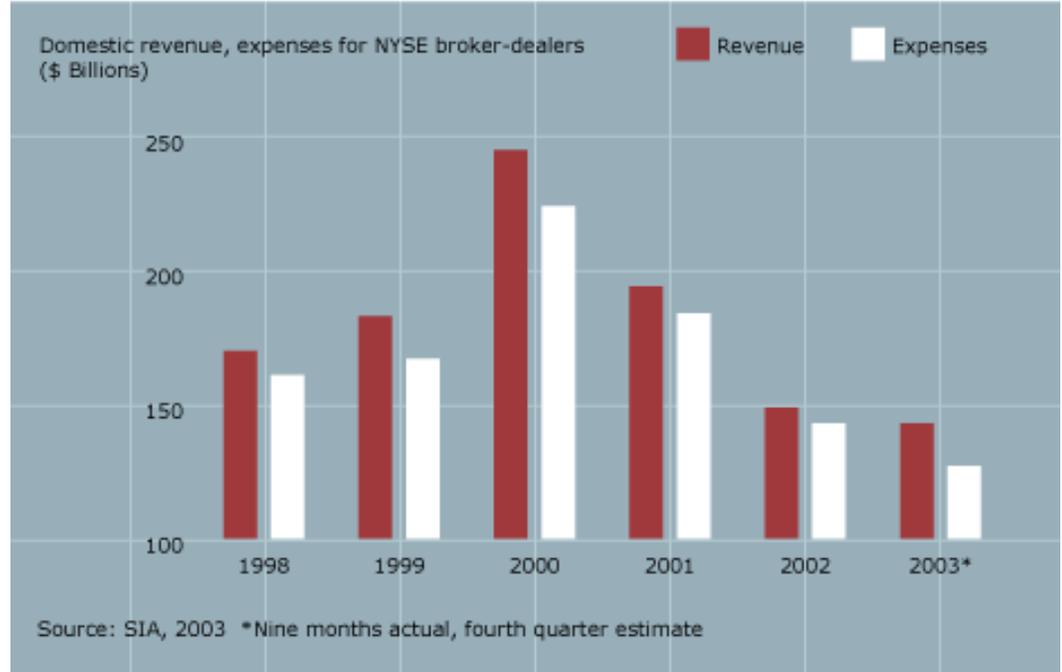
[Trend, 1983-2002](#)

[Methods](#)

[Experience, Assets](#)

[Demographic Profile](#)

## Firms' Revenues Rebound Amid Cost-Cutting

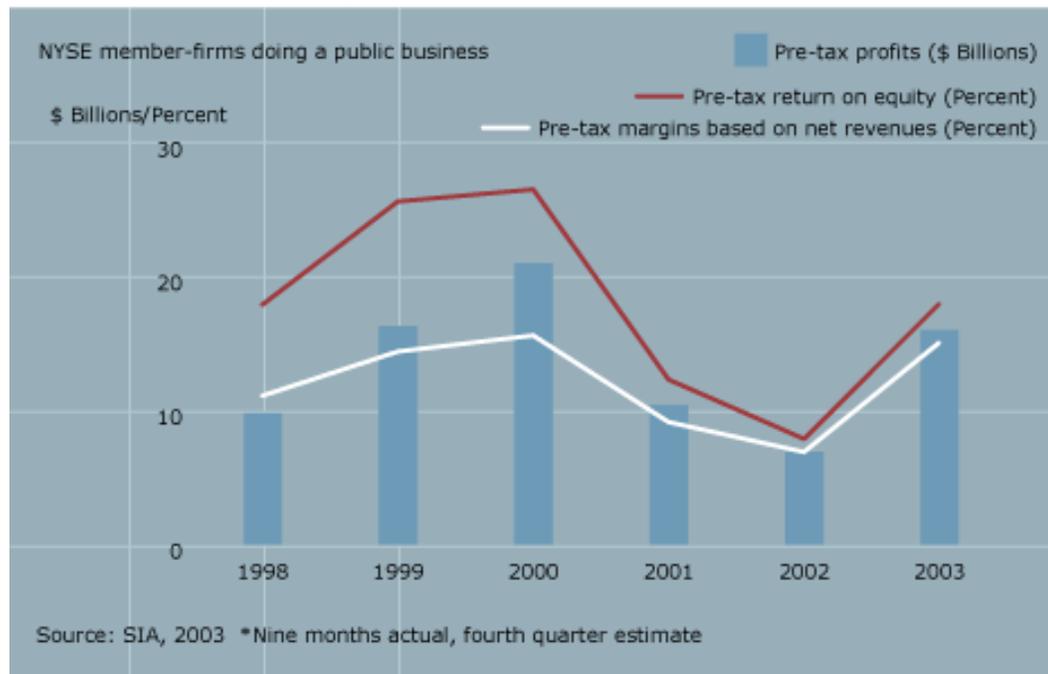


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- Markets**
- [Share Volume](#)
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- Equity Ownership**
- [1992, 2002 Comparison](#)
- [Trend, 1983-2002](#)
- [Methods](#)
- [Experience, Assets](#)
- [Demographic Profile](#)

