

HOW THE STOCK EXCHANGE IS MANAGED.



THE London Stock Exchange is not only of metropolitan importance: the entire nation is concerned in it most intimately, and all the civilised world more or less depends upon it. It has no equal in point of magnitude, and year by year its operations get larger and larger, and outlying interests one after another come to be involved in it. Apart from the innumerable offices it

performs in the matter of the shares of joint-stock companies, it affords an ever-widening field for the financial operations of distant governments. One year it is Japan that seeks a loan to build railways, and to found a currency, the latter in order that the payment of official salaries in rice and other produce, and an entire system of barter, may be done away with. Another year it is the still enshrouded Chinese nation that has a loan, and then an Indian native prince seeks aid to construct a railway, in order that his kingdom may be embraced by the net-work which he sees diminishes poverty and misery, and diffuses wealth and industry. With equal facility the London Stock Exchange, when in the mood, will afford the means of lighting a small city in an obscure South American Republic, and will take part in the financing of great national obligations such as fell to the lot of the United States during and after their great Civil War, and to France through the war with Germany.

Yet the Stock Exchange can scarcely be said to have had a legal origin, or to yet hold a legal position. When "stocks" began to be created in representation of national indebtedness, or of shares in a distant trading enterprise, such as was popular in an early period of foreign commercial intercourse, there got grouped together a few men who bought and sold such securities on behalf of clients who really desired to dispose of them or to buy them; or they dealt in them for pure speculation, buying one day and selling the next, looking for a profit in the difference in the prices of the two periods. These dealers, or stock-jobbers, soon found the inconvenience of occasional meetings in an open and public place, and, their numbers increasing, they got as it were a home for business. In time this led to the present Stock Exchange being built by a combination of a number of the richer members; for the building belongs not to the Stock Exchange as a body, but to a few members who charge a rent, and receive a dividend on their investment. In fact, the Stock Exchange, as such, is

not an incorporated body, and does not hold property. It is merely a private society, the members of which agree to meet in a certain hired building for the conduct of their business, and to conform to certain rules framed by themselves for their mutual convenience and protection. This primitive condition was sufficient for all reasonable purposes until late years. It began, however, to be strained very early in the railway period. The rapid issue of stocks in representation of capital subscribed towards building railways caused the number of members to rapidly increase, and at the same time there began to be an extended public interest in securities of this class. This period was quickly followed by the adoption of Limited Liability. There is no doubt that the institution of the laws of limited liability gave this country another great start in business affairs, quite equal to the application of steam to public roads. The excitement, the speculation, and the inevitable collapse which marked the railway crisis of more than thirty years ago is now a part of history. It was, indeed, a great crisis, and it was thought that now at least the nation had learnt a lesson in prudence such as would never need to be repeated; but the limited liability companies which became the rage twenty years later led to equally disastrous results, and with no more permanent benefit, since the very next year began a passion for foreign government loans, such as blinded the judgment of investors, and led ordinarily acute and honourable persons to undertakings such as, now the collapse has been realised, make the observers, and indeed the performers, appalled at their indiscretions.

The magnitude of the Stock Exchange business of to-day is shown by the fact that the nominal value of the securities dealt in is between four and five thousand million pounds. The total has been more than once roughly given as above this, but from a careful calculation made for "The Stock Exchange Year-Book," it is probable that five thousand millions is the outside that can be fairly claimed. The members of the Stock Exchange number about 3,000, and each member may employ any number of clerks, though only those authorised to do so by the committee can go in and out of the market, and those authorised clerks have no power to deal on behalf of their principals until certain formalities have been gone through. About one-third of the members are dealers or jobbers, and the rest brokers. The dealers stand in the large hall of the Stock Exchange all day long, and it is found convenient to have fixed places for dealers in the several securities. Thus, in one corner would be those who are open to deal in Consols and kindred securities; in another part would be the dealers in certain railway stocks, and so on. The dealer only has business with the broker. A broker is ordered by his client to buy or sell a given quantity of a certain stock, and he then goes to the dealer, and asks for a price for, say, £1,000

London and North-Western ordinary stock, not saying whether he desires to sell or to buy. A price is made, and the dealer thereby undertakes to take stock at the lower figure, or to deliver it at the higher. Thus, supposing a quotation to be $147\frac{1}{4}$ to $147\frac{1}{2}$, he will take stock of the broker at $147\frac{1}{4}$, and he will sell at $147\frac{1}{2}$. The dealer instinctively moves his prices to the point necessary to bring in or let out stock just as he finds he is short of, or over with, given descriptions. The broker, in his contract with his client, gives the name of the dealer, and if the dealer should fail and be unable to complete his contract, the client ranks on the dealer's estate alone for any claim he may have. But the dealer on his part only looks to the broker. At first sight this appears an uneven arrangement, but it is supposed to be the only workable one, since the dealer could be no judge of those for whom the broker does business. It is, however, quite a fair subject for consideration, whether the broker should not have some responsibility to his client, since the client has no voice as to whom the broker shall deal with.

