

The Development of the Rules and Regulations of the London Stock Exchange, 1801-1914

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ABSTRACT

This paper describes the long historical process by which the microstructure of the London Stock Exchange evolved from earliest times to its preeminent, but already precarious, position at the top of the first global capital market at its apogee in 1914. From an initial structure of 260 owners with an equity stake in the profitability of the exchange and 540 subscribers attempting to make a living by their trading activities on the floor of the exchange in 1801, the London Stock Exchange by 1907 had over 7,500 individuals with access to the exchange and over 1,750 proprietors holding shares in the enterprise. In 1801, there were only two classes of traders – brokers and jobbers. By 1901, there were at least seven different categories of members – brokers and dealers remained, but were supplemented by speculators, option dealers, money-lenders, arbitrageurs, and shunters. The Rules and Regulations of 1812 filled 47 pages covering 10 categories while those printed in 1911 took 76 pages to cover 13 categories of operating rules.

How was this remarkable expansion and diversification of activity sustained over the century with such minimal institutional change? The underlying argument in this paper is that the evolution of the London Stock Exchange's microstructure was path dependent – the initial conditions for membership set the incentives for the owners and operators of the exchange, and these determined how they responded to successive shocks over time. Given the self-regulatory governance structure of the exchange, the persistence of its microstructure in the face of massive changes over the course of the nineteenth century in technology and the array of financial assets available for trading is explicable, but nevertheless remarkable. The changes that did occur were intended to maintain the security of tried and true sources of revenue for the older members while allowing newer members to take risky searches for new sources of revenue. Changes only occurred in response to external shocks, usually in the form of financial crises.

Introduction

The origins of the practices of the London Stock Exchange are lost in the mists of mercantile dealings from time immemorial. Merchants dealing in staple commodities that were either on shipboard, in transit, or stored in warehouses had to develop methods for confirming contracts, making final payment, and, most interesting for this study, financing the delay between contract and delivery. Risk was endemic in all such markets, so methods must have been developed to deal with the potential losses if cargos were lost at sea, borrowers defaulted, or prices rose unexpectedly for buyers, or fell unpredictably for sellers. As the commercial revolution captured the imaginations of merchants for the profit opportunities implicit in long-distance and, therefore, time-delayed trade, we know of some of the techniques that were developed for coping with the various types of risks encountered.¹ For example, the practice of both forward and spot transactions in wholesale commodity markets were ubiquitous throughout the city-states of Mediterranean and then northern Europe. Price lists were published and widely circulated, mainly to confirm the information on local market conditions and prices of staples conveyed in every letter written by a merchant to a correspondent.² Options to buy or sell lots of standard commodities were probably written; certainly dealings in foreign exchange led to complicated transactions. Merchants tried to get not only the best price for their wares, but the best exchange rate as well, which often meant indirect routings of their payments to take advantage of fluctuations in exchange rates among European cities.³

1. The first stock markets

When stocks emerged as transferable shares in trading companies, first in Amsterdam and then in London, sections of the Amsterdam commodity exchange and of the Royal Exchange in London were set aside for the use of stock brokers. The main trade in Amsterdam was in the shares of the Dutch East India Company, at least the 3/7 of the shares that were reserved for the city of Amsterdam,⁴ and presumably the main trade in London was in shares of the English East India Company, and later the Hudson's Bay Company and Royal African Company. By far the greatest quantity of paper assets available for trading in both cities, however, was the various forms of government debt. In Amsterdam, these were the various term annuities and perpetual annuities issued by the individual cities and provinces, all of which were backed by specific taxes under the control of the city or province. Eventually, annuities were issued as well by the Generalitet, the governance structure of the "United" Provinces of the Netherlands, but they were limited in amount, as were the taxes allotted to the Generalitet. In London, government debt instruments were usually shorter term than the Dutch annuities, and were mainly Exchequer bills, Navy or Army bills. These short-lived debt instruments were extinguished as the tax revenues backing them came in. The exigencies of war finance, a constant and growing demand on the resources of every European state in the seventeenth century, [fn. Parker, Neal] led to huge expansions in the supply of government debt issued throughout Europe. Pressures of war finance also led to innovations in the varieties of debt instruments issued by governments and in the markets for them.

The culmination of military expenses for European states came in the quarter-century from 1688 through 1713, comprising the War of the League of Augsburg and the War of the Spanish Succession. Coping with the unprecedented accumulation of national debt issued during the quarter century of massive conflict carried on world wide between Spain and France on the one side and Britain, the Netherlands, and then the Austrian-Hungarian Empire

on the other side, led first France into the episode of the Mississippi Bubble under the leadership of John Law (1718-1720) and then Britain into the infamous South Sea Bubble (1720), and finally, the Netherlands into a series of smaller bubbles dispersed among the provinces (1720-1721). In the aftermath of the collapsed financial bubbles, only in London did a viable secondary market for securities survive. Paris became split between a formal market, limited to dealings in the shares of the much reduced Compagnie des Indes and underpriced life annuities issued by the monarchy or the Hotel de Ville of Paris, [Velde & Weir, McCusker & Riley] and an informal market in private debt held together by the information network of the company of notary publics in Paris [Hoffman, Rosenthal, & Postel-Vinay]. Amsterdam dealt in foreign exchange, and turned its attention to initial offers of debts from various European governments, and eventually, the new republic in the United States of America, as well as continued issues of government debt by the Parliament in Britain. [Riley]

2. The basis for the London stock market

How was the London stock exchange, the most successful of the early secondary markets in securities, mainly forms of government debt, organized? Early on, it was evident that certain individuals had already emerged as the primary dealers in various stocks, at least for specific classes of customers. Matthew Wymondesolde is mentioned as a dealer in South Sea stock during the bubble year of 1720. Examination of the stock ledgers of the East India Company show that Elias Turner, a senior partner in the Sword Blade Company, was the major dealer in that company's stock that same year. Sir George Caswall, another partner in the Sword Blade Company, which served as the bank for the South Sea Company during its first decade of existence, was a major dealer in Bank of England stock, as was Robert Westley, a merchant taylor by trade. [Carlos and Neal] Major merchants and goldsmith bankers also emerge as regular dealers in the stock of Hudson' Bay Company and the Royal African Company [Carlos, et al.]. So a small group of readily identified specialists in stock broking in some of the major securities available for trade in London existed at least by 1720.

Further, their customer base was steadily widened, first by the expansion of government debt after 1694, when the Bank of England was established, then by the regular appearance by 1698 of a price list, Castaing's *Course of the Exchange*, a semi-weekly broadsheet listing daily prices of the major government stocks and assorted exchange rates and commodity prices. It appeared on Tuesdays and Fridays, just in time to be delivered to the Royal Post Office for the mail packets plying regular routes to the Hook of Holland. [Neal, RoFC]. By 1720, shares in the government-backed joint stock companies – the Bank of England, the East India Company, the South Sea Company, and the Royal African Company – were widely distributed among thousands of individuals. Moreover, these individuals were varied in their motives for holding stock – only a quarter of the holders of Bank of England stock in 1720, for example, were the women and children (widows and orphans?) or the idle rich who would hold stock long-term to live off the semi-annual dividend payments. Another quarter were small businessmen, often holding joint accounts with partners, whose motives were to earn interest on idle capital until a new investment opportunity arose. Perhaps a quarter were mainly attorneys, managing assets in trust, whether in probate or for absentee holders. Fully 15% were foreigners, mainly from the Netherlands. [Carlos and Neal] The refinancing of the failed South Sea Company carried out in 1723 both consolidated and enlarged this customer base. First, the South Sea stock was split in half between stock and perpetual annuities, giving each stockholder a choice between

income or growth; second, the capital stock of the Bank of England was enlarged by 50% to absorb part of the remaining South Sea stock. In effect, the disappointed shareholders of the South Sea Company were locked in the London capital market, but with a choice of tradable assets to dispose of whenever they might seize the opportunity. The greatly enlarged stock of homogeneous financial assets dispersed among holders with varied tastes and liquidity preferences encouraged the development of a specialized group of traders.

3. The creation of the formal stock market in London

According to Edward Satterthwaite's manuscript history of the London Stock Exchange¹ the greater part of stock broking thereafter took place in the coffee houses located in Change Alley. It is recorded that by 1762, a group of brokers formed a club at Jonathan's Coffee House. They limited their number to 150 members who paid an annual subscription to the proprietors of eight guineas. This attempt at exclusion of individual brokers unwilling or unable to pay the eight guineas prompted a law suit by one of the outsiders. It being proved that Jonathan's had been a market "time out of mind" for the buying and selling of government securities, the jury, under the direction of Chief Justice Mansfield, brought in a verdict in the plaintiff's favor with one shilling damages. Three legacies emerged from this episode: 1) the general use of the acronym "TIPS" ("To Insure Prompt Service) in the English language for service charges, 2) the designation of attendants in the Stock Exchange as "waiters" well into the 20th century, and, 3) a change in formal organization of the professional stock brokers.

The essential change was to charge a daily admission fee of 6d. a day, and any person at all who paid that sum to the waiter who stood at the bar received in exchange a token that entitled him to proceed beyond the bar, although it is not clear that he could then do business as a broker. Thomas Mortimer's classic guide to the late eighteenth century stock market, *Every Man His Own Broker*, urged individuals to transact their own deals directly in the market and not pay the expense of commission to the various hustlers lying in wait for the unwary and inexperienced investor. Presumably, his readers could pay the 6d. and transact on their own account at Jonathan's. There was a Committee in charge of the market place, but as there are no official minute books before December 6, 1798, it is not clear what, if any, control they exercised over the members who used Jonathan's regularly. [Satterthwaite ms.]

The open market form of the stock exchange in Sweetings Alley proved to be a failure, open as it was to opportunistic outsiders. At particularly hectic times on Account Days, when the various deals made among the individual brokers were settled up, either by delivery of the stock or a continuation of the deal until the next Account Day, opportunities for fraud were especially rampant. Satterthwaite mentions that deals were commonly settled in notes, not by cheque, so it was the personal honor of the buyer that had to be accepted by the seller, not a claim upon a bank. The form of payment required for final conclusion of a given deal shows up repeatedly in later editions of the formal rules and regulations of the London Stock Exchange, especially as the number and variety of members admitted to its trading floor became too large for personal dealings. One incident occurred between two brokers, Martin and Lyons, when an effeminate-looking youth approached Martin, asking him to sell £16,000 scrip (the subscription receipts for a new issue of government debt). Martin refused to deal, saying he did no business for new clients without an introduction.

¹ Satterthwaite was the secretary to the Committee for General Purposes of the London Stock Exchange from 1896 to 1926. His widow donated his notebook to the Stock Exchange in 1931. Guildhall Library, Ms. 17,961.

Lyons, nearby, feigning resentment that the deal was not being offered to him, then made the introduction to Martin. Martin accepted the deal, but quickly determined that the scrip was a forgery. Lyons was arrested and convicted; the youth turned out to be his sister. [Satterthwaite ms.]

It was evidently the desire to prevent repetition of this kind of fraud practiced upon legitimate traders by unknown outsiders that led to the formation of the organization of specialists in stockbroking known as the London Stock Exchange. The first minutes of a governing committee of the formal securities market are from a meeting of "...the Committee of the Society for the Protection of Property against fraud in the Stock Exchange" & it was held at the "Stock Exchange Coffee House." The Committee discussed a letter from R. W. Wade (who subsequently became Secretary) but who was at that time a defaulter. Wade asked to be reinstated as a member, "...so that I may not be prevented in future from making those exertions which are necessary to enable me to fulfill my engagements to the House with the same punctuality as I have hitherto done where it depended only on myself." Wade attributed his current misfortune to "the villainy of Colonel Campbell" the previous year. The Committee responded favorably to Wade, obviously a respected member of long standing among the group, and revised the then standing Rules and Regulation of the House, to deal with this, and all future cases of default by members.

Articles 2 and 3, accordingly, were devised to deal with the case of Wade and all similar cases that might arise in the future. They were destined to remain substantially intact in spirit through the entire history of the London Stock Exchange. They merit reproduction in full, as later editions of the rules obscure somewhat the motivation for the procedures devised to deal with Members who defaulted on the bargains they had struck with other Members of the exchange.

2nd That on every future failure a Committee of Inspection be appointed by this Committee out of their number to examine the Defaulters Books & accounts & if it appears that the person failing has acted in every respect as a honest man he shall be received again in the House with that tenderness & humanity every unfortunate man deserves."

3rd That if a defaulter refuses to submit his accounts to the Committee of Inspection or if at such inspection of his accounts he shall appear to have been concerned in any improper transaction for himself or others, such person shall be deemed unworthy of the countenance of this House."

(Satterthwaite ms.)

The procedures were designed to maintain the flow of business created by the defaulter in an effort to restore not only his balances, but to complete restoration of the losses suffered by his counterparties on the exchange. But to show his good faith toward his colleagues, the defaulter had to open all his account books to the scrutiny of a special committee appointed for the purpose by his colleagues, and this committee, not the defaulter, or an outside commission of bankruptcy, would determine how his remaining assets were to be divided up among his creditors and how his outstanding bargains were to be wound up or carried forward. If he refused, then he was excluded forever from the exchange, and left to the not nearly so tender mercies of England's bankruptcy proceedings. Initially, there were two classes of defaulters' notices to be posted on the floor of the exchange. One stated that the defaulter "...does not deserve the future confidence of the House;" the other stated that

the Committee "...recommended him to the indulgent protection of this House." In this way, the proto-Committee for General Purposes established the basis for effective governance of the formal securities market place in London.

The minutes also established that all communications to the General Committee had to be by written letter addressed to the Secretary of the Committee and then each letter opened in the presence of not fewer than five members of the Committee. In 1799, the "General Committee" became known as the "Committee for General Purposes", which it remained until replaced by the "Council" in 1945, when it was merged with the "Trustees and Managers" committee elected by the proprietors of the exchange. Already, the General Committee was comprised of well-established and eminent members of the stockbroking profession, including such names as Antrobus, Cancellor, Disraeli, Stalford, Ricardo, and Wetenhall.

In January 1801 a conjoint Committee of Proprietors & Members of the Committee for General Purposes was appointed to assist in carrying the plan of converting the Stock Exchange into a Subscription Room. B. D'Israeli was chairman and the following points were agreed.

1) The subscription of Members to be 10 guineas, Clerks 5 guineas (which remained the subscription fees at least through 1860!)

2) Members to be nominated & elected by ballot.

3) Rules to be drawn up.

The Proprietors in the meantime had raised £20,000 in 400 shares of £50 each to build the New Stock Exchange. The following notice was therefore posted.

Notice to the frequenters of the Stock Exchange

The Proprietors of the Stock Exchange, at the solicitation of a very considerable number of the gentlemen frequenting it & with the unanimous concurrence of the Committee appointed for General Purposes who were requested to assist them in the forming such Regulations as may be deemed necessary have Resolved unanimously:— That after the 27th February next the House shall be finally shut as a Stock Exchange & opened as a Subscription room on Thursday the 3rd of March at Ten Guineas per annum ending the 1st of March in each succeeding year. All persons desirous of becoming subscribers are requested to signify the same in writing to E. Whitford, Sec'y to the joint Committee on or before the 3rd instant in order to their being balloted for by the said Committee.

signed. E. Wetenhall

Secretary to the Proprietors.

The change in wording from calling "the House" a "Stock Exchange" to calling it a "Subscription room" was deliberate, probably so that habitués of the House could not claim a right to enter the new stock exchange when it was completed on the same terms as they had been using the previous facility. In the event, not all the traders were happy with the new terms or willing to accept the authority of the new governing committee. Moreover, a question arose whether the rules adopted to govern the House as "Stock Exchange" were now null and void with respect to the House in its new nomenclature as "Subscription room." One of the rules of the "Stock Exchange" had been to fine Members guilty of "disorderly conduct" a sum of 2 guineas. When the chairman of the Committee for General Purposes, one John Battye, was fined in the "Subscription room," however, he refused to pay the fine,

despite the posting of a previous resolution that a fine should be levied against any person offending the regulation. Rather than pay the fine, he struck his name from the minute book of the Committee, thereby resigning from the Committee, and presumably from the Subscription room as well. At the meeting of subscribers on March 4, 1801, David Ricardo carried a motion “that no proprietor of the Stock Exchange shall have a right to vote for the election of new Members or any regulation respecting the Stock Subscription room unless he be elected of the Committee by the Subscribers at large.” In these various ways, the legitimacy of the new governance structure was gradually established and the powers of the Proprietors, delegated to the Trustees and Managers of the new stock exchange, were separated from the powers of the Subscribers, which were delegated to the Committee for General Purposes.

When the move was made to the new facility in Capel Court at the beginning of February 1802, the old Committee dissolved and the entire House was canvassed on the question of how to dispose of the records and documents then in the possession of the committee. It was resolved to hand the records of the “old Stock Exchange established 1773” over to the Committee for General Purposes representing the Stock Exchange in Capel Court. Nearly all the members of the old committee, however, were elected to the new Committee for General Purposes in the election of February 8. For some reason, a number of them resigned before the next annual election in 1803. Suspicions of conspiracy among the discontented traders no doubt prompted the posting of the following notice:

“Lest an opinion to the contrary may prevail, the Committee for General Purposes beg leave to assure the subscribers to the New Stock Exchange that it is not their wish, or intention, to interfere either individually or collectively in the approaching election of Members to fill up the vacancies occasioned by resignations not doubting that the good sense of the House, if left to itself, will return Persons well qualified to discharge the duties of the office.”

Even so, discontent resurfaced periodically among the stock traders, some of whom found supporters in Parliament. In 1810 an attempt was made to form a rival stock exchange. A petition was first presented to make the House an open Market. This failed, and a bill was then brought before Parliament to establish a National Fund Exchange for dealings in government securities. Although passed by the Commons, the bill was rejected by the House of Lords but as a result, the Secretary John Hemming was dismissed. On April 19, 1810 it was reported that Hemming “had stated in an examination before a Committee of the House of Commons that he had communicated the books & transactions of the Committee to the Solicitor to the parties who are applying in a New Stock Exchange. In consequence of which it was resolved: That Mr. John Hemming having grossly misconducted himself & betrayed the confidence reposed in him, be dismissed from the situation of Secretary to the Committee.”