## Profits, Returns On Equity Rise After Three-Year Bear Market Ends



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## Debt Underwriting Sets Record As Equity Activity Picks Up



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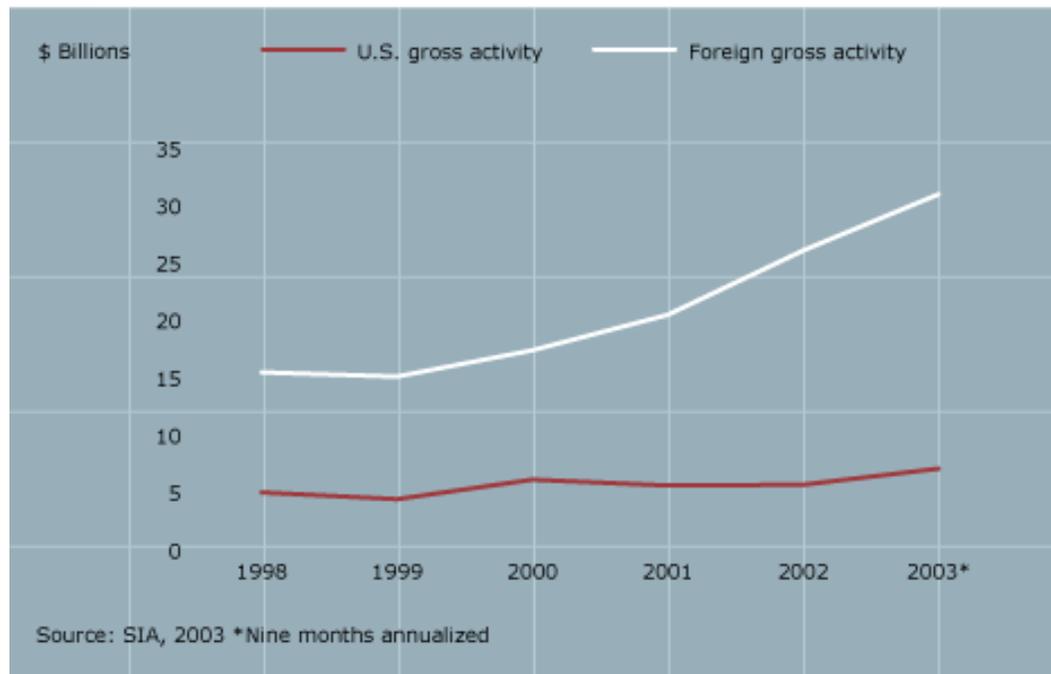
**Markets**  
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## Foreign Gross Transactions In U.S. Securities Set Record



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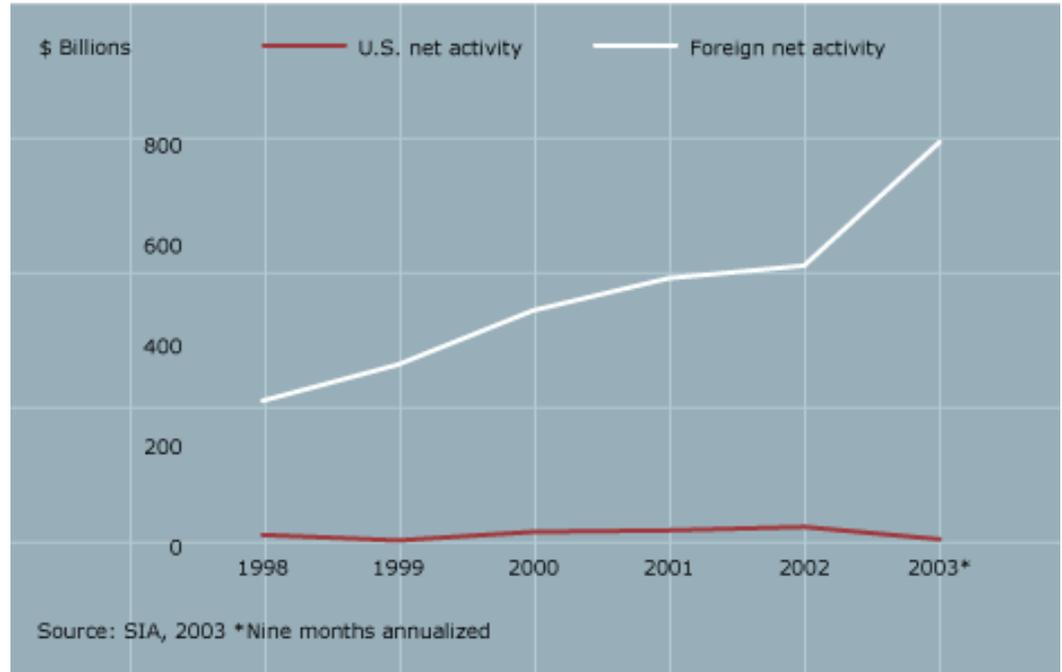
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## U.S. Investors Become Net Sellers Of Foreign Securities