The government of the Stock Exchange is of a very simple character. Its primary object is the protection of the members, though now it is becoming the fashion to claim that the public interest is also regarded. Under the pressure of public opinion there is no doubt this enlarged view of duty is becoming general, and the many modifications now being made in the rules do, without doubt, imply a resolve to rise up to the public requirements. A committee is elected by ballot every year in March. This committee has great but not unlimited power. The rules define all their duties, the penalties they may inflict, and there is besides the popular voice of their constituents, which it takes a daring man to defy. It is not often that the Stock Exchange gives way to insurrectionary feelings towards its rulers, but when it does its violence and bitterness is so totally unrestrained that years of service, or other recommendations, stand for nothing. This wrath is, however, soon spent; but the knowledge of what can be aroused by misconduct is, without doubt, a great check upon departing from what popular opinion within the house demands. But this, it will be at once seen, may after all not be much protection to the outside public, and a still higher standard of duty is, no doubt, necessary, not only for the committee but for the Stock Exchange as a body.

The rules as they now stand are numerous, and for the most part admirable. Application for admission to the Stock Exchange must be made the first Monday in March. Every applicant must be recommended by three members of not less than four years' standing who have fulfilled all their engagements. Each recommender must engage to pay £750 to the creditors of the applicant, in case such applicant should be declared a defaulter within two years from the date of his admission. But if the applicant has already been a clerk in the Stock Exchange for four years, two recommenders only are required, and the guarantee is limited to £500 each. If any recommender is indemnified the liability extends to three years, and at least two of the recommenders must be unindemnified. A

foreigner is not eligible until he has been naturalised two years. The applicant must not himself, or by his wife, be concerned in any other business. There are also strict rules in regard to previous insolvency and other matters, all which restrictions are calculated to keep out unsuitable persons. If a member fails he is publicly "declared," his accounts are closed by officials, and he ceases to be a member. He can only be re-admitted after he has paid out of his own resources at least one-third of the debit-balance on the closing of his accounts. Having become a member of the Stock Exchange, the rules to be observed are necessarily numerous. The committee will not recognise any other than members in any matter whatever. No member may take a grievance against another member to the law-courts. He must submit the dispute to the committee, and all parties must abide by their arbitration. The committee may intervene for the general good of the Stock Exchange, where clients seek by an appeal to the law to enforce claims which are contrary to the usages of the Stock Exchange. The committee will take into consideration any charge of misconduct against a member, whether made by a member or by an outsider. Members are cautioned against transacting speculative business for clerks, against dealing in letters of allotment and prospective dividends, but these and many other modern niceties of the Stock Exchange rules are designed rather to prevent scandal than because the conduct so condemned is unpopular with the Stock Exchange. In these days of joint-stock companies, when there are thousands of highly-paid officials, it is difficult to draw the line between those clerks who may not be dealt for and those who may. However, the intention is good, and a prudent member will take care to err on the right side. The dealing in railway and other dividends was carried on largely until very recently. One man would sell the London and North-Western dividend on £100,000 stock at one figure, in the expectation that it would be less than was expected by the buyer, and day by day, and almost hour by hour, fresh notions got abroad as to what the dividend was likely to be. This led to extensive gambling, and the temptation to tamper with the officials of the companies concerned, or to make alliances with them, became so great that serious scandals arose, and a rule was passed prohibiting such business.

There is no need to go further into the details of Stock Exchange procedure, more especially as the committee have for months been almost exclusively engaged in re-considering the rules, with the sincere desire to adapt them, where they are otherwise, to the laws of the country, and to the public convenience. The present committee consists of the best of the old members, and some new but spirited and experienced members not previously in office. The royal commission now sitting upon the subject cannot but help an important reform, but when the rules and usages are all that can be demanded, the public must fall back upon opinion within and without the Stock Exchange to maintain the higher moral standard required.

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