The challenge of a competitive exchange, moreover, motivated the Committee for General Purposes to set out clearly the rules and regulations under which it operated. Further impetus was provided by a letter addressed to them by the Managers, noting that they had been humiliated by being forced to appear at Old Bailey in response to a charge brought against them by a defaulter whose name had been posted in the House. While the defaulter did not press charges and the Managers were found Not Guilty by order of the presiding magistrate, they suggested that more precise rules should be promulgated “so that none might

plead ignorance of the law.” The Committee immediately resolved that it had the right to post publicly in the House the name of any defaulter whose creditors found his conduct dishonorable or “marked with any circumstances of impropriety,” (Guildhall Ms. 14600/7, April 22, 1811)

4. The codification of rules and regulations for the London stock market

In February, 1812, the first fully printed rules and regulations of the London Stock Exchange appeared. The sub-committee assigned to this task found the previous minutes from 1798 to 1812 to be “essentially useless”, commenting that there were “many erasures, some resolutions very specific, others contradictory, and some probably not adopted while others adopted were not entered.” No doubt the great increase in debt issued by the wartime government had made life easy for the hundreds of individuals gathered to facilitate trade in the abundance of existing Consols, subscriptions to new issues of Consols, and the “douceurs” offered in the form of lottery tickets and warrants to exchange for other forms of government debt, all these bundled up in the form of the “Omnium”, which could later be disentangled to the desires of specific investors. The fall in the funds in 1810, however, must have led not only to the proposal in Parliament for a rival or substitute exchange, but also to an expansion of the number of stocks listed in Wetenhall’s *Course of the Exchange*, which had become the de facto official price list of the London stock exchange. The publication of the printed *Rules and Regulations adopted by the Committee for General Purposes of the Stock Exchange* in February 1812 officially declared all previous rules to be null and void and the new rules to be fully in effect as of February 10, 1812.

The first codified set of rules printed up in 1812 covered 10 topics, presumably in order of importance as seen at the time. The headings, with the number of resolutions recommended (and then adopted) under each heading were:

Admissions	14
Bargains	10
Clerks	8
Committee	18 (1 added later)
Failures	12
Partnerships	1
Passing of Tickets	3
Puts and Calls	1
Quotation of Prices	5
Settling Days	3

Admissions were at the absolute discretion of the Committee for General Purposes and were renewed annually, although the subscription price was set by the Trustees and Managers. Stock brokers and jobbers were distinguished; new members had to be recommended by two members of two years standing, no member could be admitted who was “engaged in business” or whose wife was so engaged. “Business” was determined to include bill and discount brokers by resolution of the Committee. The Committee could expel any member guilty of “dishonourable or disgraceful conduct, or who may violate any of the fundamental laws of the Stock Exchange”, but such expulsion had to be approved by a three-fourths majority of the Committee present at a meeting specially called to consider the expulsion. No foreigners were allowed, unless they were already naturalized citizens or had Letters of Denization.

Bargains were to be made between members of the Stock Exchange only, the Committee removed itself from considering any disputes that arose between members over the terms of any bargain, unless efforts at arbitration proved ineffectual or no arbitrators could be found. Buying-in and selling-out when a counterparty failed to deliver either the security in question or the money for payment was specifically allowed – after two o'clock for selling out and after eleven o'clock for buying in. Any loss incurred as a result was the liability of the delinquent counterparty. Premium or discount on any loan was to be calculated on the principal sum subscribed, and not on the stock produced by the subscription.

Clerks also had to be approved by the Committee for General Purposes and a list was posted permanently of the eligible clerks. Special attention had to be paid to those senior clerks who were authorized to deal for time and a separate list was also permanently posted of those individuals. Each full Member was responsible for the dealings of his clerks, and no clerk could deal on his own account. No mention was made of qualifications, whether by age, recommendation, or training.

Committee for General Purposes, consisting of thirty Members, was re-elected annually, the election overseen by two (later three) Scrutineers appointed by the Committee itself, (but in practice from the Trustees and Managers). Both Subscribers and Proprietors could vote, but ballots had to have exactly 30 names of eligible Members to be valid. The Committee was “to have sole management, regulation, and direction of the concerns of the undertaking, except the treasureship thereof, and the management and direction of the buildings.” (Rule 5) The meeting times of the Committee were spelled out, voting procedures specified, and the roles of the Chairman and Deputy-Chairman, elected each year by the newly elected members of the Committee, as well as the role of the Secretary, appointed by the Committee from the Members of the Stock Exchange, were specified.

Failures were to be announced as soon as possible by the Committee to the entire membership, and members were required to inform the Committee immediately upon the default of any other member. The Committee would take responsibility for settlement of all accounts of the defaulter with other members of the stock exchange, putting everyone on an equal footing. No other member could act for the defaulter or do any business with him, until he was readmitted to the stock exchange. Readmission required special notice so that any dissatisfied creditor could object, and a letter signed by a majority of the creditors, both in number and in value of their claims, had to recommend readmission. Dishonorable conduct by a defaulter, when determined by the Committee, meant that his name would be posted on the Black Board of the Stock Exchange.

Partnerships among members of the stock exchange had to be listed publicly and any change communicated first to the Committee so they could alter the public list. But it was up to the members to determine the terms of their partnerships with each other.

Passing of tickets referred to authorization to transfer stock registered in the ledger books of a company, each of which determined its own schedule of transfer fees. The buyer had to give the necessary transfer tickets to the seller or pay 2 shillings 6 pence for each transfer involved. In the case of stock in the Bank of England, the East India Company, or the South Sea Company, however, the buyer had the right to demand as many transfers as there were even thousand pounds of stock in the bargain from the seller.

Puts and calls were mentioned only to note that differences arising from expired options with a defaulter would not be admitted as valid claims against the defaulter. And any

payments made on options by the defaulter had to be made good to the creditors. Apparently, this was the extent to which Barnard's Law [a law passed in 1734 intended to outlaw speculative forward dealings in securities] was effective in limiting dealings among members of the stock exchange at the time. The issue would come up later when the business of dealing in options became an important part of the business of the stock exchange members at the end of the Napoleonic Wars.

Quotation of prices were to be published "from time to time" (twice a week until 1825 when a daily price list first appeared). Prices had to reflect actual spot bargains struck between Members of the Stock Exchange and both parties had to attest to the price. Moreover, the bargains had to be for minimum amounts, typically £1000 for government securities (Bank of England and South Sea stocks were the exception at £500), and for public companies the amount had to be the minimum required for a stockholder to vote at the general meetings. No change in prices less than 1/8 per cent was to be quoted, implying a minimum level of commission or bid-ask spread of 1/8 per cent. (The early minutes of the Committee included an appeal by a member not to allow changes of less than ¼ percent, which was voted down by an overwhelming margin of the Committee at the time.) (Guildhall Ms. 14600/7, April 21, 1810)

Settling-Days referred at this time mainly to settling bargains made in omnium or scrip for new issues of government debt. Other settling days depended upon the days set for shutting or opening the transfer books of the Bank of England, the East India Company, the South Sea Company or any other public company by the directors of the companies. If they changed the dates of their transfers, the Committee had the right to change the settling day for bargains among the members of the Stock Exchange.

Such were the minimum set of rules felt necessary then by the elected overseers of the microstructure of the London Stock Exchange. Which rules were most troublesome, requiring the most attention of the Committee for General Purposes or alteration by successive Committees? We turn now to the minutes of the Committee until the next publication of rules and regulations occurred in 1832, after the conclusion of war finance, resumption of the gold standard by the Bank of England in 1819, and the first Latin American debt crisis leading to the stock market boom and bust of 1822-1825.

5. Establishing legitimacy for self-governance, 1812-1822

The issue of minimum spreads was raised in the meeting of April 21, 1810 and the Committee voted with only 3 opposing votes to let prices be quoted when changes as little as 1/8 per cent occurred. Again, in the meeting of June 27, 1810 a member urged the Committee to declare minimum commissions for transfers from an executor's account into the account of the Accomptant General of the Court of Chancery. He had charged 1/16% on the entire sum of £70,000 but the Chancery Master declared this was excessive, knowing that other brokers would do the same service for a flat fee of half a guinea. The Council declined to take any action, thereby allowing free rein to competition in commissions. (Guildhall Ms. 14600/7, June 27, 1810)

The issue of what prices should be printed in Wetenhall's *Course of the Exchange* came up in a heated exchange between the Committee and David Ricardo in the summer of 1811. On July 26, 1811, Ricardo bought £14,000 Consols from the partnership of Street & Andrews at a price of 61½, on the condition set by Mr. Street that payment be in bank notes, rather than the usual form of a personal note by the buyer's broker. Others had refused the

deal, preferring to buy at $61\frac{1}{4}$, if they could pay by note. Wetenhall refused to insert this price in the printed list, on the grounds that as payment was demanded in a specific form, the transaction between Street and Ricardo was a specific bargain and not representative of the price of Consols then being determined in the market. The problem arose that Street's client could not be persuaded that Street had done the best possible sale on his behalf, as the lowest price for the day according to the *Course of the Exchange* was $61\frac{1}{4}$. At first, the Committee stood staunchly behind Wetenhall, but as Ricardo marshaled supporters from other members of the stock exchange and exercised his polemical skills in a lengthy letter of August 11 reprimanding the Committee for their knee-jerk reaction to Street's initial complaint, they called in witnesses to the transaction in an extraordinary meeting held on September 7. Faced with evidence that the transaction had taken place over the course of half an hour in five parts, with pauses between each, and that no one had offered to buy at $61\frac{1}{4}$ until the transaction with Ricardo was completed, the Committee was forced to back down, rescind their previous resolution, and acknowledge that bargains struck for payment specified in bank notes stood on the same basis as payment by draft. It seems ironic that the author of the Bullion Report the previous year should have had to defend the validity of Bank of England notes as a means of payment in the formal market place for capital, although it is reassuring that his logic did prevail in the end!

In February 1814, the Stock Exchange was confronted with a fraud, whereby four members of the House made profits on selling large quantities of Consols and Omnium knowing that the report of the death of Napoleon was a hoax prepared by their principals. Concerned that condoning such blatant manipulation of the market by their own members would bring discredit upon the entire enterprise, the Committee followed the recommendations of David Ricardo to have the Stock Exchange absorb the losses rather than passing them on to their clients. But, determined not to let the perpetrators have any of the profits to pass on to their principals in turn, the Committee asked for, and received, the approval of the membership to sequester the payments due to the four insiders to the hoax, and if any of them were found to have had previous knowledge of the fraud, to pay the sums they were due to some charity unconnected with the Stock Exchange. In this way, the Stock Exchange absorbed collectively the losses borne by those duped into buying government stock at inflated prices, while ensuring that none of their members benefited. The principle of collective responsibility of the membership for the integrity of the prices determined in their market place was thereby affirmed. Many years later, Edward Satterthwaite could not understand why payment of the sequestered funds was made to an unconnected charity, presumably because by the twentieth century the legitimacy of the London Stock Exchange was beyond question. Legitimacy of the formal securities market, however, was still being established at the beginning of the nineteenth century. Given the travails that were to come after the giddy prosperity of war finance ended in 1815, the members of the Stock Exchange did well to follow the advice of Ricardo in this instance, costly though it was at the time. (The total profits of the four culprits was found to be nearly £10,500. (Guildhall Ms. 14600/7, f. 674))

During the next few years the business of the Committee was taken up determining the limits of its powers in admitting those members who continued to engage in outside businesses as before or foreigners who had not yet obtained their naturalization or defaulters who had not yet paid off their creditors. In most cases, it appears that the Committee tended toward leniency, relying on the testimony of other members who vouched for the good

intentions and integrity of the questionable candidates. Even the three members who had profited from the hoax of February 1814 (the fourth party was a bookseller and not a member of the Stock Exchange) were readmitted as members the following year. Membership hovered between 500 and 550, after dropping to 487 at the beginning of 1811 after the crisis of 1810, but rising to 520 by mid-September 1812 and 563 by April 1815. For some reason, however, 14 of the 30 members of the Committee who were re-elected in the balloting of March 1815 with large votes for the time, ranging from 249 down to 123, submitted their resignations, and prevailed despite the resolution passed by the other members of the Committee for them to resume their seats. A new election was held and 15 new members were elected, this time with votes ranging only from 86 to 66, and two of those elected immediately resigned. One can only surmise that the time required to deal with the business of the Committee had become too demanding for these individuals and they desired to spend more time on the floor earning commissions. Appearance at the weekly meetings of the Committee was voluntary, and meetings were often cancelled due to lack of a quorum (and a quorum was only seven members of the thirty). Special Summons were required to assemble a quorum when business really had to be done. The work in sub-committees dealing with defaulters or disputes among members was demanding, however, and sometimes confrontational. There is no evidence of a split within the Committee or any major issue comparable to those that appeared from time to time in later years and the business of the Stock Exchange was increasing apparently; certainly, the number of members continued to rise. There is evidence of impatience with the increasingly rowdy behavior of the younger Members, especially the clerks, who thought it great fun to knock off the hats of more pompous Members or to set off fireworks in the House on Guy Fawkes day. But youthful high jinks would continue to vex the older Members until World War I, when the demands of military service drew off many of the younger Members and Clerks.

By the beginning of 1818, membership had risen to 681, and the Committee decided that as long as the government continued to refuse to naturalize aliens they should have the power to admit non-naturalized aliens as members, provided that the person was recommended by six members of the Stock Exchange, had resided in England for at least seven years and been a clerk in the Stock Exchange for four years, that two-thirds of the Committee present at the ballot for his admission vote in favor, and that he pledge to exert himself to obtain naturalization. The trade crisis of 1819 created a large number of failures; 24 are listed for August 1819. The response of the Committee was to encourage Members to give the Secretary the names of those clients who had failed to meet their obligations to the Members and the Secretary would keep a book that any Member could consult.

In 1820, the Committee was absorbed in dealing with the issues raised by defaulters and whether to re-admit them so they could earn income and have a chance to repay their debts to other members. The Committee resolved not to consider any other business when they had to deal with the admission of defaulters. Then the issue arose that some of the defaulters had pocketed transfer tickets, so that the expense of paying new transfer fees had to be borne by the sub-committee dealing with a defaulter's unfinished business. The Committee therefore resolved, "That in the event of any Member becoming a Defaulter having pocketed Transfer Tickets, he shall be considered ineligible to be proposed for Readmission for twelve months." Then the Committee perfected the form of the letter required of all Members desiring admission so that each applicant promised to follow all the present and future rules and regulations of the Committee and vowed he was not engaged in

any business except that of the Stock Exchange. Moreover, the candidate's recommenders were required now to be present when the Committee decided to consider his case.

6. "Optionists" vs. "Strict constructionists": the battle over options trading

But the biggest issue to confront the Committee and the membership of the Stock Exchange arose from the legal complications created by Barnard's Act of 1734, which outlawed forward dealings in shares if the seller did not maintain possession of the shares the entire time until completion of the transaction. Obviously, members of the Stock Exchange carried out forward, or time, transactions with each other all the time in the normal course of business, since settlements only occurred fortnightly or monthly, and were often carried forward for another account period. Indeed, one of the reasons sometimes given for the formation of a formal, self-governing, securities market in London is that it enabled the members to avoid litigation by a disappointed counterparty who could invoke Barnard's Law if a bargain were struck outside the formal exchange governed by its own set of rules. Barnard's Law could still, however, be invoked by a principal who was not a member of the exchange against a member of the exchange. Just such a case, Baker and others vs. Salomons, was underway in 1819. Observers of the trial from the Society for Protection of Property against Fraud and Artifice warned the Committee in a letter of September 4, 1820 that while Salomons had been cleared of the specific charges against them, it was only because they could prove that the monies paid to them had been for differences in prices and not as premiums on put or call options. The law firm, Crowder & Lavie, warned the Committee

that the greatest danger that can be apprehended by individuals in the Stock Exchange under Sir John Barnard's Act arises from these sort of dealings. In these transactions they are excluded from all chance of defence if the proper proceeding be taken, & the non belief of witnesses upon which fortunately cases on stock transactions are generally decided, will not prevail. In short, we will undertake to say, that in no transaction of a Put & Call is either party safe, & such transactions, as they are most properly prohibited by your by-laws, ought on no account to be engaged in. (Guildhall Ms. 14600/9, f. 67-75)

In fact, option dealings were not prohibited in the by-laws at the time, they were just not recognized as claims upon a defaulter's estate and payments made on options by a defaulter had to be restored to his assets for the benefit of the creditors. But the warning of the legal counsel persuaded the Committee that the by-laws should be altered to prohibit dealing in options. One reason was that the expenses of the trial against Salomons had been so great that the defendants had appealed to the Society for Protection of Property against Fraud and Artifice for assistance, and that Society in turn, finding the amount needed far beyond their resources, suggested that the Stock Exchange levy a contribution from each member to defray the legal expenses. (While charges were leveled against only seven Members of the Stock Exchange, no fewer than 46 Members were served with writs and forced to appear as witnesses.) The Committee declined to take such action, but did undertake to outlaw future dealings in options. In the same year, it ruled against Jacob Ricardo, nephew of the now deceased David Ricardo, when it decided that he must turn over the guarantee money he had received from a subsequent defaulter, one F. Clarke, for the general use of all the creditors of Clarke. To make this principle binding, the Committee required that in the future, each recommender of a new Member to the Stock Exchange must

post a guaranty bond of £250, the deposit to be used for the benefit of all creditors if the new member should become a defaulter at some time in the future. In this way, the Committee sought to limit the risk-taking that new Members might undertake in an effort to bring their incomes up to expectations as soon as possible, relying on the monitoring that the recommenders might be expected to exercise over the activities of their candidate. Thus, the groundwork was laid for a major confrontation among two groups of members – one group of older, conservative, and typically creditor members against a group of younger, risk-taking, and often debtor members.

After raising the concerns about the implications of the Baker vs. Salomons case in early 1820, a memorial signed by 235 members of the Stock Exchange was presented to the Committee in November 1821, urging that they move beyond “discountenancing” the use of options and abolish the practice entirely. A riposte to the memorial, signed by only 88 members headed by Jacob and Benjamin Ricardo, was presented to the Committee at the same meeting, making a clear case on behalf of dealing in options.

We submit that the general business of the Stock Exchange is increased by optional Bargains. Such transactions obviously comprise a limit to the amount of risk, which induces careful people to engage in speculations, who would otherwise feel precluded; hence the immense jobbing which is now consequent upon Options, would in the event of their entire prohibition cease, or only be effected upon comparatively a very contracted scale.