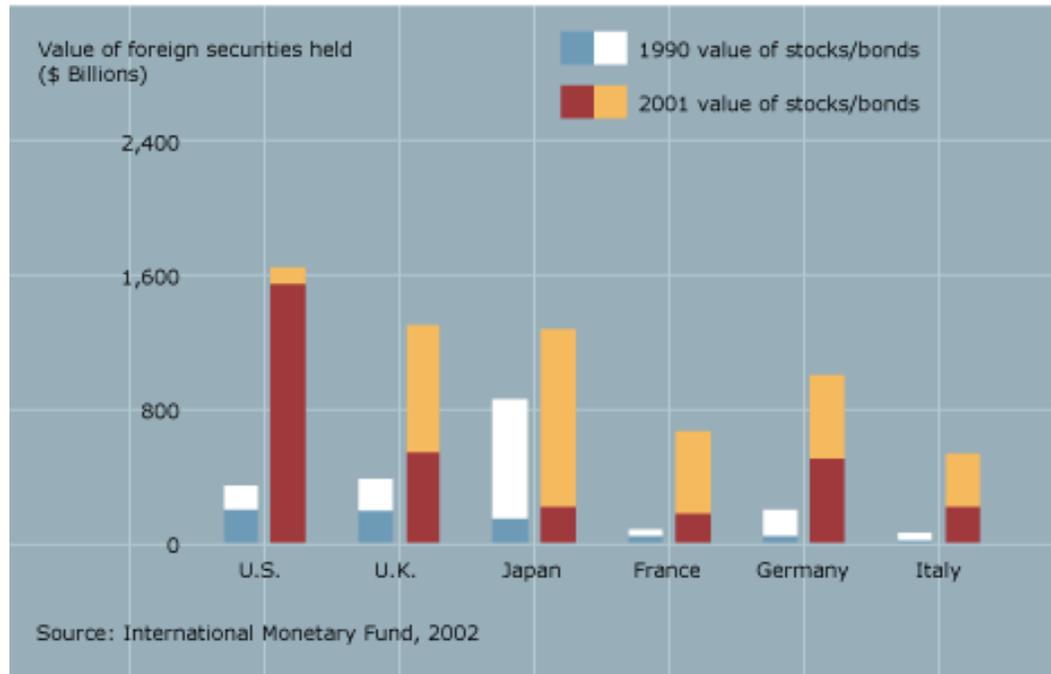


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## U.S. Investors Hold Largest Amounts Of Foreign Securities



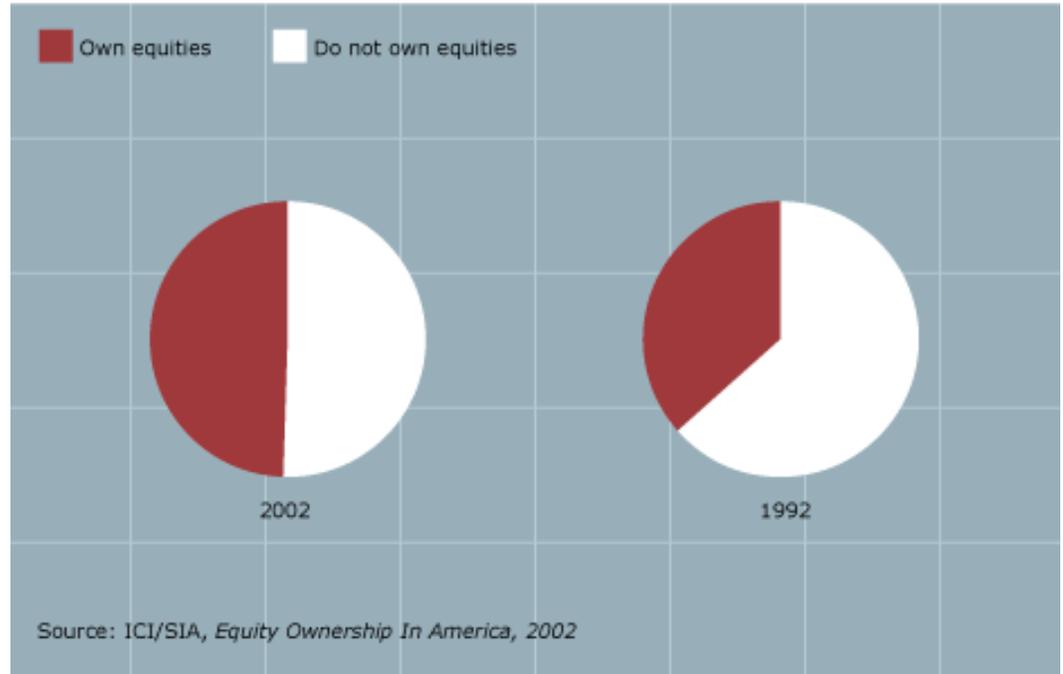
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## Nearly Half Of U.S. Households Own Equities, A 35-Percent Gain From 1992



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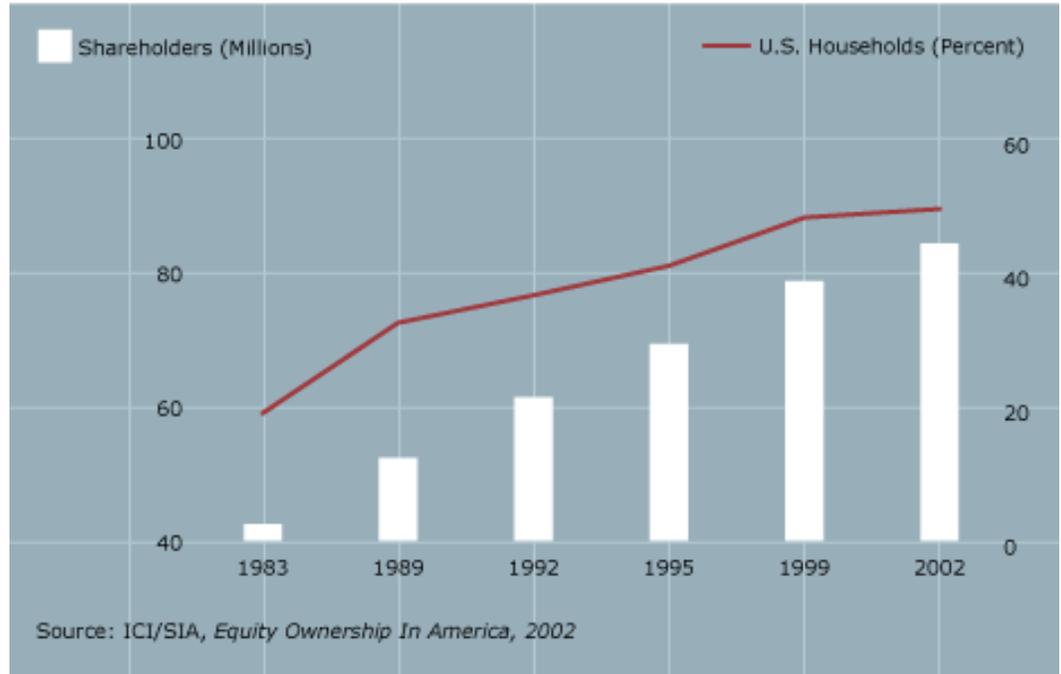
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## Equity Ownership Rises Steadily, 1983-2002