We further submit that the rules of the Stock Exchange as they now exist, afford no protection to optional Bargains divested of such protection, they now with all their other risks depend entirely upon the individual honor of the contracting parties, & viewing the community of the Stock Exchange with those feelings of consideration due to persons of honor, Independence & property we cannot but consider that any further restraint upon the bargains in question would more resemble the severity of school discipline, than those wise & liberal Regulations proper for the Stock Exchange. (Guildhall Ms. 14600/9, ff. 181-2.)

At least 11 of the 30 members of the Committee were strongly opposed to the practice of options and they raised alarms among the membership of the possible damages that discontented clients could create by invoking Barnard’s Act. A letter addressed to the Committee on November 28, 1821 came from the partners Lavie & Oliverson:

In order to confirm what we took the liberty of suggesting in a letter we addressed to your Secretary on the 20th August 1820 on the subject of Puts & Calls we cannot do better than lay before you a short and intelligible extract from Sir John Barnards’ Act which accompanies the present communication. It is here seen

1st That those dealing in Puts & Calls as principals, can never be sure of retaining the Monies or other considerations they may receive.

2nd The parties are compellable to discover any monies or considerations received, and which may be thereupon recovered on their confessions (which they cannot refuse to make) with double costs.

3rd The penalty of £500 attaches on both Principals on the mere making of the Bargain

4th The same penalty attaches on the Broker, if one employed.

5th Either of the three parties concerned, are protected from the penalties by suing for & recovering them from either or both of his co-adjutors.

6th One half of the penalties (say to the amount of the three penalties of £750) is given the common informer.

7th And, what we consider the most likely to affect the gentlemen of the Stock Exchange from the open manner in which we are told these transactions are negociated is, that any bystander merely witnessing the negociation, may be able to give sufficient evidence: and if two persons were to come forward who had witnessed the transactions, all the parties engaged would be fixed with the penalties without the smallest chance of getting off. And it is our opinion that even one person deposing to the transaction as having passed in his presence would be more likely to be believed than any Bankrupt or other person who was originally a party to the negociation.

It is no matter under what disguise the consideration is given and it may be a question whether any entire sum in Stock made subject to the wager, may not be considered as the amount of consideration.

We do not conceive that these transactions at present passing with impunity should encourage their continuance, since the blow may by and by fall very heavy on the parties concerned.

[signed] Lavie & Oliverson, Frederick Place

After considering two other Memorials against and for options, with 283 signatures on the Memorial against options and 92 on the Memorial for options, and reviewing the minutes where it was found that the Committee in 1802 had voted unanimously to condemn dealings in options, the Committee of 1821 voted that dealing in options should be abolished. (Guildhall Ms. 14600/9, f. 186.) Further, they voted to include a statement in the letters of application for next year's members that each candidate would pledge "not to deal in Puts and Calls under the penalty of ceasing to be a Member." (Ibid., f. 187.) They confirmed this resolution in the next meeting on December 10. But in the meeting of December 17 a letter again headed by Jacob Ricardo but now with 193 signatures (including those of B., F., R., and S. Ricardo!) was read to the Committee urging the Committee not to take explicit action against Members dealing in options. This time, the Committee decided to conduct hearings and called in leading members of each faction to explain their views. Several of the signers of the pro-option memorial declared that they were against the use of options in principle but objected to the Committee arrogating so much power to itself in limiting the range of business practices available to members of the exchange. But then leading signers of the anti-option memorial, all former members of the Committee themselves, made much the same arguments – while opposed personally to the use of options in the exchange, they were more opposed to the Committee taking such extreme steps to curb the practice, one commenting that he never expected the Committee to go so far as it had. Finally, on December 31, 1821, the leaders of the anti-option faction on the Committee moved to rescind the resolution of December 10 and not press the issue. At the first meeting in January 1822, however, the same Committee members approved resolutions to amend the rules so that anyone dealing in options after February 14, 1822 should be expelled from the House, and

that all defaulters' accounts should be examined for evidence of dealing in options, and if found, the defaulter would not be readmitted until all creditors had been fully paid off.

While this passed by a majority of the 18 members present at that meeting, the election of March 25, 1822 of the 30 members of the Committee would decide the final outcome. The campaign began in earnest, with the "optionists" as they were disparagingly named by their opponents, turning for help to the Trustees and Managers, the committee of nine representing the interests of the Proprietors. Clearly, the arguments of the Ricardo clan that the rise in membership after the end of war inflation owed a great deal to the use of risk-abating options appealed to the Proprietors whose income depended on the number of subscribers in the exchange. Legal appeals were made to determine if the Proprietors could overturn the decision of the Committee. The legal opinion given the Trustees and Managers, however, affirmed that the Deed of Settlement gave the Committee full power to control the admission of members and they could require the letter they were proposing and it would be binding on those who signed it. Only by amending the Deed of Settlement could the Proprietors take this power away. The decision was printed up in triumph, probably by members of the Committee, and circulated to the membership, gloating that the opinion rendered by the Managers' own legal counsel "like a killing frost it has nipped their root; and now they fall, alas! Like Lucifer, never to hope again."

An unprecedented 419 ballots were turned in for the election of the thirty members to comprise the Committee for General Purposes for the year 1822. The scrutineers – H. Wheeler, James Wetenhall, and William Turquand – ruled, however, that 415 of the ballots were imperfect, as they included the names of two individuals who had not paid their subscriptions and were not proprietors and so were ineligible to be members of the Committee. So only four ballots determined the outcome of the election, and 17 new members appeared, including the redoubtable Jacob Ricardo. The leader of the "anti-optionists," Mr. A. Baily, resigned as Deputy-Chairman, and two of his supporters, Wakefield and Coopers resigned. They were replaced with de Leon and Abraham Montefiore, both signers of the original "anti-optionist" memorial with 69 votes each, whereupon three more members resigned, requiring yet another by-election. At this point, Mr. Laurence moved that as the resignations had occurred because the members in question felt the original election was irregular, that the new by-election should be for all 28 positions filled with four votes. It was lost for want of a second! In the election to fill the three vacancies, no fewer than 25 names were voted for, with the winning candidates receiving 142, 125, and 94 votes – evidence that the bloc voting for the Committee that had characterized previous elections (and which would resume for most of the exchange's history) had finally been put aside.

7. The rise and demise of the Foreign Stock Exchange, 1822-1832

Barnard's Law would reappear again whenever another round of failures would occur until it was finally repealed in 1860. But for the next few years the attention of the Committee was diverted to an entirely different issue – how to cope with the demands of an entirely new group of traders who wished to trade in foreign securities, both the bonds issued by the newly-independent states of Spanish America and the shares in the newly-privatized mines expropriated by the rebellious colonists. Again, the Proprietors with their eye on the revenues to be obtained from an expanding membership, who would have to engage in an extended range of activities to earn a living, were favorable to the requests of these traders for expanded, and preferably separate, facilities for carrying on this new trade. Note that at

least four of the new members of the Committee supporting the “optionists” were Proprietors. The strict constructionists, as a matter of principle, raised the objection that the Deed of Settlement only referred to dealing in “British stocks” so they feared that dealing in foreign stocks would be illegal for the Stock Exchange. The “optionists”, again with recourse to legal counsel, argued that while the Deed mentioned British funds, it did not forbid dealing in foreign stocks. Rather than resume warfare on this issue, however, the Committee compromised by referring the matter to the Trustees and Managers. They responded quickly by renting an adjacent building, dedicating it to dealing in foreign stocks, and taking responsibility for admitting the members to the Foreign Exchange but on the same terms as used by the Committee for General Purposes for admitting members to the British exchange. In their report to the Committee on January 6, 1823, they reassured them that they had carefully vetted the applicants and admitted no fewer than 120 with many others applying. They went on to lay out the ground rules for operating the new adjunct to the Stock Exchange.

“It is their opinion, that the transactions of this new Establishment, ought to be limited solely to Foreign Securities: & that the persons admitted, ought to confine their dealings in them to that house alone, without frequenting any other places now used, or that may hereafter be opened for that purpose; it being indispensably necessary, that the public should be informed as nearly as possible of the actual prices of the various securities which cannot be done with precision, when more than one market exists.”

“And they are also of opinion that the house shall be opened for business at 10 o’clock in the morning, & continue open until half past 4 o’clock in the afternoon – and this extension of time beyond the hours of the Stock Exchange, they are only inclined to concede, in order to suit the convenience of merchants, whose transactions oblige them to remain on the Royal Exchange until that hour.”

“Finally, The Managers have the satisfaction to state: that although they only took possession of the New Room on the 25th of December; yet, it was opened on the 1st instant with every suitable accommodation. That already, transactions to a very considerable amount have taken place there and they have reason to hope that, with the liberal & effectual cooperation of the Members of the Stock Exchange, (whose interests are so immediately connected with the undertaking) it will ultimately prove successful, notwithstanding the powerful opposition with which it is menaced.”

(Guildhall Ms. 14600/9, f. 321.)

The Committee then, with only 14 members present, formally rescinded the “constructionist” resolutions of the previous year, placing themselves on record for the upcoming election in 1823. Again, turnout was heavy, 340 ballots were submitted with 117 names and only five lists were judged imperfect. The optionists had confirmed their ascendancy. Moreover, the new Committee joined with the Trustees and Managers and 7 members of the Foreign Exchange to admit the members of the Foreign Exchange for the coming year. (Guildhall Ms. 14600/9, f. 349.) James Wetenhall, responsible for publishing the twice-weekly *Course of the Exchange* as the official price list of the Stock Exchange, was authorized first to include the most active foreign stocks in his regular price list, and then, at

the request of the Managers, began publishing a daily price list for just the Foreign Market. Trouble quickly loomed, however, when the subscribers to the Foreign Market refused to elect seven members from the fourteen names presented them by the Committee. There followed a battle of wills between a deputation from the Foreign Stock Exchange and the Committee, as the Foreign Stock Exchange tried to establish its freedom from governance by the Committee and the Committee tried to maintain control of its market place by ensuring the Foreign Stock Exchange did not usurp its premier role in determining the price of British securities. The overlapping membership of the two exchanges was a cause of concern on both sides.

As long as the boom in foreign securities lasted – that is until the autumn of 1825 – the representatives of the Foreign Stock Market found their membership increasing and consequently they held fast to their determination for establishing independence from the Committee for General Purposes. By the election of 1823 the Foreign Stock Market had its own governance system, the Foreign Committee. Faced with new securities devised by the London merchant banking houses eager to exploit the fabled (and much exaggerated) riches of Spanish America, the Foreign Committee proved to be the source of several innovations that were later incorporated into the rules and regulations of the London Stock Exchange. For example,

The Foreign Committee on 27 April 1824 resolved “That this Committee seeing the impropriety of Members dealing & marking bargains in Foreign Loans & other securities previous to such Loans or Securities being contracted in, do recommend that in future the members will not bargain or deal until such loans or securities be finally contracted for & replies sent to Letters of Applicants for subscriptions. Resolved that this Committee will not recognize or take notice of any bargains made previous to such contracts & the answers being returned to Application.”

(Satterthwaite ms.)

This was the first listing requirement formally stated by the governing committee of either exchange, but was later incorporated into the rules and regulations of the London Stock Exchange proper. But this requirement alone was insufficient; in August 1825 the Foreign Committee resolved, “That this Committee will not recognize any bargains done in the shares of any Company unless it shall be satisfactorily proved to them that such company is really formed & that directors are already engaged in carrying the objects in to effect.” This resolution was in response to a long letter from Wilks & Verbeke, solicitors, in which a scheme to create a mining company called the Guanaxuato Mining Association had been proposed to them in which it transpired that no directors were actually committed to the project. Wilks & Verbeke, moreover, published their letter in the *Times* in July. Then, again in February 1826, the Foreign Committee issued two notices in quick succession, the first resolving,

“That the Purchasers of all foreign securities or shares in British Joint Stock Companies be recommended to use due diligence in ascertaining the authenticity of the documents that may be handed to them whether under the denomination of Scrip Certificates, bankers Receipts, Debentures or others. And unless notice be given to the Committee of the want of such authenticity within 12 months after the purchase they will decline interfering on the

subject except for the purpose of discovering an intended fraud.”
(Satterthwaite ms.)

And the second, after a number of Latin American bonds had defaulted and most mining ventures proved uneconomic,

“that the committee will not sanction or take any cognizance whatever of Bargains that may be made in New Bonds or Stock or any other Securities issued by any Foreign Government that has not duly paid the dividend on former loans raised in this country unless that government shall have effected some satisfactory arrangement with the holders of the Stock Bonds or other securities on which the Dividends have been left in Arrear.” (Satterthwaite ms.)

All these measures were to be taken as well by the London Stock Exchange, especially as the Foreign Stock Exchange was formally absorbed by it after a general meeting of the subscribers to the Foreign Exchange resolved on March 24, 1828, to “surrender the whole management of the affairs of the Foreign Stock Market to the Committee for General Purposes of the Stock Exchange.” (Satterthwaite ms.) The Foreign Committee, however, continued to meet until 1831 as the affairs of the Foreign Exchange were wound up.

After the collapse of the market for Latin American securities at the end of 1825, the issue of dealing with “Failures” became vexatious for both groups. Members of the London Stock Exchange could, if eligible, trade for foreign securities on the Foreign Exchange so that a number of traders had dual memberships. If misfortune came their way in their business on one of the exchanges, however, they would be forced to default on both exchanges. By 1822, each new member of the London Stock Exchange had £500 surety bonds deposited by his recommenders with the Committee for General Purposes. Members of the Foreign Exchange, however, had only £300 deposited by their recommenders in the Foreign Committee. Could the sureties in one exchange be sequestered strictly for the use of a defaulter’s creditors who were members of that exchange? Or would the sureties in both exchanges be put into a common pool for the benefit of creditors in both exchanges? Repeatedly, the Committee for General Purposes resolved that the “common pool” principle was sacrosanct, presumably so it could maintain in principle its control over both exchanges, which was gradually re-established despite the resistance of the members of the Foreign Committee.

In 1823, the Committee ruled that Members could not enter into partnerships with members of the Foreign Exchange, and then followed that by forbidding dealings in foreign securities in the Stock Exchange, resolved that “in the event of the failure of a person either in the Stock Exchange or in the Foreign Stock Market, who at the time of his failure shall have an account in both houses, the debts due to such person shall form a joint fund from which his Creditors in both houses shall receive an equal dividend in proportion to their respective claims,” informed the Committee of the Foreign Stock Market that, “it is not considered expedient to alter the existing practice of the Stock Exchange which allows no persons but Members of the House to participate in any Funds collected therein,” and ended the year by resolving, “That the money brought forward by a Defaulter from his own resources, shall be divided between his Creditors in the English & Foreign Markets in the proportion of their respective Balance claims on his estate,” and “That any Member of the Stock Exchange not complying with his engagements in the Foreign Market, cases to be a

member of the Stock Exchange.” (Guildhall Ms. 14600/10, ff.12, 22, 31, 43, 47.) Recognizing the confusion that remained in the minds of most members over the relationships between the sureties in the two exchanges, governed basically by the same individuals, first meeting as the Committee for General Purposes, and then as the United Committee with members of the Foreign Committee, the Committee resolved in February 1825,

“that on all future securities given on the admission of Members, the following words shall be inserted after the Word ADMISSION, “in either the Stock Exchange or Foreign Stock Market.”

It having been always understood by the Committee that the security given applied to both markets, seeing that a Member of the Stock Exchange if even failing only in the Foreign Market is thereby precluded from Admission to the Stock Exchange.

And that the following notice be inserted in the Letter of application immediately under the signatures of the sureties.

NB This Committee have decided that the following shall be the mode of its disposal. It shall be first available for the liquidation of the debts due in the Stock Exchange, to its full extent; and if there shall be any surplus, it shall be handed over to the creditors in the Foreign Market.” (Guildhall Ms. 14600/11, f. 170.)

By 1827, with membership in the Foreign Exchange dwindling and the business of both Committees taken up with sorting out the claims upon numerous defaulters in both houses, the Foreign Committee proposed consolidation. The Committee for General Purposes, however, having recently increased the sureties required of their Members to three separate recommenders each posting bonds of £300, thus nearly doubling the guarantee required of new Members, had no wish to allow the members of the Foreign Exchange into the House without similar guarantees. Only if the members of the Foreign Exchange had been members for at least three years and not failed at any time, could they be admitted on the terms that had applied previously to members of the English Exchange, namely two bonds of £250 each. This was a significant increase for the members of the Foreign Exchange and they naturally objected, but to no avail. And members of the Foreign Exchange of less than three years standing had to come up with the new level of guaranties, three bonds of £300 each. (Guildhall Ms. 14600/11, ff. 193, 197, 222, 224, and 253.) The power of the Committee for General Purposes, and the preeminence of the London Stock Exchange was affirmed, and would not be challenged for decades to come. Nevertheless, in their meeting of July 30, 1831 they unanimously approved including the appropriate rules on Bargains and Quotation of Prices from the Rules and Regulations of the Foreign Market. (Guildhall Ms 14600/12.)

8. The new rules and regulations of 1832

The new rules, printed up in 1832, had the same structure and headings as the original rules of 1812, with one exception. The brief rule about dealing with puts and calls in the accounts of a defaulter was omitted. The rubrics, then, were: Admissions, Bargains, Clerks, Committee, Failures, Partnerships, Passing of Tickets, Quotation of Price, and Settling Days.

Admissions. Given the travails of the stock exchange over the past 20 years, it is not surprising that this section was both expanded and clarified significantly. Now, each

candidate had to have three recommenders, each of whom had to attend personally at the election of the new candidate and commit to a bond of £300 to be paid into a common pool for relief of the candidate's creditors, should he become a defaulter. Exceptions were made, however, so that candidates who had been clerks in the exchange for at least four years, or members of the Foreign Exchange for three years, needed only two recommenders willing to post bonds of £250 each. Members of the Foreign Exchange of five years or more standing could be admitted on the recommendation of two Managers of the House, or any two members of the Committee, a final concession to the pleas of the Foreign Committee to ease the merger of the two bodies. Foreigners, on the other hand, were required to have no fewer than five recommenders, each willing to post bonds of £300, as well as having been resident for five years. But previously they had not been admissible at all. The letters of application and recommendation were expanded, refined, and put on printed forms. Explicit recognition was given that members engaged in other businesses before 1812 were exempt from the requirement that they not do any business except that of the Stock Exchange. But, anyone entering into a non-Stock Exchange business enterprise subsequent to entering the House was to be expelled immediately.

Bargains. The Committee now stated clearly that the hours of business for the exchange were from 10 a.m. to 4 p.m., and no accommodation would be made for members wishing to do business in foreign stocks on the Royal Exchange and then coming to the Stock Exchange. The after-hours market was not yet the problem it would become later in the age of telegraphy and telephony. Buying-in and Selling-out, having become increasingly common during the turmoil of the past two decades, were recommended, not required, to be done with the Secretary of the Stock Exchange at the Commissioners Box (the location of the Commissioners for the Reduction of the National Debt, charged with buying a certain amount of government debt each month.) The times when buying-in or selling-out procedures could begin were now specified in terms of the opening and closing times of the exchange. Buying-in of stock that had not been delivered or transferred on the contracted day could begin one hour after next day's opening of the exchange. In addition to making the seller liable for any loss caused, the buyer could extract from the seller a penalty of 1/8 percent on the amount of the stock that was not delivered. Presumably, the motivation of the penalty was to make the delinquent seller pay the commission on the buying-in transaction, if done through the Secretary of the exchange.

Rule 18 was inserted to make the Clerk of the House responsible for setting "making-up prices" of Consols by taking their average price between ten and a quarter before four o'clock on each of the four days preceding the Account Day. Members used Consols as collateral for the loans they needed to carry over their open positions on risky bargains in other stocks or securities from one Account period to the next. By providing an explicit price for the Consols at the time Members arranged their accounts with each other, clearing some, extending others, the Stock Exchange facilitated clearing operations among Members, without yet providing a centralized clearing service.

On the issue of options, the Committee had put in Rule 13 stating: "The Committee will not take cognizance of any bargain done in English Stock etc. for a future account if it shall have been effected more than *fourteen days* previously to the day fixed for the adjustment of the existing account; nor of any bargain done in Foreign Stock, shares, etc. for a future account if it shall have been effected for any period beyond the end of the ensuing month." (Guildhall Ms. 24915, p. 19.) Disputes over the terms of options extending beyond

the next Account-Day, in other words, were not the concern of the Committee, but they made no effort to either ban or allow dealing in options. Another set of rules were added to take account of the special conditions of the Foreign Market, specifying when buying-in and selling-out actions could be taken. The minimum amounts for trades in foreign stocks were put at the same level as with English stocks, namely £1000 in stock or scrip, although French *rentes* were dealt in with units of 1000 francs, Neapolitan *rentes* at 250 ducats and Russian stock at £1036. (Guildhall Ms. 24915, p. 21.) And, of course, the final rule, given the sad experience of 1825, was:

The Committee will not sanction, or take any cognizance whatever of Bargains that may be made in *New Bonds* or Stock or any other Securities issued by any Foreign Government that has not duly paid the Dividends on former Loans raised in this country, unless that Government shall have effected some satisfactory arrangement with the holders of such Stock or Bonds, or other securities on which the Dividends have been left in arrears. [Guildhall Ms. 24915, p. 23]

Clerks still had no formal requirements, but Members had to justify to the Committee their need for employment of each clerk in person. Further, it was made clear that any clerk engaging in business on his own account with license from the member employing him and the approval of the Committee, would be expelled immediately. Also, any Member doing business with such a clerk was liable to censure by the Committee.

Committee. Given the irregularity of the 1822 election, new rules were inserted specifying that “every Subscriber is entitled to vote, and, if a Candidate, to receive votes although he may not have paid his subscription for the ensuing year,” and “in case any balloting List shall contain the name, or names of one, or more Person, or Persons, who may not have paid his, or their Subscription for the current Year, the said List shall not be thereby rendered invalid in respect of the persons who have paid.” [Guildhall Ms. 24915, p. 26] An interesting expansion of the Committee’s powers was contained in a new rule, which allowed the Committee in effect to pardon Members of the House who had violated one or more rules.

Whenever, by a *strict adherence* to the Rules and Regulations, it shall appear to not less than three-fourths of a Committee, specially summoned to take the case into consideration, that there are *particular circumstances* which ought to take it out of the operation of the regulation applicable thereto, and that *injustice would be done* to the party interested, by *enforcing* the general rule; the Committee *have the power to relieve him*, if the proportion of members before named be of opinion that the regulation may be departed from; but it shall *require confirmation* by a majority of a like proportion of votes in a Committee also especially summoned for that purpose; at which *no other business shall take precedence.* Whenever application shall be made to the Committee to exercise this power, they shall not proceed to a decision unless twelve Members be present. [Guildhall Ms. 24915, p. 32-3.]

No doubt this was intended to maintain the legitimacy of their governance, but it did expand their power immensely. Finally, the duties of the Secretary were expanded, the most interesting being the final rule where he was directed, “...one week previously to the Election in March, (to) place on the Table of the Committee Room, for the inspection of the

members of the House, a List of the Committee, with the number of attendances of each for the past year. [Guildhall Ms. 24915, p. 36]

Failures, of course, had generated a good deal of work for the Committee, which had already decided to devote certain meetings entirely to the questions over re-admission. As the entire Committee rarely met, even on these occasions, the issue of which members should oversee the accounts of a given defaulter was specified in Rule 18:

Upon every application for the readmission of a Defaulter a Sub-Committee, consisting of not more than three Members shall be appointed to investigate the conduct, and accounts of such Defaulter, and to report the same to the Committee for General Purposes. The attention of the Sub Committee shall be directed.

1st To ascertain the amount of the *greatest balance of Stock* at any time remaining unsettled by such Defaulter during the progress of his account; as well as the *balance of Stock unsettled at the time of his failure*; and whether the sums bought or sold were for his *own* [p 41] *account*, or on *account of Principals*; specifying the amount of each respectively; and also to ascertain whether the Defaulter pocketed any Tickets on the Account Day.

2nd. To ascertain the total amount of money, or other property brought forward towards the liquidation of his Debts, distinguishing the money arising from sums collected in the *Stock Exchange*; the money *paid by Principals*; and the money, or other property brought forward by himself.

3rd To ascertain the conduct of such Defaulter preceding, and subsequent to his failure; and in general, towards the investigation of any other facts which they deem essential to inquire into.

Rule 11 also specified that a defaulter applying for readmission had to pay at least one-third of the losses resulting from his speculations, or those of his principals, from his own resources. Moreover, upon application for re-admission, not only was a defaulter required to get the approval of his creditors, who might be disposed to have him resume business under their control so he could pay off more of his debts, but also of two Members who were not his creditors. Their recommendation of the defaulter, along with their names, had to be posted in the Stock Exchange for eight days before the Committee would consider his application for re-admission, the same terms used for admission of an entirely new candidate to the House.

Partnerships were further limited so that no partnership with a non-Member of the House was allowed, closing up a loophole against participation in stock trading by other businessmen or rentiers. (Note the difference from both Paris and New York.) Moreover, any Member allowing another Member to “job generally with his Stock, and participating in any way in the profits,” was to be considered a Partner and therefore liable for his share of any losses. Moreover, any Member who colluded with a partner of a firm to deal on the partner’s own account separate from that of the firm was liable to expulsion by the Committee.

Passing of tickets procedures had also been subject to abuse by the number of failed, or failing Members, transfer tickets being pocketed in a number of cases so that fresh transfer fees had to be paid and, worst of all, alterations in the terms of the transfer ticket so it could be applied to another transaction. Both abuses were sanctioned, the first in delaying

readmission of a defaulter and the second with the costs of a new transfer ticket or tickets levied against the guilty Member.

Quotation of Price added only the provisions on minimum amounts for transactions in foreign stocks and **Settling Days** were now set by the Committee at least fifteen days prior to the settlement of existing accounts and at least eight days before the end of each month for settlements in foreign stocks to take place the following month.

Such were the minimal set of rules codifying well-established practices that had evolved over the previous century and a half, now articulated and enforced by an annually elected body of 30 respected practitioners from among the 800 regular subscribers to the London Stock Exchange. What changes needed to be made as they entered the next phase of expansion – the railway mania of the 1830s and 1840s and before general incorporation was enacted in 1854?

9. The modification of rules and regulations, 1832-1854

With 800 applicants each year coming under the perusal of sub-committees of the Committee for General Purposes, the Committee resolved in 1831 “That in the future the result of a ballot taken on application for admission shall not require confirmation but be decisive of such applications.” (Guildhall Ms. 14600/13, October 31, 1831.) The first inkling of some members augmenting their incomes by charging double commissions arose in 1832, when the Committee learned that some Brokers executed their orders, on which they received a commission from their client, with a Dealer who was not a member of the House, and received a commission from the non-member dealer as well. The Committee resolved, “...that the practice of members taking two commissions, where the interest of only one Principal is concerned is highly injurious to the interest of the public, by holding out temptation to shun the competition of a Public Market, and this Committee will visit with its public censure any member of the House against whom such a practice shall be proved in future.” (Guildhall Ms. 14600/13, March 23, 1832.)

Clarification of the procedures for dealing with defaulters required that the Secretary receive the accounts of every defaulter, either directly from the defaulter within fourteen days of the failure, or from the defaulter’s creditors, so that a central depository of the defaulters’ accounts could be maintained and referred to as their names came up for re-admission.

9.1. Admissions, 1832-1854

More serious was a temporary loss of control over the access to the House by the Committee as it learned that more and more Members were employing Clerks without having them approved by the Committee. In September 24, 1833, the Committee passed unanimously the following resolution:

“The Committee having recently had the unpleasant duty of censuring the conduct of several members of the Stock Exchange, who in violation of the regulations for the admission of clerks, have employed persons in that capacity in the House without applying for the sanction of the Committee, or paying the Managers the annual price of admission, and having reason to believe that there are cases not yet brought before them, are determined to put an end to such irregularities, and therefore do hereby give notice that from, and after, the 1st day of November, any member who shall employ a clerk in the Stock Exchange without having applied for and obtained their sanction, shall in addition to all arrears that may be due to the Managers, forfeit and pay

the sum of ten guineas to the fund for the relief of deceased members.”
(Guildhall Ms. 14600/13.)

Further, in 1834, the rule regarding dealing with authorized Clerks was extended to cover bargains for money as well as for time, meaning that now Clerks authorized to deal with other Members on behalf of the Member employing them could deal both for money and time bargains, but also that unauthorized Clerks could not enter into bargains with other traders whatsoever, under penalty of expulsion of both parties. Finally, in February 1835 all further distinction between the Foreign and English markets was removed, both falling under the rules of the English market (which in 1832 had been expanded to include the regulations specific to foreign stocks). Moreover, the Committee took control of which new listings could be printed in the daily list still being produced by Mr. Wetenhall (now William, following James, who had followed Edward!).

9.2. The modification of rules on failures, 1832-1854

In May 1835, the prices of Portuguese and Spanish bonds suddenly collapsed, causing a number of potential defaults at the normal settling day for foreign stocks of May 29. The Committee, using the discretionary powers it had previously given itself of not applying certain rules when it felt circumstances warranted leniency, first declared that it was postponing cases of default for a week in the hope that many accounts could be satisfactorily arranged in the interval. But, the Committee declared, “... a rigid examination of all defaulter’s accounts shall be instituted, and every unprincipled speculator, in, and out of the Stock Exchange shall be exposed”. (Guildhall Ms. 14600/14, June 2, 1835.) They then suspended the publication of names of defaulters for one month to allow things to settle down. By October of 1835, the Committee felt compelled to assert that their leniency of the previous spring was not to be considered a precedent, especially not their suspension of the requirement that defaulters make up 1/3 of the total losses they had incurred and caused to others out of their own resources. They unanimously declared:

“The Committee had been prompted to the exercise of their dispensary power, in the case alluded to, in consideration of the sudden and total destruction of the market value of the above securities, which caused the numerous failures of that period, and they would not have exercised their dispensary power in those cases, had they thereby weakened in the slightest degree the principle of Law which they feel to be most essential for the protection of the Stock Exchange, against improvident and fraudulent speculation.” (Guildhall Ms. 14600/15, October 19, 1835.)

By November 1835, the Committee realized it had to create another office to handle the continuing monitoring required of defaulters’ accounts – the Official Assignees. These two individuals, appointed annually by the Committee, were to attend each meeting of creditors held for each defaulter, summon the defaulter to such meetings if necessary, and continue to manage the estate of the defaulter under the direction of the majority of the creditors present at each meeting. Each assignee split the fees charged for their efforts – two percent on all sums collected, but not to exceed one hundred pounds. These regulations were to be prospective, applying only to future defaults, by any current committee of creditors could ask the Official Assignees to take on the management of the defaulter’s estate if they so wished. By December, however, the Committee decided that the Official Assignees should take on the general supervision of all defaulter cases, “and to act in such manner as to

them seem best for the benefit of the creditors of each estate.” (Guildhall Ms. 14600/15, December 9, 1835.)

9.3. *Modification of rules on transfers, 1832-1854*

Also in 1835, the first sign of a burgeoning business in shares was given acknowledgement and encouragement when the Committee confirmed “That the Bargains effected in the shares of any company, not at the time controlled by Charter, Act of Parliament, or Deed of Partnership, no other document shall be required by either party, than that issued by the respective companies.” (Guildhall Ms. 14600/15, October 31, 1835.) This would lead soon to new section in the Rules on “Bargains in Shares.” While Barnard’s Law was simply ignored in the rules, and in practice in dealings among the Members, a court ruling in 1837 required a change in the rules concerning settlement of claims on a defaulter who was active in both English and foreign stocks. The Committee explained:

“A recent decision of the court of law having enabled creditors for differences on bargains in Foreign Stocks to prove their claims under a fiat of Bankruptcy, whereas an advantage may be obtained over the creditors for differences on English Stock, under the existing rules and regulations which govern the settlement of Defaulter’s Estates it is hereby, ‘Resolved to repeal the following rule, 17, under the heading “failure”, viz., Creditors on either English or Foreign Stock, or securities, shall participate in the participation of their respective claims, in the general Assets of a Defaulter’s Estate’ and to enact the following in place thereof, viz. – ‘on the failure of any member in the Stock Exchange, his accounts shall be divided into Two Distinct Estates, one consisting of the Differences arising from Bargains in English Stock, and the other on Differences in accounts of Shares and in Foreign Stocks; and the money brought forward by a Defaulter from his own resources shall be divided between such Estates in the proportion of their Balance Claims, and the Security money, if any, shall be applied in like manner’” (Guildhall Ms. 14600/16, June 26, 1837.)

In Spring 1838, just after the election of a new Committee for General Purposes, the first attempt of many that were to follow by the Brokers in the Stock Exchange to set an agreed upon scale of minimum commissions was noted approvingly by the new Committee, as follows:

“That a scale of charges for commissions on the purchase and sale of Shares having been laid before this Committee, very numerously agreed upon, and signed by the Brokers of this House: The Committee hereby extends its approval of the said scale of commissions, and directs it to be recorded in their minutes. Shares under £5 being of such various descriptions, the commission charges thereon depend upon the circumstances of the case. Shares amounting in value to £5 and under £20, commission charges thereon 2/6 per share – amounting in value to £20 and under £50, 5/ per share, amounting in value to £50 and upwards, 10 percent of value. Exceptions: All Stocks of Dock Companies; Royal Exchange Insurance and Globe Insurance (commission charges thereon 5 percent upon the Stock); City Bonds, Debentures, Loan Notes; Bonds of Parishes, Turnpikes, Canals, Railroads & of all Public Companies (Commissions chargeable thereon 5 percent of

Bond); Shares of Literary Institutions, commission chargeable thereon 10/ per share. “That the above scale of prices has been laid before the Committee for General Purposes and ordered to be entered in their minutes” (Guildhall Ms. 14600/16, March 28, 1838.)

These rates were stunningly high commissions, compared either to the practices during the Napoleonic Wars or later in the century. They were almost certainly unenforceable, and it may be that the rise of provincial exchanges, which started in 1836, was one of the competitive responses to the high commission rates practiced in London.

10. The rules and regulations of 1839

By March 1839, however, when a new Committee considered, and rapidly approved, the new rules and regulations proposed by the sub-committee appointed for this purpose, no effort was made to include a minimum scale of commissions. Effective May 1, 1839 the new Rules and Regulations were implemented and they were printed up for the entire membership. Basically, the new rules removed ambiguities in the wording of previous rules and spelled out more precisely the procedures to be followed both by the Members in their daily dealings and periodic settlements and by the Committee in its deliberations on admissions, failures, and contractual disputes among the Members. For example, under Admissions, the wording was clarified to distinguish *re-election* of ongoing members from admission of new members. If a new member were to be a foreigner, he could be admitted with the usual three recommenders each posting £300 bond only if he had been resident in Britain for five years immediately preceding his application, which represented a substantial easing of restrictions against the admission of foreigners. Again, if a Member’s subscription had lapsed for a year, he had to have two recommenders, but they did not have to post bonds for him. If subscription had lapsed for two years, however, then he had to follow the same procedures as for entirely new members. Finally, an applicant who had been bankrupt or compounded with his creditors was not eligible for admission until two years after he received his certificate or fulfilled the conditions of his Deed of Composition, unless he had paid his debts in full. And if he had been bankrupt more than once could be admitted unless he had paid off his creditors in full. Clearly, bankruptcy or failure was not unusual in the course of the stockbroking business on the early London Stock Exchange, but a Member could resume business and renew his risk taking once he had demonstrated that he could command the resources to pay off his previous obligations from failed ventures.

Many of the minor amendments in the section on **Bargains** dealt with the assigning responsibility for transactions fees on shares in non-chartered companies. Transfers of these shares were subject to a graduated ad valorem stamp duty, unlike transfers of stock in the chartered companies holding government debt – the Bank of England, the East India Company, and the South Sea Company. Transfers of East India and South Sea stock were subject to fixed transfer fees as well, unless done during morning business hours. The growing number of other joint-stock companies set their own fees for the expenses of transferring title in their stock ledgers. Some charged by the number of shares, some by the number of transfers, some expected payment from the seller, others from the buyer. Of particular interest is the first rule under Bargains in Shares, which took account of the bewildering variety of formalities now encumbering transfers of title to the proliferating kinds of financial assets available to British investors.

Every Member who has given his name to pay for transferable shares shall pay the ad valorem Duty; together with the fee attending the convergence of the same, always excepting the shares of Old Established companies, the stamps and fees of which may be proved to the satisfaction of the Committee, from long usage, to have been paid by the Seller.