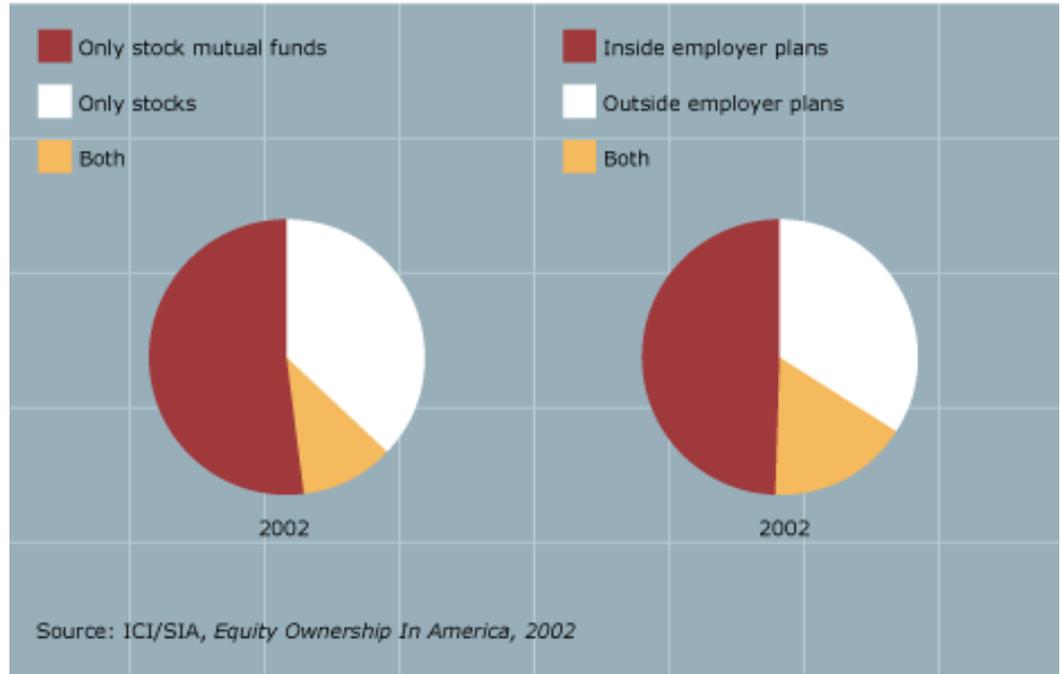


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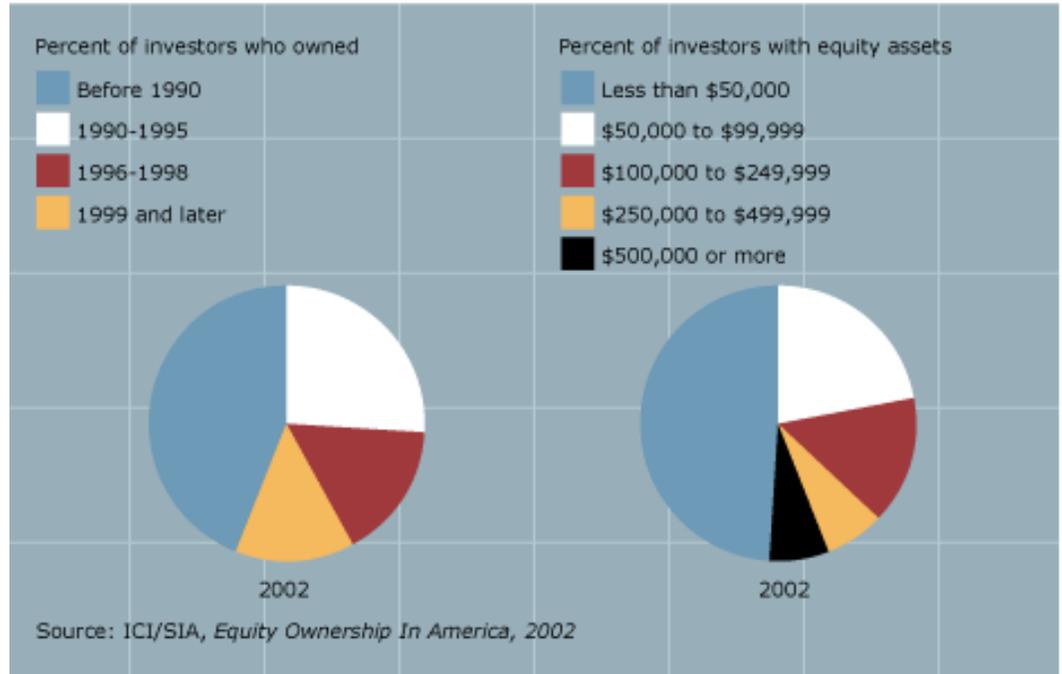
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## Most Own Equities Through Mutual Funds Inside Employer Plans



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## Most Are Seasoned Investors, Hold Small-To-Moderate Amounts Of Equities



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## A Profile Of Equity Investors

(Median)				
<b>Age</b>				<b>47</b>
<b>Household income</b>				<b>\$62,500</b>
<b>Household financial assets</b>				<b>\$100,000</b>
<b>Household financial assets in equities</b>				<b>\$50,000</b>
<b>Number of individual stock transactions in 2001</b>				<b>3</b>
<b>Number of stock mutual fund transactions in 2001</b>				<b>2</b>
(Percent)				
<b>Own individual stock (net)</b>				<b>49</b>
<b>Inside employer-sponsored plan</b>				<b>17</b>
<b>Outside employer-sponsored plan</b>				<b>41</b>
<b>Own stock mutual funds (net)</b>				<b>89</b>
<b>Inside employer-sponsored plan</b>				<b>66</b>
<b>Outside employer-sponsored plan</b>				<b>56</b>
Source: ICI/SIA, <i>Equity Ownership In America, 2002</i>				



## **Financial Results**

SIA is a 501(c)(6) not-for-profit corporation under the Internal Revenue Code. The association is funded in two ways: first, by annual dues from its members, which, together with related investment income, contributed 61.3 percent of its revenues; and, second, by proceeds from member services, which contributed 38.7 percent of the total.

For the fiscal year ended October 31, 2003, net income totaled \$2.2 million, compared with a net loss of \$117,000 in the prior year. Revenues of \$35.2 million were 10.4 percent lower than a year ago and expenses of \$35.8 million were 6.9 percent lower, primarily as a result of reduced funding of the straight-through processing project and lower user-pay activities.

Operating income was a loss of \$605,000 and investment income was a gain of \$2.8 million.

Reserves increased by \$2.2 million for the year to a total of \$21.9 million.