The buyer shall be required to state on the Ticket the way in which he may desire to have his Shares transferred; and in those companies where the expense of conveyance falls upon the seller, the buyer shall pay any increased expense caused by such division of transfer; and in companies where the Expense of conveyance falls upon the buyer, the seller shall, in like manner, pay any increased expense incurred for *his* accommodation. (Ms. 14600/16, f. 277.)

Whatever the procedure set by the individual company, in the London Stock Exchange, the seller of stock in “the Funds,” (any of the various government bonds or annuities or shares in the three companies holding government debt), was entitled to receive from the buyer of stock a transfer-ticket on or before half-past one o’clock on the day contracted for delivery. By half-past two o’clock, the seller of shares in a company other than the three companies holding government debt, was entitled to receive a transfer-ticket for those shares from the buyer. Failing receipt of the required transfer-tickets, the sellers in each case were entitled to begin procedures for selling-out – using the Secretary of the House as a broker to find the best price currently for the securities in question. Then the contractual buyer was responsible for paying any loss that the seller incurred.

If the buyer of stock or other securities, having delivered the necessary transfer tickets, did not receive the stock or other securities on the day contracted, he had the right to buy-in the stock or securities after eleven o’clock the following day (allowing the delinquent seller the first hour after opening on the next day to make good on the transfer or delivery.) Further, if a buyer of stock had not received a transfer receipt from the seller by closing time of the exchange on the day of the bargain, he was not obliged to wait any longer to begin buying-in of the stock. Buyers of other securities who had not received delivery before three o’clock on the day of the contract, were also at liberty then to begin buying-in procedures, with the seller liable for the extra expense caused, including the 1/8 percent penalty fee on the amount of the transaction.

The continued importance of dealings in foreign government stocks is indicated by amending Rule 17, dealing with the calculation of making-up prices for Consols. Now the Clerk of the House also was responsible for determining the making-up prices of all foreign stocks, by taking the actual market prices at noon on each of the two days preceding the Foreign Settling.

The only addition to the section on **Clerks** set the terms on which a Member could employ another Member as a Clerk. It specified that the employing Member was responsible for any bargains transacted by the Member he employed as a Clerk, provided, of course, that he had authorized the Clerk-Member to do such business. Apparently, defaulters unable to return as full Members could return as Clerks, probably to enable them to work off their debts as fast as possible.

The section on the **Committee** was shortened by inserting a separate section on the **Duties of the Secretary**, and these, in turn, were shorter because of the addition of a section specifying the duties of the **Official Assignees**, duties that had previously been allotted to the

Secretary. The only change of substance for dealing with **Failures** was to backtrack on the Committee's previous determination that creditors of a defaulter in both the English and Foreign Exchanges should be treated as one body, to giving the creditors in the English Exchange precedence to now separating them clearly into two distinct bodies treated separately by the Official Assignees. This reversal of course, as discussed above, was only done in the face of external *force majeure*, a court decision dealing with the estate of a bankrupt member in the Foreign Exchange.

11. The effects of the 1839 panic

The financial panic of 1839 led to more failures on the Stock Exchange and therefore to responses by the Committee to plug up loopholes in the Rules dealing with failures that had been exploited by failing Members of the House. A new Rule 24 under Failures was approved in August 1839 that was to remain thereafter in the rules of the Stock Exchange:

“Any member who shall have received a consideration for any prospective advantage, whether by a direct payment of money, or by the purchase or sale of stock, at a price which either exceeded or fell short of the fair market price at the time the bargain was contracted, or by any other means, prior to the day for settling the transaction for which the consideration was received, shall, in case the party from whom he received it became a defaulter, refund the same for the benefit of the creditors at large. And any member who shall have given a consideration for the purpose, and in the manner above stated, shall again pay the same to the creditors, so that, in each case, the parties may stand in the same situation in respect to the creditors at large, as if no such consideration had been paid or received.” (Guildhall Ms. 14600/16, August 17, 1839.)

Then the Official Assignees were instructed to take note of all bargains in a defaulter's accounts that were effected at prices different than the ruling prices of the day, and if any consideration was given for the unusual price, that was to be entered in the accounts so that the new Rule 24 could be enforced. The Committee later instructed the Official Assignees not to collect any differences in a defaulter's estate until they were due. Some confusion then arose over what claim could be made on a defaulter's estate by a Member who had loaned money to the defaulter upon the collateral of securities whose market price had fallen so the lender could not recover the full value of the loan. It was agreed that he should be able to join the creditors when he did sell the collateral, but the Committee waffled on what the restrictions should be, probably varying with the composition of the members of the Committee who happened to be in attendance. Loans made at more than 5% interest were first excluded, then ignored, and then lenders were excluded from future assets of the defaulter that might arise from differences being paid in when those contracts fell due. Ultimately, the rule that appeared in the Rules and Regulations of the spring in 1839 read:

“In case of loans of money made upon securities valued at less than market price, the lender shall be entitled to avail himself of such additional Security, and shall be entitled to prove his Balance against such portion of the Estate of the Defaulter as shall arise from assets paid by him into the Stock Exchange; but he shall not be entitled to participate in any monies received in the Stock Exchange for Differences” (Ms. 14600/16, November 6, 1839.)

12. The railway mania of the 1840s

There followed in the recovery of the 1840s, the railway mania that led to the construction of much of Britain's rail infrastructure – and to novel forms of financing that elicited continued concern from the Committee. Starting in 1844, the Committee added to Rule No. 1 under “Quotation of Price,” that “no securities shall be inserted in the authorized list, until previously sanctioned by the Committee,” implying that some railway securities had been listed without the formal approval of the Committee. Then, the Committee felt obliged to warn against the increasingly common practice among the Members of dealing not just in shares of companies before they were vetted the Committee, or even subscriptions to offerings of shares in new companies, but in the original letters of allotment issued before subscriptions were taken. The Committee issued a general warning, that, “the attention of the Committee having been drawn toward a custom which appears recently to have been practiced by a few members of the Stock Exchange, namely the dealing in letters of allotment; the Committee feels it necessary to state that such practice is highly detrimental to the reputation of the, Stock Exchange, and injurious to the interests of the Public.” (Ms. 14600/18, November 25, 1844.) Moreover, the rules on buying-in and selling-out were expanded to include provisions for unfilled contracts among Members dealing in “foreign stock, unregistered or scrip shares.” (Ms. 14600/16, February 24, 1845.) But in 1845, the Committee had to strengthen its warning against dealing in letters of allotment, stating:

“That the practice of dealing in unallotted shares is injurious to the character of the House and reflects with danger to the parties concerned in it. That the committee therefore feels that it is their duty to urge upon brokers the propriety of declining to execute orders in such shares, and upon jobbers, to abstain from dealing in them. That no bargain in such shares can be recognized by the Committee (in conformity with the Law No 14 in regard to bargains in loans not contracted) and that they will adopt every means in their power to discourage a practice which they feel must ultimately prove injurious to the best interests of the Stock Exchange.” (Ms. 14600/19, September 12, 1845.)

Beyond their concern about the highly speculative dealings in letters of allotment, which were subject to insider manipulation, and were to be a recurrent source of public complaint against the operations of the Stock Exchange, the Committee began to set explicit requirements that companies had to meet for their securities to be listed. First, in February 1844, the Committee added the note to Rule No. 1 under “Quotation of Price,” that “no securities shall be inserted in the authorized list, until previously sanctioned by the Committee.” (Ms. 14600/18, February 5, 1844.) This assertion of authority was insufficient in the face of overwhelming demand, however, so in October 1845, the Committee unanimously resolved:

That the Committee will not order the marking of any shares in the Official List, except upon the personal application of a member of the House, who must pledge himself that the company he wishes to have marked is respectable, and otherwise satisfy the Committee of the propriety of marking the same. ... That the Committee will entertain no application for fixing a settling day in the shares of any new company, unless the Member applying for the same attend the Committee in person, on the days appointed for the

transaction of routine business, with a Certificate from the Secretary of such Company that the Subscription List is full (with the exception of such shares as may be reserved for special purposes); that not less than two-thirds of the Scrip have been paid upon and are ready to be issued; that the period publicly advertised for signing the Deed has expired and that there is therefore no impediment for settling the account. . . . That the Committee will entertain no Claim for new Shares, attaching to the purchase of old ones, unless notice of such Claim shall have been made in writing, a duplicate of such notice certified by the signature of the party delivering it, with the date of delivery, must be exhibited by the Member making such claim; and the Committee shall adjudicate no dispute arising out of the non-delivery of such shares, unless brought before them within ten days after the first Settling Day appointed for the delivery of same.” (Ms. 14600/19, October 20 & 23, 1845.)

By the end of the railway boom, a boom in mining shares had begun, so that in 1852, the Committee first declared with respect to railways and other industrial companies, that they would not fix a settling date for the shares of a new company or order its quotation in the Official List, unless the following conditions had been met:

That the application that must be previously laid before the Secretary of the railway department, of the Stock Exchange, and be certified by him, be accompanied by a certificate from the Secretary of the company stating that the subscribers list is full, with the exception of such reasonable amount of shares, if any, as may be reserved for special purposes, that the deposit on not less than two-thirds of the shares have been paid (which must also be certified specifically by the Bankers of the company) that the scrip or shares are ready for delivery, and that no impediment exists to the settling of the account.

The Member making the application, to attend the Committee on the day fixed for taking it into consideration. The Committee will, notwithstanding, when they deem it expedient, fix a settling date for any new company, when the foregoing conditions have been complied with, provided the scrip or shares be ready for delivery and that no impediment exists to the settlement of the account, it being expressly understood that when a settling day is fixed under these circumstances, the shares of such company will be quoted in the Official List.

The Secretary in announcing to the Stock Exchange a settling day of a new company will state in his notice whether it be fixed with or without the authority for its insertion in the Official List.

The Committee then turned its attention to the new mining companies whose shares were being feverishly traded in by a group of Members. After the 1st of February, 1853, no new mining company would be listed unless the shares were registered and deliverable by transfer only. Further, that no new railway or industrial company in a foreign country would be listed until satisfactory proof was given to the Committee that the company was legally recognized in its home country. Then it noted that purchasers of railway stocks or shares were justified in refusing payment for a transfer if it did not include the certificates or coupons, unless they could be certain that the certificates or coupons were maintained at the company’s offices. (Ms. 14600/21, February 28, 1853.)

During the great increase in business on the London Stock Exchange, the Committee unanimously decided to limit the actual hours of trading in several steps. First, from the hours of 10 to 4 that had been the traditional times for “time out of mind,” the Committee cut half an hour off each end in March 1845 and closed the House on Saturdays at two o’clock. (Ms. 14600/18, March 19, 1845.) Later, they tightened the hours further, ordering that after October 1, 1845, the hours of business would be shortened further to be from 11 to 3 o’clock. This was amended, however, so that the exchange would open at 11 on Mondays, then on the remaining days at 10:30 but close at 3 o’clock each day, save on Saturdays when it would continue to close at 2 o’clock. (Ms. 14600/18, September 12, 1845.) The final outcome by 1854 was to keep the shorter hours, 11 to 3 each day except Saturday when the exchange would close at 2.

It is apparent from the continued attention given to the issues of timing for buying-in and selling-out on uncompleted contracts, and on the regulation of procedures to be followed for the passing of tickets on Settlement Days, that the back office business of the exchange was becoming overwhelming. The solution at this stage was to shorten the hours of actual trading so the clerks and members could sort out the complications of actual payments and deliveries in the remaining working hours. The next year, the Committee complained that some Members were trading before opening hours and warned, “that they consider this practice injurious to the general interest of the House and strongly recommend its discontinuation. The Committee of course can take no cognizance of any bargains done other than between the regular hours of business.” (Ms. 14600/20, September 16, 1846.) Further, the Committee plaintively recommended (strongly), “that in order to lighten the amount of business in scrip shares to be arranged on the settling days, as well as to lessen the risk of the dealings therein, that brokers and jobbers shall, as far as is practicable, make their bargains either for money, or the following Tuesdays and Fridays.” (Ms. 14600/19, September 17, 1845)

By 1851, the Committee had to implement Rule 88 on Bargains spelling out the responsibilities of each Member on the Ticket-Day, which had been instituted to spread out the sorting of bargains to be completed on Settlement Day, two days later.

Every Member who has to pay for stock or shares shall pass a name for the same *before twelve o’clock* on the Ticket-day, and in the event of his not doing so, should the stock or shares be sold out, the loss, if any, should fall on him: it is therefore required that if the Ticket should not be passed before Twelve o’clock, that the person taking it should certify the same on the back thereof. The time for selling out shall be from *half past Two to Three o’clock*; and the person holding the ticket at *Two o’clock* shall be responsible for the same, if sold out on that day, unless such ticket had not originally been passed before Twelve o’clock; but should the stock or shares not be sold out until the following day, then the person who held the ticket at THREE o’clock the preceding day shall be liable, unless it originally had not been passed before Twelve o’clock on the Ticket-day. When the Ticket-day is fixed for Saturday, the time for selling out shall be between One and Two o’clock, and the person holding the ticket at One o’clock shall be liable. The Committee require that every person who receives a ticket “*after Two o’clock*” or “*after Three*” on name day, shall notify the same on the back of the ticket, by drawing a line, or otherwise, in order to facilitate the tracing when shares are sold out; and any

person neglecting to do so will be held responsible for any loss that may be incurred. Every member dividing a ticket shall *retain the original ticket*, that access may be had to it, should any portion of the shares have been sold out. The broker employed to buy in or sell out stock or shares shall trace the transaction to the responsible party, and claim the difference thereon (Ms. 14600/21, March 10, 1851.)

This complicated set of instructions was to be subjected to minor modifications every time a new upsurge in business occurred on the exchange for the next century. Only when automation was introduced in the 1960s was it eliminated.

13. The rules of 1854

A new set of rules was cast up in 1853 and then published in Fenn's Compendium for the first time in 1854. Unfortunately, Henry Ayres, the compiler of the fourth edition of Fenn's Compendium, chose to omit the final sections dealing with failures and official assignees, but these seemed to have undergone only minor changes in wording. The format of the rules was changed so that every rule was numbered sequentially, which was to remain the format thereafter, and the order of topics was changed. Now, instead of beginning with the rules governing admissions, the rules began with the election of the **Committee** for General Purposes, its authority, and its procedures. These were unaltered from the previous rules of 1832 and 1839 except for the addition of Rule 21, the "dispensatory" rule that gave the Committee the authority, at a special meeting with no fewer than twelve members present, on a three-fourths majority, to dispense with applying a particular rule in a particular case. Dispensation, then, was to be performed under the same restrictions that applied to dealing with expulsion of a Member. The section on "Duties of the Secretary" was omitted entirely.

Next came the section on **Admissions and Re-Elections**, which was unaltered in substance from the 1839 version, save that references to **Partnerships** were removed to a separate, expanded, section after Admissions and Re-elections. In that section, dual capacity was explicitly forbidden, Rule 47 stating, "The Committee will not sanction any partnerships between a Broker in the Stock Exchange, and a Dealer in Stocks or Shares; nor allow Clerks of Brokers to act as Dealers in the Stock Exchange." (Fenn's Compendium, 1854, p. 95) The came the section on **Clerks**, for the first time setting an age restriction (no one under age 15 was allowed), and specifying that no one ineligible to be a Member for reasons other than age could be admitted as a Clerk, and that no Clerk could be authorized to do business in the Stock Exchange until he had been employed as a Clerk for two years. Moreover, no Member of less than two years standing could employ a Clerk authorized to do business on his account without the consent of his sureties. (Rule 51).

Instead of one section on "Bargains", there now followed six full sections to cover all the forms of securities that were now being traded on the Stock Exchange. First came the "General Rules Applicable to Stock Exchange Transactions," then the "Rules Applicable to Securities Deliverable by Transfer" (English, India, or Bank Stock), followed by "Rules Applicable both to English Stock and English Stock and Shares of Public Companies," "Rules Applicable to Shares and Stock of Public Companies," "Rules Applicable both to Transferable and Scrip Shares," concluding with "Rules Applicable to Securities Deliverable to Bearer."

The final rule on **Settling Days** now specified the listing requirements that the Committee felt necessary to impose for new companies, mainly railroads. For the first time,

verification of the statements of the company had to come from the bankers of the company who had handled payments for subscriptions in the shares of the company.

The Committee will fix a Settling-day for the Shares of any New Railway, or other Industrial Company, and order its quotation in the Official List, if satisfied of the bona fides of the concern, and on the fulfillment of the following conditions:—

That the application (which must previously be laid before the Secretary of the Railway Department of the Stock Exchange, and certified by him), be accompanied by a Certificate from the Secretary of such Company, stating, that *not less than two-thirds of the Shares have been subscribed for, and the deposit paid thereon, such payment to be certified specifically by the Bankers of the Company; that the Scrip or Shares are ready for delivery; and that no impediment exists to the settlement of the Account.*

The Committee will, notwithstanding, when deemed expedient, fix a Settling-day for any New Company, where the above conditions have not been complied with, provided the Scrip, or Shares, be ready for delivery, and no impediment exists to the Settlement of the Account; but the Shares of such Company cannot be quoted in the Official List. And the Secretary, in announcing to the Stock Exchange a Settling-day for Shares of a New Company, must state in his notice whether it be fixed with, or without, the authority for its insertion in the Official List. (Fenn, 1854, p. 107.)

In 1859, the Committee combined three rules that had evolved for listing requirements for railways, domestic and foreign, adding the requirement that “...it being expressly understood that shares reserved for future issue, or granted to projectors, concessionaires, or owners of property in lieu of money payments will not be considered as forming any portion of the two thirds subscribed; and that shares to be granted to contractors for works to be executed must be specially so described and in no case will be admitted by the Committee as representing part of the subscribed capital if exceeding one-fifth of the whole capital.” Further, documents had to accompany the request for listing (a Member’s personal assurances no longer sufficed): the prospectus, official certificates from the company stating the number of shares applied for and allotted, the amount of deposits paid thereon and specifying the number of shares (if any) to be taken by contractors, a certificate from the bankers of the company accompanied by the pass book stating the amount of the deposits received by them, and the number of shares on which such deposits have been paid upon allotment letters. “It is indispensable that the Broker (if any) to the company shall attend when the question of any settling date or quotation is brought before the Committee. The Secretary in announcing to the Stock Exchange the settling date for the shares of a new company shall state, in his notice, whether it be fixed with or without, the authority for its insertion in the Official List.” (Ms. 14600/25, February 28, 1859.)