**Securities Industry Association  
Income Statement**

Fiscal Years Ended October 31, 2003 and 2002

<b>Revenues:</b>	<b>2003</b>	<b>2002</b>
Dues	\$ 21,360,193	\$ 20,989,694
Conferences	8,532,531	10,584,998
STP Project	1,446,054	3,118,101
Publications	893,246	1,041,514
Investment Income	230,573	431,881
Telecommunications	1,947,483	2,630,198
Other	829,257	511,324
<b>Total Revenues</b>	<b>35,239,337</b>	<b>39,307,710</b>
<b>Operating expenses</b>		
Salaries	18,095,637	17,876,367
Conferences, Meetings, Travel	5,345,093	6,179,022
Professional, Consulting	3,288,402	2,998,341
STP Project	1,446,054	3,118,101
Administrative, Facilities	5,281,417	5,917,861
Printing, Publications	1,021,540	1,152,303
Miscellaneous	1,366,621	1,269,760
<b>Total Operating Expenses</b>	<b>35,844,762</b>	<b>38,511,755</b>
<b>Excess Of Operating Revenues Over Expenses</b>	<b>(605,425)</b>	<b>795,955</b>
Non-Operating Income – Net (Depreciation) On Long-Term Investments	2,758,723	(913,059)
<b>Increase/Decrease In Unrestricted Net Assets</b>	<b>2,153,299</b>	<b>(117,104)</b>
Unrestricted net assets, beginning of year	19,735,687	19,852,791
<b>Unrestricted net assets, end of year</b>	<b>\$ 21,888,986</b>	<b>\$ 19,735,687</b>



The Securities Industry Association brings together the shared interests of nearly 600 securities firms to accomplish common goals.

SIA members – including investment banks, broker-dealers, and mutual fund companies – are active in all U.S. and foreign markets and in all phases of corporate and public finance. Collectively, they employ more than 800,000 individuals, representing 97 percent of total employment in securities brokers and dealers. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003 the industry is projected to generate \$142 billion in domestic revenue and \$283 billion in global revenues.

SIA works to foster an effective capital-raising and investment process; presents member-firm views to legislative and regulatory bodies at the federal and state levels; serves as a forum to address key industry issues; acts as a source of information and a catalyst for ideas; and, offers a broad range of services to assist member-firm executives in their management responsibilities.

The association was established in 1972 through the merger of the Association of Stock Exchange Firms (1913) and the Investment Bankers Association of America (1912).



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### **Richard E. Thornburgh**

Chairman-Elect

### **Allen Morgan, Jr.**

Immediate Past Chairman

### **Daniel J. Ludeman**

Vice Chairman

### **Robert K. Steel**

Vice Chairman

### **James D. Price**

Treasurer

### **Stephen M. Lessing**

PAC Chairman

### **Marc E. Lackritz**

President

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New York, NY

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St. Louis, MO

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New York, NY

### **Steven D. Black**

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New York, NY

### **R. Jack Conley\***

VESTAX Securities Corporation,  
Hudson, OH

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L.L.C., Chicago, IL

### **Andrew S. Duff**

Piper Jaffray Companies,  
Minneapolis, MN

### **Myles D. Gillespie**

Fleet Specialist, Inc.,  
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New York, NY

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### **Chet Helck**

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Inc., St. Petersburg, FL

### **Ellyn A. McColgan**

Fidelity Investments,  
Boston, MA

### **Christopher C. Melvin, Jr.**

Melvin Securities, LLC,  
Chicago, IL

### **Dennis J. Mooradian**

Wells Fargo Investments,  
LLC,  
San Francisco, CA

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Inc., Memphis, TN

### **Barry Murphy**

American Express Financial  
Advisors, Inc.,  
Minneapolis, MN

### **James D. Price**

UBS Financial Services Inc.,  
Weehawken, NJ

### **J. Joe Ricketts**

Ameritrade Holding  
Corporation,  
Omaha, NE

### **Paul D. Rogers**

CIBC World Markets Corp.,  
New York, NY

### **John H. Schaefer**

Morgan Stanley,  
New York, NY

### **Joseph R. Schmuckler**

Nomura Holding America,  
Inc.,  
New York, NY

**Douglas E. Hill**

Edward Jones,  
St. Louis, MO

**Marc E. Lackritz**

Securities Industry  
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Washington, DC and  
New York, NY

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Lehman Brothers Holdings  
Inc.,  
New York, NY