While there had been a move to insert rules on minimum commissions, the Committee had so far restrained itself to simply publicizing the “normal” commissions that Members should charge. Fenn’s Compendium, by contrast, had no hesitation in publishing the schedule of commissions charged in the Stock Exchange:

The commission charged on the purchases of Stocks or Shares is very moderate. There are no official prices authorized by the Committee of the

Stock Exchange, but the following are the rates agreed upon by the general consent of Members:

Stock

1/8 percent. or 2s 6d. per £100 Stock.

Shares

Price

	£	s.	d.	
1£ & under		0	6	per share
Above 1 under 5		1	0	
5	10	1	3	
10	20	2	6	
20	50	5	0	

When shares are above £50, half per cent is charged on the cost of the shares.

(Fenn, 1854, p. 114.)

Note how much lower these commission rates are than the exorbitant ones approved, but never enforced, by the Committee for General Purposes in 1838.

14. The modification of rules and regulations, 1854-1873

The Committee in 1856 felt compelled to warn against the practice of dealing in dividends of railway shares, declaring they would not recognize bargains of prospective dividends nor would they allow differences arising therefrom to be admitted as part of a defaulter's estate. (Ms. 14600/23, April 21, 1856.) Later that year they set the times for declaring options in foreign stocks and scrip shares, a long removal from the opprobrium that the Committee had inveighed against dealing in options of any kind a quarter century earlier. Most interesting was an addition to Rule 91 (later Rule 93) stating the right of a buyer to verify transfer of title at a company's offices before tendering payment and the right of a seller to have the Secretary of the Share and Loan Department of the Stock Exchange to verify the transfer. The addition made in December 1856 and kept thereafter stated clearly that the Committee would not get involved in the many hassles that were arising from the idiosyncratic transfer procedures adopted by the new public companies. To wit: "... no person whatever is to look to the Managers or Committee of General Purposes of the Stock Exchange or any of them as being liable, in any way, for the due or accurate performance of those duties, The Managers and Committee holding themselves and being held entirely irresponsible in respect to the execution, or any misexecution, or non execution of the duties in question." (Ms. 14600/24, December 15, 1856.)

Further difficulties with transfers of shares in the new companies caused the Committee to assert in 1857 that:

"The seller of registered shares or stock is responsible for the genuineness and regularity of all documents delivered until fair and reasonable time has been allowed for the buyer to execute and duly lodge such documents for verification and registry in the books of the respective companies, but when the buyer shall have obtained an official certificate of registration of such shares or stocks, the Committee will not take cognizance of any subsequent as to the right or title until the legal issue has been decided between the buyer of such stock or shares & the company that has acknowledged and registered the

same unless there should be any circumstances of a questionable nature upon the part of the seller, in which case the Committee reserve to themselves the right of inquiring into, and deciding the case upon its merits. In all cases the reasonable expenses of the legal proceedings to be borne by the seller.” (Ms. 14600/24, April 24, 1857.)

In 1858, the Committee gave the Secretary of the Railway Market the responsibility of posting the price in sterling of interest or dividends on foreign railway shares whenever those became payable. To further expedite trade in American railway securities, the Committee also resolved in 1858 that the custom of “giving a written guarantee as to the regularity of documents & the payment of dividends on the sale of American stocksis unnecessary among members of the Stock Exchange & and any member selling American stock shall not in future be required to give such guarantee.” (Ms. 14600/25, December 6, 1858.) Listing requirements were specified for foreign government bonds coming to market after the end of the Crimean War in 1859, the Committee resolving that “No Bonds of a Colonial or Foreign government shall be quoted in the Official List (except under special circumstances) unless they bear the autographic signature of the Contractor or of a financial Agent in this country and specify the amount of the loan, the power under which such loan is made, and the numbers and denominations of the Bonds to be issued.” (Ms. 14600/25, September 26, 1859.) Further, mining companies would not be put in the Official List unless they were registered and transferred under the provisions of limited liability; or on the cost-book system, under the protection of the Stannary Laws, “unless by special sanction of the Committee.” (Ms. 14600/25, December 5, 1859.)

Foreign securities posed new challenges for the Stock Exchange and the Committee during the 1860s. Never mentioned in the minutes is the decision of the Committee not to list the bonds of either the Confederacy or the Union while the American Civil War was being fought. But they did resolve not to recognize any company organized in Spain “whilst the obligations of that government to their creditors have not been satisfactorily arranged.” (Ms. 14600/27, August 8, 1862.) Enough other foreign securities were being brought to the floor of the exchange, however, that the Committee insisted in May 1862 that all documents required for application of settlement or quotation of loans had to be presented to the Committee at least one day before they met to consider the application, and then in October 1862, amplified what was needed to satisfy them that a foreign loan should be listed:

“They will also order the quotation of the scrip of such loan in the official list, on being satisfied of its bona fide character; and on being furnished with notarial copies or translations of the powers under which the loan is contracted, and with a statement of the amount issued to the public. But Bonds, the dividends of which are payable in England, shall not (except under special circumstances) be quoted in the Official List, unless they have been publicly negotiated by tender contract or otherwise and state the amount and conditions of the loan, the powers under which it is made, and the numbers and denominations of the bonds issued; and also bear the autographic signature of the contractor in the case of a foreign loan; or of a contractor or financial agent in that of a Colonial loan. Loans, the dividends of which are payable abroad, may be admitted to quotation upon satisfactory proof of the amount created, and of their official quotation in the country where issued.” (Ms. 14600/27, October 22, 1862.)

In February 1863, they elaborated that quotation of a foreign company's security could be either in the country of issue or on the Paris Bourse, but noted that any company issuing new shares before or within three months after its shares were first granted a settling day would not be entitled to a quotation on the Official List. By December it decided to extend the quarantine period against fresh issues of shares to one year after the first settling day. In April, it issued a stern warning to Members that if any Member were found to have participated in bringing a fraudulent security to the floor of the exchange, the Committee would "inflict such penalties as the nature of the case may demand." (Ms. 14600/27, April 10, 1863.) Further, deliveries of American shares should not be in larger amounts than one hundred shares, unless by special contract. (The following year the amounts were reduced further, to be in no larger amounts than \$1,000.) Even so, in 1864 the Committee was forced to declare that while it might declare a Special Settlement for the shares of a new company ("if no allegation of fraud or misrepresentation has been submitted to them and provided that sufficient scrip or shares are provided for delivery") but the settlement would not apply to bargains made previously of allotment letters "and no differences arising out of such bargains would be allowed as claims against a defaulter's estate." (Ms. 14600/28, April 7, 1864.) By April 1864, all bargains in foreign loans that were also quoted in the home country were included in the usual fortnightly settlement of accounts among members.

The wave of new companies continued to press upon the governing committee of the Stock Exchange, however, so that listing requirements in 1864 were further enhanced by requiring each company desiring a listing to authorize a member of the Stock Exchange to give the Committee full details on every aspect of the company that the Committee would desire. (Ms. 14600/28, July 18, 1864.) The work required of the Committee to decide the merits of each application for listing, nevertheless, required another filtering layer before it reached the attention of the Committee, and in late 1865 the Committee required that applications be laid before the Secretary of the Share and Loan Department before coming to the Committee. This was amended in January 1866 to make the Secretary, in turn, give the Committee one week's notice after he had approved the application so they could prepare to consider it.

In 1868 occurs the first mention of dealing with the income tax on dividends – a new rule was inserted stating, "In the settlement of all bargains dividends are to be accounted for at the net amount receivable after deduction of tax; but in the case of dividends payable abroad the Secretary of the Share and Loan Department shall fix a price for the coupons in sterling money, which price shall be posted in the Stock Exchange and adopted in the settlement of accounts." (Ms. 14600/32, June 24, 1868.) This was incorporated in the new set of rules printed up at the end of 1868. Numerous other changes dealt with the time limits within which Members had to deliver securities or make payment for them on the Account-Day before procedures could begin for buying-in or selling-out. Typically, more time was allowed, but Members had to be more careful in noting the time when they received, or passed on, a ticket for a particular transaction. Much effort was being spent by the Settling-Room staff in tracing who was responsible for the delay in completing a transaction on the Settling Day for securities transactions. Splitting of tickets for large transactions was also becoming a matter of habit, which added to the complication of "completing the trace" necessary to find who should bear the loss that occurred as a result of buying-in or selling-out. The Committee also limited the time within which it would consider complaints by Members that they were not responsible for claims made against them to ten days after the

special settling day for the security in question. (Ms. 14600/33, December 28, 1869.) By 1870, the procedures for handling transactions in bearer securities had to be specified in exquisite detail:

“On the day before settling day in securities to bearer, Tickets will be passed up to Three o’clock, without any price thereon, and the accounts made up therewith are to be settled at the making up price of the day; (2) “Tickets must bear distinctive numbers, and be there for the following amounts, viz.: £1,000 Stock, or multiples of £1,000 up to £5,000; £1,000 Italian stock or multiples thereof up to £5,000, also £800, or multiples thereof up to £4,800; \$5,000 American stocks, or multiples thereof, up to \$25,000; Fcs. 1,500 French 3% rentes, or multiples thereof up to fcs. 6,000; 10 shares, or multiples thereof up to 100; (3) “Tickets for £500 may be passed for bargains, or balances of that amount; (4) “Every person is required to endorse on the ticket the name of the Member to whom is passed; (5) “On settling days the delivery of securities shall commence at 10 o’clock; (6) “The holder of tickets may deliver securities up to Two o’clock on settling days; (7) “A Member electing to take securities from his immediate seller, must give notice thereof before Twelve o’clock on the ticket day in which case he shall be required to pay up to half past Two o’clock on the settling day. Members neglecting to give such notice shall be required to pay up to Three o’clock.” (8) “Sellers electing to settle with their immediate buyers shall deliver their securities before Half past Twelve o’clock” & (9) “Buyers shall pay for such portion of securities as may be delivered within the prescribed times.” (Ms. 14600/34, June 16, 1870.)

These specifications made matters more precise, but not more satisfactory. By 1871, a number of court decisions noticed “certain ambiguities in the Rules relating to Securities deliverable by Deed of Transfer,” (Ms. 14600/35, July 7, 1871.) So the Committee reconstructed Rules 88, 97, 99, and 100 to make them even clearer and more precise. But, the Committee apologetically declared in 1873 that:

“The Committee have recently been engaged in the consideration of various schemes for facilitating the settlement of Fortnightly Accounts. The number of these schemes shows the importance and difficulty of the subject, and the Committee regret that all suggestions made involved so many practical difficulties as to preclude their adoption or recognition in the book of Rules. The Committee believe that the pressure arising from the daily increasing business of the Country can only be met by the energy and co-operation of Members generally, and by their readiness to give such facilities as may lie in their power, and therefore call special attention to Rule 88, which will come into operation of Wednesday 12th February.” “Tickets may be issued on the day before Ticket-day, but buying-in upon tickets so issued shall not be allowed until the eleventh day after Ticket-day.” (Ms. 14600/37, January 27, 1873.)

Even so, the new rules published in 1873 did not satisfy the Members, who were dealing increasingly in securities to bearer and especially in large amounts passed on to them by banks and bill-brokers. The Committee ordered the following notice posted in the House,

both to exculpate themselves and to urge more cooperation by all the Members in facilitating the clearing operations that the ticket system allowed at the fortnightly settlement days.

“The Committee of General Purposes in calling attention to alterations which have been made in Rules 88 and 110 with a view to enable Members to pass Tickets on the day before Ticket-day, desire to point out that the permission thus given is not looked upon as a substitute for, but as a complement of, the customary making-up which long practice has shown to be so useful for reducing the account.....

The enormous amounts of Securities to Bearer now dealt in on the Stock Exchange necessarily leads to great difficulty and risk in the Fortnightly settlement. In the opinion of the Committee, the existing pressure can only be diminished by more general use of the Ticket system for Securities to Bearer, for it must be obvious that the amount of stock to be finally adjusted ought to be merely the residuum of numerous transactions which admit to being balanced by the passing of Tickets.....

The Committee are assured that the Members generally will give all the facilities in their power, but, having regard to the large public interests involved, they particularly recommend that Brokers acting for Banking and other Monetary Institutions will represent to their clients that the delivery of Securities at the earliest possible time on the Settling-day is an essential condition of the regular and satisfactory settlement of the account.” (Ms. 14600/37, February 11, 1873.)

The Committee reiterated its objections to listing new bond issues by governments that had previously defaulted, declaring in Rule 58 that prohibited listing of bonds issued by government at war with Great Britain, that in addition, “The Committee will not sanction or recognize New bonds, stocks or other securities issued by any Foreign government that has violated the conditions of any previous Public Loan raised in this country unless it shall appear to Committee that a settlement of existing claims has been assented to by the general body of bondholders. Companies issuing such securities will be liable to be excluded from the S tock Exchange.” (Ms. 14600/34, July 26, 1870.)

15. The crisis years, 1873-79

Requirements for Membership were also tightened. Clerks now had to be 16 years of age rather than 15; and to be authorized to carry out bargains in the name of their employer they had to be 18 and have two years service in the House. (Ms. 14600/35, July 18, 1871.) Later, in 1874, the age requirement was raised again from 16 to 17 for unauthorized clerks and to 20 years of age for authorized clerks. (Ms. 14600/39, December 23, 1874.) Moreover, the surety bonds put up by recommenders were increased in 1872 from £300 to £500 each and in the case of clerks with four years service the recommenders now had to pledge £350 instead of £250. (Ms. 14600/36, June 18, 1872.) In 1874, these amounts were increased again, from £500 to £750, and from £350 to £500, no doubt the result of realizing the increased scale of business carried on by those firms now defaulting after the crisis of 1873. (Ms. 14600/38, May 19, 1874.) However, these amounts were again reduced to their previous levels by decision of the Committee in 1879. (Ms. 14600/44, January 21, 1879.)

Indeed, by the end of 1874, it was clear that the administration of defaulters' estates had to be re-organized, a solicitor engaged to deal with the numerous legal issues that were

arising, and to increase the compensation for the Official Assignees. (Ms. 14600/39, November 10, 1874.) A detailed report to this effect was then adopted by the Committee in early December 1874, which made the Official Assignees a full-time position, well-compensated. Initially, a flat sum of £800 annually was to be the salary for the Official Assignee and for his Assistant Assignee, but each salary to be supplemented by ½ percent of the assets receivable during each year after deducting the £1600 for the two Assignees. The percentage payment was to be divided 5/8 for the Official Assignee and 3/8 to the Assistant Assignee. (Ms. 14600/39, December 4, 1874.) Later, as the business of the Assignees increased, they had to post bonds of £1,000 each, and their emoluments confirmed at the level of £800 plus their share of the ½ percent of the assets they managed each year. By 1881, however, the scale of fees for compensating the efforts of the Official Assignees, now two with equal status, was raised to:

From £1 to £100 collected 5 per cent,
From £100 to £5000 collected 2 per cent,
From £5000 collected 1 per cent.” (Ms. 14600/47, April 7, 1881.)

Complaints against Stock Exchange defaulters, of course, also came from some of their principals, major financial institutions in some cases. Consequently, the Committee finally allowed non-Members, presumably those providing considerable business to the Stock Exchange, a voice in proceedings against a Member. In March 1875, the Committee approved altering Rule 52, which laid out the conditions under which a non-Member’s complaint against a Member would be heard by the Committee. The non-Member had to agree to abide completely by whatever decision the Committee made and not pursue any other course of action against the Member. Now, the Committee decided they had to have the non-Member sign a formal statement to that effect, covering all the possible alternative avenues of action that might conceivably be taken by the non-Member, if he were dissatisfied with the decision of the Committee. (Ms. 14600/39, March 23, 1875.)

Attention also had to be paid to the Official List, especially after the Committee ordered that all official quotations be entered in the Daily List (May 5, 1873). The Sub-Committee assigned to deal with the consequences of this decision recommended sweeping changes, transferring a number of securities from the twice-weekly Course of the Exchange to the Daily List, then striking out a large number of securities from the Daily List, no transactions having been marked in them for some time, dividing American securities in those quoted in sterling and those quoted in dollars, and, finally, changing the term in the heading of the Course of Exchange, “under the authority of the Committee of the Stock Exchange, and superintendence of the Secretary of the Share and Loan Department” to read simply, “By permission of the Committee of the Stock Exchange.” (Ms. 14600/38, December 9, 1873.)

16. The new Deed of Settlement, 1878

The major concern of the Committee in writing the new Deed of Settlement that would enable a new, larger building to be constructed for the Stock Exchange was to ensure its continued legitimacy as the supreme governing body of the operation of the Stock Exchange. The new Rules specified in precise detail the mode of annual election of the thirty members of the Committee, for the first time specifying that members of the Committee had to have been subscribing Members of the Stock Exchange for at least five years before their election. In other respects, however, the new rules simply stated more boldly and precisely

the accustomed procedures for election of each year's Committee, the procedures for replacing members who resigned, retired, died, or became incapacitated during the year, and the untrammelled powers of the Committee to enforce upon the Members its interpretations of the rules governing the practices of the Stock Exchange.

Preparatory to confirming the new Deed of Settlement, it must be noted, there was an unusually high turnover of the members of the Committee for General Purposes in the election of March 1877. No fewer than 13 new members were elected with an unusually high turnout of 948 members voting. (Ms. 14600/42, March 22, 1877.) Clearly, a sea change in the attitude of the members had occurred as a result of the continued scandals occurring in the dealings of the Stock Exchange in subscriptions to new companies being formed. The Royal Commission of 1878 was then appointed to look into the affairs of the Stock Exchange, to determine whether major changes in its internal organization should be made, or external regulation by the government imposed. In the event, the Royal Commission split on whether the Stock Exchange should be re-organized as a public corporation or continue in its same form, but agreed that no Parliamentary legislation was needed, given the effective enforcement of rules by the Committee on the members of the Stock Exchange.

The previous Committee had issued a mild reminder to Members of the Stock Exchange about the respective responsibilities of brokers and dealers, noting that:

“... it is desirable to call the attention of both Brokers and Dealers of the Principles which have always governed the conduct of the business of the public: While on the one hand a Broker is bound to do the best he can for his Principal, a Dealer on the other hand is under no obligation to have such knowledge of the dealings in the particular securities in which he undertakes business as may enable him to justify the price at which he may deal.” (Ms. 14600/41, January 19, 1877.)