**Daniel J. Ludeman**

Wachovia Securities, LLC,  
Richmond, VA

**W. Thomas Matthews**

Smith-Barney,  
Citigroup Global Markets,  
Inc.,  
New York, NY

**Lisa A. Shalett**

Alliance Capital  
Management L.P.,  
New York, NY

**Robert K. Steel**

The Goldman Sachs Group,  
Inc., New York, NY

**Richard E. Thornburgh**

Credit Suisse Group,  
New York, NY

**Seth Waugh**

Deutsche Bank Americas,  
New York, NY

**Charles M. Williams**

Banc of America  
Securities LLC,  
Charlotte, NC

**James W. Wolitarsky**

Janney Montgomery Scott  
LLC, Philadelphia, PA

\*Through August 2003

\*\*Replaced R. Jack Conley



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## **Board Committees**

### *Audit and Finance*

#### **James D. Price**

UBS Financial Services Inc.,  
Weehawken, NJ

### *Business Continuity Planning*

#### **Jerry W. Klawitter**

J.P. Morgan Chase & Co.,  
New York, NY

### *Compensation*

#### **John H. Schaefer**

Morgan Stanley,  
New York, NY

### *Diversity*

#### **Kyle Maldiner**

Lehman Brothers Holdings  
Inc.,  
New York, NY

### *Executive*

#### **John H. Schaefer**

Morgan Stanley,  
New York, NY

### *Market Structure*

#### **Robert K. Steel**

The Goldman Sachs Group,  
Inc., New York, NY

### **Seth Waugh**

Deutsche Bank Americas,  
New York, NY

### *Nominating Committee*

#### **Allen Morgan, Jr.**

Morgan Keegan &  
Company, Inc.,  
Memphis, TN

### *Public Trust and Confidence*

#### **James P. Gorman**

Merrill Lynch & Co., Inc.,  
New York, NY

## **National Committees Chairs**

### *Amicus*

#### **Jonathan N. Eisenberg**

Merrill Lynch & Co., Inc.,  
New York, NY

### *Anti-Money Laundering*

#### **Stephen Shine**

Prudential Equity Group,  
Inc.,  
New York, NY

### **Mihal Nahari**

Morgan Stanley,  
New York, NY

### *Arbitration*

#### **Edward Turan**

Citigroup Global Markets,  
Inc.,  
New York, NY

### *Bank Retail Broker-Dealer Regulatory*

#### **Barry P. Harris**

Banc of America Investment  
Services, Inc.,  
Charlotte, NC

### *Capital*

#### **Cheryl M. Kallem**

Bear, Stearns & Co. Inc.,  
Brooklyn, NY

### *Capital Markets*

#### **Kenneth L. Josselyn**

Goldman, Sachs & Co.,  
New York, NY

### *Clearing Firms*

#### **Dennis J. Donnelly**

Fiserv Securities, Inc.,  
Philadelphia, PA

### *Online Brokerage Legal*

#### **Hardy Callcott**

Charles Schwab & Co., Inc.,  
San Francisco, CA

### *Operations*

#### **Ernest A. Pittarelli**

UBS Securities LLC,  
Stamford, CT

### *Options*

#### **Tony McCormick**

Schwab Capital Markets,  
L.P.,  
Chicago, IL

### *Regional Firms*

#### **James W. Stuckert**

J.J.B. Hilliard, W.L. Lyons,  
Inc.,  
Louisville, KY

### *Research, Analysts, And Financial Services Planning*

#### **Stephen Buell**

Prudential Equity Group,  
Inc.,  
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#### **Joanne A. Carter**

UBS Financial Services Inc.,  
Weehawken, NJ

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#### **Michael J. Alix**

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Companies Inc.,  
New York, NY

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New York, NY

*Continuing Education*

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A.G. Edwards & Sons, Inc.,  
St. Louis, MO

*Dealer Accounting*

**Joanne Pace**

Credit Suisse First Boston  
(USA), Inc.,  
New York, NY

*Derivative Products*

**Luke Farber**

Credit Suisse First Boston  
(USA), Inc.,  
New York, NY

*Federal Regulation*

**Robert C. Dinerstein**

UBS Securities LLC,  
New York, NY

*Federal Taxation Of The  
Securities Industry*

**Saul M. Rosen**

Citigroup, Inc.,  
New York, NY

*Government*

*Representatives*

**Ann Costello**

Goldman Sachs & Co.,  
New York, NY

*Holding Company*

**James E. Reilly**

Fleet Boston Financial  
Group,  
Boston, MA

*Human Resources  
Management*

**Joseph E. Timmins**

Legg Mason, Inc.,  
Baltimore, MD

*Independent Firms*

**Neal E. Nakagiri**

Associated Securities Corp.,  
Los Angeles, CA

*Institutional Brokerage*

**Terry L. March**

Midwood Securities, Inc.,  
New York, NY

**Russell A. Labrasca**

Wells Fargo Private Client  
Services, Dallas, TX

*Securities Industry*

*Foundation*

*For Economic Education\*\*\**

**Richard F. Brueckner**

Pershing LLC,  
Jersey City, NJ

*Securities Industry Institute*

**Gail M. Dudack**

SunGard Institutional  
Brokerage, Inc.,  
New York, NY

*Self-Regulation And  
Supervisory Practices*

**John Polanin, Jr.**

UBS Securities LLC,  
New York, NY

*Small Firms*

**Deborah M. Castiglioni**

Cutter and Company  
Brokerage, Inc.,  
Chesterfield, MO

*State Regulation And  
Legislation*

**Jesse Hill**

Edward Jones,  
St. Louis, MO

*Subcommittee On State Tax*

**Lee Grohman**

Citigroup Inc.,  
New York, NY

*STP Steering*

**Jeffrey C. Bernstein**

Bear, Stearns & Co., Inc.,  
Brooklyn, NY

*Syndicate*

**Andrew M. Blum**

C.E. Unterberg Towbin,  
New York, NY

*Tax Compliance and  
Administration*

**Nicole R. Tanguy**

Citigroup Global Markets, Inc.,  
New York, NY

*International Trade And  
Investment Policy*

**Emily M. Altman**  
Morgan Stanley,  
New York, NY

*Investment Adviser*

**Eileen Ryan**  
Credit Suisse First Boston  
(USA), Inc.,  
New York, NY

*Investment Company*

**Stuart R. Strachan**  
The Capital Group  
Companies, Inc.,  
Los Angeles, CA

*Investor Education*

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Wachovia Securities, LLC,  
Richmond, VA