The new Committee, however, strengthened the wording of Rule 40, which forbade clerks of brokers to act as dealers as well as forbidding partnerships between brokers and dealers, by stating clearly, “The Committee will not allow Members or their authorized clerks to act in the double capacity as Brokers and Dealers, nor will they sanction partnerships between Brokers and Dealers.” (Ms. 14600/42, October 25, 1877.)

Another major step was to form the Clearing House as a way to facilitate the settlement of accounts among members at the fortnightly accounts. Two schemes were proposed in the fall of 1880, each giving the Committee the power of directors in the company and suggesting, not requiring, that all Members of the Stock Exchange join. The Chairman stated to the Committee that it “was his belief that the success of the new system of clearing entirely depended on all bargains being settled at one uniform price. It was no new principle. It was merely putting Buyers in the same position as Sellers now were in under the Rules. The clearing would facilitate bona fide business as names would be delivered earlier.” (Ms. 14600/46, September 20, 1880.) This completed the process by which the time allowed for settlement had been extended to allow sorting out of the tickets for each transaction among the Members two full days before actual delivery and payment (or continuation of the transaction) took place, distinguishing now a “Name day,” a “ticket day”, and a “settlement day.” These procedures were to be reasserted again when the next great expansion of speculative business occurred with mining shares in the 1890s.

In 1881, Mr. Burdett, responsible for the regular publication of Burdett's Intelligencer and for approving the listing of new companies applying for Special Settlement on the Stock Exchange, asked the Committee to defray his expenses of telegraphing New York to determine the quotation of dividends and of new stocks in American securities. The Committee approved without a qualm. (Ms. 14600/47, September 18, 1881.) The operations of the Settlement Department, set up as a compromise measure in lieu of a general Clearing House for netting out accounts among Members at the fortnightly settlements, were reported in extenso in 1882 after the first full year of its operation. The details of the glitches in the system at the outset and the resistance of a majority of members to paying the extra expense of participating in the system are set out in detail. The notice below was posted in the Stock Exchange for the obvious intent of persuading more Members to subscribe to the service.

In May, 1880, a few experimental settlements were commenced, by order of the Committee, in order to test the practicability of scheme submitted to them for a system of settlement in accordance with the established rules. These experiments proving satisfactory to the Committee, the Settlement Department was established on 30th July following, and Mr. Bellars appointed Manager. The difficulties incidental to the first working of an institution on a large scale with a procedure so novel, and, to the uninitiated, apparently so complicated, occurred wholly within the period ending March, 1881. ... Owing to the paucity of Members making use of the Department the amount of stock to be traced was out of all proportion to the amount settled. Since the system has become more generally appreciated in the Foreign Market the settlement of Foreign Stocks has proceeded without difficulty, and, as we are informed and believe, to the general satisfaction of the Members. The facilities afforded do not operate to their full extent in the American Market, owing to the abstention of some of the leading dealers. The cost, also, would be greatly diminished were all the dealers to send in their lists.The Committee think it right to call the attention of the Members of the House, who are not subscribers to the Department, to the advantages that have accrued to them by the establishment of his Department in securing the rapid passage of tickets and speedy settlement of the general business of the House, and to remind them that its efficiency would be greatly enhanced by their becoming subscribers; in fact, were all the Members to join it, the work would be reduced to a minimum, the passage of tickets from buyer to seller would be effected and the Settlement complete in an incredibly short time and at a greatly reduced cost.

.... There are now 62 Stocks and Shares settled by the Department, and 1,179 Members represented by 771 Subscribers. When it is remembered that the Consol, Mining, Miscellaneous, and some other Markets are not included in the Department, it will be seen that the subscribers represent a very large proportion of the Members of the House who are in any way interested in this mode of settlement.

In the next few years, minor changes in the Rules dealing with buying-in, selling-out, and time deadlines for each procedure during the fortnightly settlements were amended to take account of the special procedures and marking-up prices employed by the Settlement

Department. Splitting of tickets, for example, was now permitted again, but only for transactions put through the Settlement Department.

In December 1883, a clause was added, anticipating the upcoming election of members in 1884, that Limited Partnerships could not have more than two Members, or Firms and could not carry on business in any other market than those in which both partners were dealing. Despite the increase in the volume of business and the greater variety of markets in which Members were expected to have expertise, the Stock Exchange remained committed toward expanding Membership, rather than allowing vertical integration of some Member firms.

On May 11, 1883, the foundation stone was laid for the New Buildings of the Eastern Addition, which were to add about 20,700 square feet to the facilities of the Stock Exchange. The Committee noted, with obvious pride, the physical progress made in their enterprise since it was founded in 1801, with a building that extended "from Capel Court and New Court on the west to Hercules Passage on the east." Next came the room at the east end of Capel Court for the Foreign Exchange, added in 1823, and left independent until 1835. In 1854 an entirely new building was built with an extension towards Shorters Court, and in 1866, 1872, and 1873 more additions were made and offices reconstructed. (Ms. 14600/49, May 11, 1883.)

17. The Coming of the Telegraph

By 1885, however, the Stock Exchange was subjected to a serious shock – the arrival of the telegraph and the exploitation of its possibilities for changing the nature (and physical location) of securities trading. A pamphlet written by Member C. A. Streeten was circulated to just the Members of the Stock Exchange, outlining in detail the threat posed by the ambitions of the Exchange Telegraph Company. Streeten claimed that the Exchange Telegraph Co. was providing the tape to outsiders, who are reducing commissions and telling customers that they give the market price at lower costs, and give

"extraordinarily easy terms for speculative transactions, namely -- very slight cover, very low commissions, in many cases none at all, and no Contangos or carrying over commissions, and the profits paid as soon as transactions are closed.

"In addition to these Outsiders, the so-called Stock and Share Brokers -- numbering in the City of London some 30, and at the West End probably as many more -- we have the following so-called "Open Stock Exchange" and "Stock Exchange Agencies," viz.: --

City Stock and Share Exchange	Walbrook House, E. C.
The International Stock Exchange	Pinners' Hall, Old Broad St.
London Central Stock Exchange Agency	14 Union Court, Old Broad St.
London Open Stock Exchange	20, Winchester Street
London and Provincial Stock Exchange	15, New Broad Street
National Stock Exchange	110, Cannon Street
North British and London Stock Exchange Agency	12, Palmerston Bldgs
Open Stock Exchange	Palmerston Buildings
Stock and Share Auction Company	58, Lombard Street.
Piccadilly Stock Exchange	Picadilly

(Ms. 14600/51, March 30, 1885 (pamphlet inserted at back).)

Streeten's proposed solution was to limit the tape to Members of the Stock Exchange, allowing it to be sent to a few old-established City firms that require this information (Rothschild's, for example) and Banks, and first-class newspapers and Clubs. Then to advertise weekly the names of all Members of the Stock Exchange, instead of just announcing it once a year in the Times. He noted also that Outsiders used to find it expensive and tedious to get lists of various Shareholders in the United Kingdom but now at Messrs. Smith & Co.'s Gresham House, Old Broad Street, any one desirous of sending circulars, etc. could obtain, at the rate of £1. 2.6d. per thousand, addressed envelopes to every Shareholder in England, Scotland, or Wales, such addresses being guaranteed correct, and compiled to a very recent date, and as each fresh Company is floated, the names of the Shareholders are obtained and added to Messrs. Smith & Co.'s List. He concluded that, clearly, members of the stock exchange have to advertise themselves as well! (This argument was still being made by younger members in the 1920s!)

Streeten's solution was passed on to the Managers, who then negotiated new terms with the Exchange Telegraph Company that provided preferred access to those Member firms desiring it, and willing to pay the Exchange Telegraph Company for installing booths for them in the Stock Exchange. Beyond that, the Committee neglected to do anything at all on the matter, until urged again to cut off the outside subscribers by members worried about the growing outside competition in 1885. The Exchange Telegraph managers claimed they were willing to do this, but needed revenues to cover their costs and those lost by cutting off outsiders would have to be made up by either increasing fees paid by Members now using the service, or increasing the number of Members subscribing to it. Negotiations continued, but in the event, the Managers raised the annual subscription rates from 125 to 150 guineas for full members and from 25 to 30 guineas for authorized clerks. (Ms. 14600/52, January 25, 1886.) Agreement was finally reached between the Committee and the Company, which agreement was promptly approved by the Managers. Essentially, the Company's contracts with outsiders being all fairly short term, they would be allowed to expire naturally. Nothing much was made of the fact that the contract of the Brighton Stock Exchange had another 10 years to run and that of the Sulteridge about 7 years. (Ms. 14600/52, May 31, 1886.)

The issue of which representative of the Stock Exchange should deal with the matter of the services provided by the Exchange Telegraph Company no doubt prompted the memorial presented to the Committee in February 1886, urging that dual governance be done away, the proprietors to be bought off with some kind of annuity and then limited the number of members. The memorialists had not, however, met with the general membership to gain support for their idea, and the Chairman of the Committee reprimanded them strongly, saying, "that the constitution upon which the Stock Exchange was based, and the dual control under which they Members had been governed, had enabled the institution successfully to confront the many perils with which it had been harassed during the greater part of a century, and that it was not by disunion, that such extraordinary success was likely to be maintained." (Ms. 14600/52, February 22, 1886.)

The business of the Settlement Department now generating its own volume of buying-in and selling-out procedures on unmatched bargains submitted to it, an official of the Stock Exchange was designated to perform these functions. More interesting, his commissions on each transaction he carried out successfully were posted in the Stock Exchange. Obviously, these set a standard for minimum commissions to be charged by all

members, even though no rule was being set, or even considered, for establishing minimum commissions. The authorized official charges were:

British & Foreign Government Securities	1/8 per cent
Colonial & Corporation Securities	1/4 per cent
Debenture Bonds & American Bonds	1/4 per cent
British, Foreign, & American Stocks and Shares (Registered and Script) Stock	
1/2 per cent on Money	
Shares	
3d per share not exceeding £-,10s/-	
6d per share not exceeding £2, 10s/-	
1s per share from £2/10 to £5	
1/6 per share from £5 to £10	
2/- per share from £10 to £20	
Above £20 1/2 per cent.	

The minimum official charge to be 10s.
(Ms. 14600/52, November 19, 1885.)

The increase in business in American securities led a group of the members most concerned in this new, and profitable, set of securities to ask the Committee for permission to continue trading in a special room of the Stock Exchange until 5 p.m., a full two hours past the close of trading business for the rest of the exchange. While the Committee was willing to consider the matter, other members then came forward to argue that they would have to stay on until 5 p.m. as well if this subset were allowed to do so, as it would be impossible to limit their business to American securities. Also, the idea of was of interest only to a small subset of the American dealers, those who had the benefit of private information via telegraph of the prices set in the New York market so they could carry out arbitrage operations. The Committee acquiesced and denied the request, thereby putting the American business out of doors after hours, where they could not control it, or the business done by Members with non-Members. The issue arose again in 1891, with a petition signed by 116 Members asking that they be permitted to use the room set aside for them by the Managers to do business until 5 p.m. This time they argued that their Continental business in American securities would go direct to New York or Philadelphia. As it was, the New York market was now beginning business at 10 a.m. to take business away from London. A petition signed by 1,070 Members, however, was presented to the Committee at the same meeting, asking that they not approve the request, again on the same grounds that separation of business in American securities from other business was impossible. Again, as in 1885 and 1886, the Committee denied the request, thereby keeping the after hours market in American securities in the street. (Ms. 14600/59, October 22, 1891.)

18. The Crises of the 1890s

Throughout the 1890s, the international connections of the London Stock Exchange became increasingly evident, and not just with New York and Paris. In 1889, a letter from the Amsterdam Bourse was read to the Committee that inquired about its Rule 124 regarding French and Egyptian securities to bearer, asking whether the reason for adopting such paragraph lies in the fact that those two countries have special laws on the subject. The Committee replied that was, indeed, the reason. (Ms. 14600/56, 3 June 1889.) In 1890, a

copy of the Rules was sent to the Antwerp Bourse in response to their inquiry regarding Rule 122 relating to drawn Bonds. (Ms. 14600/57, 16 June 1890.) In December 1892, Lord Rosebery himself asked the Committee to give the German government the information they desired about the operations of the stock exchange in London to aid them in their examination of the operation of the German exchanges. In particular, the German government requested specific statistics on:

e.g., the number of stocks issued between the years 1866 and 1892, and the number of stocks to which quotations were granted during the same period, in such a shape that the extent of the issues and the classification of the stock may be seen at a glance. Another point as to which the Commission desire information is the number of members who frequent the Stock exchange, and how many Members have been expelled since the year 1866, together with the grounds of their expulsion. (Ms. 14600/60, December 5, 1892).

This was really too presumptuous of the Germans, in the minds of the Committee, so they limited themselves to sending the German Ambassador a list of the Members of the Stock Exchange, a copy of Rules and Regulations, 6 copies of the Official List, and copies of the Weekly Official Intelligence. Future historians of the London Stock Exchange can only regret the recalcitrance of the Committee in this affair!

Fortunately for us, however, the incidence of failures continued to mount over the 1890s, leading to increased work for the Official Assignees, who periodically were granted increased emoluments, based on percentages of the estates of defaulters that they were managing. To justify their last increase in the 1890s, the sub-committee on Official Assignees prepared the summary of failures and the amounts of the estates handled by the Official Assignees over the previous 20 years.

Statistics of the Official Assignees' Office

(ending March)

Years	Total. Comm.	Number of Failures	
1879	£693:16:5	30	
1880	£692:11:10	23	
1881	£1,304:10:0	19	
1882	£2,604: 1:11	27	
1883	£3,180:19:9	31	
1884	£2,038:15:8	32	
1885	£1,990:9:11	33	
1886	£1,038:2:10	12	
1887	£1,554:5:3	20	
1888	£1,680:1:9	25	
1889	£987:5:2	17	
1890	£1,247:15:6	19	
1891	£3,164:6:8	37	
1892	£1,105:1:11	22	
1893	£504:15:3	14	
1894	£4,298:7:10	49	(£151,000 pd. in div. at cost of £2:16:6 p.c.)
1895	£763:7:8	10	
1896	£4,416:12:8	23	(£208,000 pd. in div. at cost of £2:2:6 p.c.)

1897	£1,592:16:6	10
1898	£1,354:1:5	19
1899	£3,193:18:3	18

(Ms. 14600/65, February 15, 1897.)

The history of compensation for the Official Assignees was also presented to the sub-Committee. From 1878, when the current Official Assignees were first appointed, the senior one earned an average return of £552:11:1 and his assistant earned an average of £331:10:7, which was considered inadequate for the responsibilities they bore. In 1881, the scale of commissions was raised and a minimum of £850 was guaranteed to the senior Assignee with a minimum of £450 to the assistant Assignee. Over the next six years they each averaged about £150 more than the guaranteed minimum, which again was felt to be inadequate return to them, so the scale of commissions was raised again in 1887 another ½ percent for amounts collected above £1,000 and their minimums raised to £1,200 and £600. Over the next ten years, they earned an average of £1400 and £721, again felt to be inadequate. Consequently, the sub-Committee recommended raising commissions again on sums collected for defaulters' estates to 5% on amounts from £1 to £5,000 and 1 ½ percent on sums above £5,000. This was approved by the Committee in April 1898. (Ms. 14600/65, February 15, 1897 & Ms. 14600/66, April 4, 1898.)

As had been the case in earlier episodes when the market for established securities faltered and failures rose among the Members of the House, increasing attention was paid to new securities, securities that promised potentially high returns, but which were inherently risky. Foremost were the so-called kaffirs, or shares in new mining ventures in South Africa. But reorganization of existing corporations and conversion of family firms into public limited corporations were also an important source of new securities. The advent of these new financial assets on the exchange required the Committee to make repeated adjustments in the rules in two important categories: Settlement procedures, given the immense volume and generally small denomination of mining shares; and Listing Requirements, given the proliferation of new forms of securities entering the market.

Listing Requirements. The Committee's sub-committee on rules and regulations first recommended minor changes in Rules 107 and 133, specifying in the first case the procedures that should be followed when a company in the process of converting its old shares into new shares did not issue Renunciation Letters (giving the right of transfer to an initial subscriber of his Letter of Allotment). In that event, a buyer of the new shares had to advance to the seller the payments required by the company, "such payments being considered as for the delivery of stock open for the Special Settlement." [Ms. 14600/67, p. 83, June 6, 1898.] In the second case, Rule 133 added the provision that the Committee would not fix a Special Settling Day for those shares or securities that a new company had given to vendors in place of cash until six months after they had set a Special Settling Day for those shares or securities issued directly to the public. [Ms 14600/67, June 13, 1898.] Previously, only shares available to the public were granted Special Settlement Days as the first step toward official listing.

But the major change was in the works – a complete recasting and elaboration of Rule 136 containing the listing requirements for new shares, debentures, or securities of any description that a company wished to see traded in the London Stock Exchange. This new rule elaborated not only the materials to be submitted by the company to the Secretary of the Share and Loan Department, but also the corroborating materials to be submitted by the

company's bankers and brokers, including specimens of the new securities to be issued. (Eventually the listing requirements become so extensive that they have to be relegated to a separate index.) In February 1899, the new rule 136 was confirmed, now expanded to include a section on debentures. This replicated the requirements already stated for shares, in case any misunderstanding of the vaguer wording previously proposed might be argued by a company wishing to issue publicly traded debentures on the stock exchange. [Ms. 14600/68, February 6, 1899. The expanded rule had to be altered again shortly, after the Companies Act of 1900 was passed by Parliament, but the changes required then turned out to be minor, but added yet more specificity to the listing requirements. Now the exact numbers on the shares issued to the public had to be specified as well as the serial numbers on the share issued to vendors. Further, an official Certificate that the company was entitled to do business now had to accompany all the other documents. [Ms. 14600/70, November 26, 1900.]

Apparently this was all to the benefit of the membership – the Committee was reelected with only one new member appearing and a grand total of exactly 15 votes cast for each member! The new Committee turned its attention to the overwhelming business going on in the mining market. In August 1899, they inserted a new Rule 103a, which separated the tickets on mining stocks from the tickets for all other securities by requiring that the final passing of tickets for mining stocks take place the day before the Ticket Day for all other stocks. [Ms. 14600/69, October 16, 1899.] The new Rule went on to spell out in mind-numbing detail the times when disappointed sellers not receiving payment at the designated time could initiate selling-out procedures, and then when disappointed buyer not receiving their securities at the appointed time could begin buying-in replacement securities. The liability of the counterparty was extended to six months to make good the differences in price caused by selling-out or buying-in. To clarify who was the responsible counterparty, each broker receiving a ticket had to specify the exact time he received a ticket, if he received it after three o'clock on the Ticket Day (or after six o'clock on the previous day for a ticket for a mining security). Further, Rule 105 dealt with times when buying-in or selling-out could be initiated if the security in question was not available for actual transfer at the company issuing it. Clearly, the increased volume of business, especially that of a speculative nature where brokers tried to lay off risky transactions by breaking them down into small units with other Members, or to carry them over into the next Account period, had overwhelmed the capacity of the Settlements Department, leading to more and more cases of buying-in and selling-out and, therefore, to more disputes among members.