*Membership*

**Scott W. Munroe**  
Pershing LLC,  
Oakbrook, IL

*Technology and Regulation*

**Eliot Wagner**  
Pershing LLC,  
Jersey City, NJ

*Technology Management*

**Nancy B. Wehrman**  
Raymond James &  
Associates,  
Inc., St. Petersburg, FL

*Trading*

**George K. Jennison**  
Wachovia Securities LLC,  
Richmond, VA

\*\*\*The board voted in  
November 2003 to  
consolidate the association's  
various investor education  
efforts into the Foundation  
For Investor Education.



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## **Division Presidents**

### *Compliance and Legal*

#### **David A. DeMuro**

Lehman Brothers Holdings,  
Inc., New York, NY

### *Corporate Actions*

#### **John J. Wagner**

Morgan Stanley,  
Brooklyn, NY

### *Credit*

#### **Edward Mikulasko**

Morgan Stanley,  
Jersey City, NJ

### *Customer Account Transfer*

#### **Kristie Thompson**

Edward Jones,  
St. Louis, MO

### *Data Management*

#### **John Lauria**

Pershing LLC,  
Jersey City, NJ

### *Dividend*

#### **George Devlin**

UBS Financial Services Inc.,  
Jersey City, NJ

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The Bear Stearns  
Companies Inc., New York,  
NY

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#### **Brian Wieber**

Morgan Stanley,  
New York, NY

### *Securities Lending*

#### **Leslie Nelson**

Goldman, Sachs & Co.,  
New York, NY

### *Securities Operations*

#### **Lawrence Morillo**

Pershing LLC,  
Jersey City, NJ

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### *Central States*

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Merrill Lynch & Co., Inc.,  
Chicago, IL

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#### **Henry Valentine III**

Davenport & Co., LLC,  
Richmond, VA

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#### **John D. Lane**

Lane Capital Markets, LLC,  
Fairfield, CT

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#### **Harry P. Leonard**

Citigroup, Inc.,  
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#### **Kent Nelson**

Raymond James &  
Associates, Inc.,  
St. Petersburg, FL

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#### **Douglas C. Heske**

U.S. Bancorp Piper Jaffray,  
San Francisco, CA



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President

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Executive Vice President

**Frank Fernandez**  
Senior Vice President,  
Chief Economist and  
Director, Research

**Richard Hunt\***  
Senior Vice President,  
Federal Policy

**Steve Judge\***  
Senior Vice President,  
Government Affairs

**George R. Kramer\***  
Acting General Counsel

**James D. Spellman\***  
Senior Vice President and  
Director, Corporate  
Communications

## Staff

**Amal Aly**  
Vice President and  
Associate General Counsel

**Mary Ann Battista**  
Assistant Vice President,  
Conference Services

**Paula Bongino\***  
Director, Internet Services

**Heather Bradfield Garbe**  
Manager, Help Desk  
Support

**Pamela I. Faber**  
Vice President and  
Managing Director, Human  
Resources

**Nina E. Faunt\***  
Executive Assistant to the  
President

**Robert F. Gannon**  
Vice President and  
Director, Management  
Services

**Melanie M. Gaul**  
Vice President and  
Director, Conference  
Services

**Ramesh Girdhar**  
Senior Accountant

**Laura H. Goldzung**  
Vice President and  
Managing Director,  
Education Services

**Diane Grogan**  
Director, Benefits  
Administration

**Marla E. Israeli**  
Accounting Supervisor

**Mark S. Jeong**  
Vice President and  
Assistant Controller

**Scott C. Kursman**  
Vice President and  
Associate General Counsel

**Nancy J. Donohoe  
Lancia**  
Vice President and  
Director, State  
Government Affairs

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Director, PAC

**Rosalie Pepe**  
Vice President and  
Director, Publications  
Services

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Vice President and  
Director, Membership  
Recruitment and Retention

**Edwin R. Quianes**  
Director, Audio Visual  
Services

**Gerard J. Quinn**  
Vice President and  
Associate General Counsel

**Elizabeth L. Rives\***  
Vice President, Policy  
Analysis and  
Communications

**Rachel Robinson\***  
Vice President,  
Government Affairs

**Suzanne Serpico**  
Associate Director,  
Publications Services

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