The stock exchange could either expand facilities, or limit members. Only Proprietors could achieve the first solution; only the Members could carry out the second. In fact, the Committee for General Purposes now attempted the second, while initiating negotiations with the Trustees and Managers to try to accomplish the first. The first step was a proposal by the Chairman of the Committee for General Purposes to require new members to acquire a share in the Stock Exchange as well, although he had to get approval from the Trustees and Managers for the exact form of the shares to be issued. [Ms. 14600/69, January 3, 1900.] The issues now being raised were clearly contentious; evidence came in the turnout for the next CGP election as 2,196 members voted. But the methods of limiting the rise in membership were not decided until the meeting of March 6, 1901 when the full Committee met to consider the proposals laid before it by the Conjoint Committee of the CGP and the Managers, which had been meeting throughout the previous year.

The changes that could be agreed were relatively modest, limited mainly to Clerks. Their age requirements were raised again, their length of service and number and size of sureties needed before they could be nominated as Members were increased, and the number of Clerks that a Firm could employ was reduced from seven to five, although the number of those clerks who could be Authorized to carry on business in the name of the Firm was increased from two to three. Finally, on the recommendation of the Managers, a new class of Clerks was created to help in the increasing volume of work in the Settlement Rooms. But they would be restricted to work only in the Settlement Rooms. [Ms. 14600/70, March 6, 1901.]

The new Committee, elected with another very high turnout of 2,371 voters, had to defer the implementation of the new Rules on Clerks, given that the terms of the Deed of Settlement kept the Managers from making the necessary changes in the layout of the Settlement Rooms before January. But, they now had to confront the reorganization of the Stock Exchange as proposed by the Conjoint Committee. This Committee was charged to make every Member a Shareholder and to give Subscribers a marketable value for their Membership – all this without, of course, making the Stock Exchange a public corporation, which had been recommended by the Royal Commission back in 1878. They proposed to do this by expanding the capital stock of the existing Stock Exchange, from £240,000 in 20,000 shares to £500,000 in 5,000 shares (with power to increase), and by increasing the debt of the Stock Exchange by issuing £3,000,000 in 3% irredeemable debentures and another £2,000,000 in 4% non-cumulative preference stock redeemable at 105 after 1925. [ms. 14600/71, April 11, 1901.] The intent, clearly, was to buy out the existing Proprietors who were not Members at attractive terms. Their shares, which were unmarketable at present but had given them substantial dividends over the years, would now be converted into non-voting debentures and preference shares, both of which were marketable, presumably at substantial premiums.

In March 1902, however, the Proprietors rejected this proposal, on grounds that their dividend had actually been £9, instead of £8:10s. anticipated by the Conjoint Committee at the time. A counter proposal to pay off the old shareholders with £6,000,000 in 3% redeemable annuities was suggested, keeping the 5,000 shares intact, albeit with only £10 payable on allotment. The Committee, however, split evenly on whether to approach the Managers with this proposal or any proposal to end dual control "on an amicable basis." [Ms. 14600/72, March 1, 1902.]

The speculative activities of members who had failed in the previous years now caused the sub-committee on Rules and Regulations to modify rules that had effectively discouraged options beyond one month duration in the past. Instead of bluntly stating that "The Committee will not recognize any bargain for a future Account, if it shall have been effected more than Eight days previously to the close of the pending Account," (Rule 79, *Rules and Regulations*, 1897), the Rule was altered to read, "Any claim arising from a Bargain effected more than eight days previously to the close of the pending account will not be allowed to rank against a defaulter's Estate until all other creditors have been paid in full." [Ms. 14600/71, June 19, 1901.] Even longer term options for period beyond the next two accounts could be allowed, once all other creditors had been paid in full. Moreover, claims arising from bargains in new securities before a date for Special Settlement had been fixed could now be allowed, again only after all other claims had been paid in full. Finally, the Committee just eliminated the Rule 60, which refused to recognize any dealing in letters of

allotment. [Ms. 14600/73, July 7, 1902.] Clearly, this form of business was too important for too many Members for the Committee to not sanction it. This led to a further modification in Rule 108 dealing with settlement of bargains in new securities issued in place of old, which now provided procedures for any two members of the Committee to set a temporary settling price on new securities for which Letters of Renunciation could not be obtained from the company and the full Committee had not yet set a Special Settling date. [Ms. 14600/73, December 10, 1902.]

Discussions about how seriously to limit new Members occurred, but any motion to commit the CGP to a specific course of action, even if only for the coming year, was voted down. It was still too delicate an issue to confront boldly, so only limits on the number of Clerks that Members could employ and on the terms they had to fulfill for becoming full Members could be agreed upon. An apparently innocuous measure, however, may have foretold the coming battle to fix minimum commission when the Committee unanimously resolved in September 1901 "That the Resolution passed in 1882 allowing markings at a sixteenth in bargains done in stocks of a less value than 3- per cent. And in shares of a less value than £30 be extended to bargains in all stocks and shares, both in the Consol and other Markets, whatever their value." [Ms. 14600/71, September 23, 1901.]

Commissions arose again in the context of the issue about double commissions charged when a contract was made with a non-Member of the exchange, typically a broker in one of the provincial exchanges, although the non-Member could be an independent broker operating in the greater London area. From a position of not recognizing any dealings with parties other than its own Members, reasserted as late as the rules of 1897 in rule 53, the Committee was finally forced to acknowledge the prevalence of dealings by its members with brokers in other exchanges. But it did so by asserting that both buyer and seller must pay commission on such a contract. [Ms. 14600/73, January 7, 1903.] Arthur Wagg, a long-time member of the Committee continuously since 1892, moved an opposing resolution that "it is not desirable to make any special rules as to the relations between Members acting as Brokers, and their clients," but this lost, 15-11. [Ibid.]

The issue really arose from the increasing practice of Jobbers shunting business to brokers operating from provincial exchanges. Samuel Gardner, serving on the Committee since 1890, moved in January 1903 that Members being re-elected should now be required to state on their application form whether they act as Brokers or Jobbers and that this information be printed in the list of Members. But his motion lost, even when he updated it by substituting the more modern term of "dealers" for "jobbers." [Ms. 14600/74, January 26, 1903.] In February, a memorial was presented to the Committee, signed by 1,096 members, arguing that "dealers should be prohibited from transacting business directly with, or sharing profits with, non-members." Their memorial was countered by 30 members styling themselves as "arbitrageurs" whose memorial argued that any limitation in dealing that confined business to one section of Members only would be against the interests of everyone, including the public. [Ms. 14600/74, February 13, 1903.]

Extensive testimony was then taken from both sides, during which evidence of external brokers undercutting commissions of London brokers was frequently cited. But testimony was split on whether arbitrageurs dealing with foreign exchanges should be allowed to continue. A trial vote taken in the Committee on a motion resolving not to interfere at all in the arbitrage dealings with provincial and foreign exchanges lost overwhelmingly, 19-4 with nearly all 30 members present (3 abstained). In March, the "for"

people, now numbering 1,173 and divided into 687 brokers and 486 jobbers, proposed draconian new rules 43, 43a, b, c, and d, which would forbid jobbers and brokers from doing any business on behalf of brokers in provincial exchanges, although they could employ such non-Members to execute orders for them on provincial exchanges. The proposed rules would also restrict arbitrage operations to foreign exchanges only. But, "Members shall be at liberty to subscribe for, underwrite, or take firm any new Issue of Stocks or Shares whether the same be advertised for public subscription or not." [Ms. 14600/74, March 6, 1903.] In essence, this large number of Members wanted the rules to eliminate competition from outside the exchange on their commission business but to maintain and extend their opportunities to exploit their potential promotion business.

The "against" memorialists asked to be heard in opposition, "on the broad grounds that the proposals of the petitioners are unsound, reactionary and protective, and would, if carried into effect, be detrimental to the Public, injurious to the general welfare of the Members of the London Stock Exchange, and unfair to Members of the Provincial Exchanges, whose businesses have been built up in conformity with the usages of the London Stock Exchange." [Ms. 14600/74, March 6, 1903.] The election of the Committee in 1903 elicited a record number of votes, 3,238, but returned essentially the same Committee to office. After hearing cogent arguments against the proposed new rules by Mr. Leon in late April, the Committee resolved in May that the "for" memorialists had "made out no case for any alteration or addition to the existing rules." [Ms. 14600/74, May 21, 1903.] Leon argued that there were really at least seven classes of members: the old-fashioned jobber, the speculator, the bona fide broker, the option dealer, the money-lender, the arbitrageur, and the shunter. Members operated freely in making syndicates and joint bargains with one another, why not with members of other exchanges, especially as they could easily employ runners to contract on other exchanges and these were often partners in fact. The only effective riposte by the "for" memorialists was that provincial brokers could now share the profits of the London jobbers on the "turn" they made in the London market, but London brokers could not.

But as persuasive as were Leon's arguments and as weak were the counterarguments of the memorialists, the vote of the Committee to stick with the status quo was narrow, 14-10 with 25 present, and confirmed at the next meeting 13-8, 23 present. This was an issue that would not go away. The next election of the CGP drew another high turnout, 3,165 voting in 1904, but again with little turnover in membership. This Committee was confronted again with the issue of reorganizing the Stock Exchange to eliminate Dual Control, a goal that was not to be accomplished until business resumed after World War II. But in the course of dealing with the issue, the Committee received valuable information from the Conjoint Committee that was still wrestling with the issue and making proposals that could be rejected by either the Proprietors or the Subscribers. The existing shares had only limited turnover, with very few going to new members, so the process of making the body of Proprietors the same as the body of Subscribers was going to take a very long time. The data for the past five years showed this clearly:

Transfer of Stock Exchange Shares				
Year	Transfers	Number of Shares	From Dead or Retired	To Members in 1 st Year
1899-1900	369	1,375	273	54 to 17 members
1900-1901	292	989	195	17 to 11 members

1901-1902	292	1,216	412	37 to 17 members
1902-1903	258	1,162	689	16 to 10 members
1903-1904	341	1,421	426	9 to 7 members.

The number of Clerks having served 2 years and eligible for Membership with 2 or 3 sureties, and therefore eligible to apply for full Membership was 2,099 with another 568 Unauthorised Clerks having served less than 2 years, who would become eligible for full Membership shortly.

In light of these numbers, the Conjoint Committee now proposed to limit Members to 5,000 and Clerks to 3,000 after 1905. Their data showed that this limit was likely to be reached in the current year, despite increases in subscription and entrance fees that had occurred over the past 10 years. Their detailed breakdown showed:

Numbers of New Member and Withdrawals, past Ten Years.

Year	New Members	Failures, Retires, etc.	Number Members	Clerks		Total
				Autho.	Unautho.	
1894-95	155	96	3,407	325	1,621	5,353
1895-96*	325	111	3,411	436	2,177	6,024
1896-97*	292	93	3,856	416	2,186	6,458
1897-98	186	107	3,959	423	2,165	6,547
1898-99**	365	94	4,227	518	2,246	6,991
1899-00	165	131	4,306	634	2,496	7,436
1900-01***	477	125	4,662	621	2,506	7,789
1901-02	198	101	4,752	602	2,507	7,861
1902-03	167	151	4,826	706	2,318	7,850
1903-04	150	176	4,834	714	2,258	7,806
Totals	2,480	1,185	[note: Settling Room clerks begin in 1902, 228 and 275 in 1903.]			

* Increase of mining business; ** Increase of subscriptions from 30 to 40 guineas; *** Increase of Entrance fees of Members with Two sureties from 150 guineas to 250 guineas.

Recasting the Deed of Settlement in order to buy out the old Proprietors proved to be very difficult. In the end the Committee accepted the proposal of the Trustees in December 1905. The final arguments were over the voting rights that should be attached to the new shares. Previously, Proprietors holding 1-4 shares had one vote, those holding 5-9 shares had two votes, and anyone holding 10 shares or more had three votes. The Managers proposed that with the new shares, each shareholder be entitled to one vote per share up to 25 shares and then 25 votes only for shareholdings above 25. The Chairman of the Committee for General Purposes (Hichens) proposed a similar scheme but the cutoff would be at 20 votes for 20 shares and above. A compromise was suggested, to extend the present system by giving shareholders with 10-14 shares 3 votes, those with 15-19 shares would get 4 votes and those having 20 or more shares would have 5 votes. In the end, the existing system was kept, and the only (inconsequential) alteration made in voting power was that no single shareholder could have more than 200 shares. [Ms. 14600/78, December 21, 1905.]

The Committee could, however, set limits on the number of members and this they proceeded to do, step by step. A series of new rules in the section on Members was proposed by the Chairman in October 1904, designed to limit the eventual total number of Members by

requiring new members to get nominations from retiring, former, or the representatives of deceased members. Uncertainty over the eventual number still remained, however, because of the existing rights, and expectations for eventual membership, of the over 2,000 Clerks who had already served the requisite number of years to apply for preferred entry into full Membership. This was dealt with for the time being by Rule 26 that had the Committee set the number of new Members they would admit the following year in each December. The Clerks eligible for Membership with two sureties were then assigned to a waiting list. [Rules and Regulations, 1906, Rule 26.] Twenty was the number set for the year ending March 24, 1905, and this proved to be the usual number thereafter.

Extensive changes were then made in the Rules, mainly because there were 10 new rules inserted in the section on "Re-elections, Admissions, and Re-Admissions." But some were clearly designed to block off potential loopholes that might be used to circumvent effectively the limitation on members and, therefore, continue the unwanted competition from non-members. For example, a new Rule 68 was inserted in the section on "General Rules," forbidding Members to advertise for business purposes or to issue circulars to persons other than their own principals. The intent, apparently, was to discredit competing stockbrokers outside the Stock Exchange who were forced to advertise but it seems more likely that it was to discourage Members engaged in shunting from seeking new contacts. The Rule on Limited Partnerships was strengthened by permitting such partnerships only between Members or Firms who each deal and settle bargains in their own name. This was objected to by a petition signed by 402 members, noting that it was seriously disadvantageous to small firms and added unnecessary expense for larger firms by eliminating their use of clerks in such partnerships. Nevertheless, the Committee confirmed the change, 18-3. [Ms. 14600/77, June 26, 1905.]

Apparently overwhelmed by the number and implications of new rules, only 12 members voted in the election of the Committee in March 1906. The entire Committee was re-elected, so it could turn its attention to the issue of Commissions. It is obvious from the figures reported annually to the Trustees and Managers that the stock market panic in New York in October 1907 had caused a number of stockbrokers in London to fail. Membership slumped in 1908, beginning a decline that would persist throughout the twentieth century. How to take advantage now of the reduced numbers and internal competition, while maintaining the profitable links with provincial and foreign exchanges for the remaining members?

21. Minimum Commissions at last.

The first step was to cut off the leakage of brokerage commissions that occurred through the practice of "shunting," when dealers shared profits with brokers in provincial exchanges. Brokers on the London Stock Exchange could participate in this subterfuge as well by directing, for a price, their business to colleagues in provincial exchanges or in London offices outside the exchange. Rule 75 in the 1906 version of the Rules and Regulations simply stated, "Members or their Authorised Clerks may not act in the double capacity of Brokers and Dealers." In 1908 it was replaced by no fewer than eight rules designed to close all the loopholes that had appeared in practice over the years and especially in the last decade. Contracts could still be made by Members, whether they were Brokers or Dealers, with non-Members, but they had to be documented as such and sharing of commissions, or charging extra commissions to the principals, was explicitly forbidden. Dealers carrying on arbitrage operations with correspondents in foreign exchanges were

allowed, however, to continue operating in double capacity as was required by the nature of their business – simultaneously buying securities in one market and selling them in another meant that time was of the essence if they were to make money on each operation. But this was a potential loophole through which arbitrageurs could facilitate shunting through their foreign correspondent, so each arbitrageur was required to get the Committee's official permission to continue its business with each year's re-election to membership. The new rules were approved, 16-9 or 17-8, and then in the same meeting confirmed as well, 15-7, to come into effect March 24, 1909 when the next round of annual elections and reelections of members would commence. [Ms. 14600, 82, July 23, 1908.]

Nevertheless, the sub-committee assigned to study the issue of minimum commissions reported in February 1909 that “it is not advisable for the Committee to legislate with the view of establishing any Scale of Commissions, but to leave such matters to each individual Broker, as has been the unvarying practice for over 100 years.” [ms. 14600/84, February 10, 1909.] A Minority Report, however, noted “that the feeling in favour of a regulated scale which was marked in the evidence before the Royal Commission in 1877, and still more so in that before the Committee in 1906/7 has still further increased.” [Ms. 14600/84, February 8, 1909.] The intensity of this feeling among the members was evident in the next election of the CGP, as 3,105 members voted and no fewer than six of the previous Committee were replaced. Immediately, a new Sub-Committee of Brokers was formed to reexamine the issue, a sub-committee dominated by the new members elected to the Committee for General Purposes.

By October 1909, the Sub-Committee presented an elaborate scale of commissions, suggesting only that they be shown to the Council of the Associated Stock Exchanges before final adoption. In the event, they were adopted in full, as printed in the 1911 Rules and Regulations, which included also the scale for commissions between brokers on the London Stock Exchange and members of the Provincial Stock Exchanges, which simply halved the London scale to give the two brokers in such contracts equal shares of the full commission. A minority report written by the old guard who had remained on the Committee called the whole enterprise “an act of madness,” especially as the recent Finance Act had increased the stamp duties on Stock Exchange transactions. Mr. Inglis, chair of the full Committee for General Purposes, expressed the minority view vehemently, “Owing to the present freedom from restraint as to Commission charges, The London Stock Exchange is *the* market of the world. Begin to tamper with that freedom and I do not hesitate to express my firm belief (and I have been over 50 years in the business) that The Stock Exchange will receive a check from which its Members may never recover.” [Ms. 14600/85, October 4, 1909.]

By February 3, 1910, a new section on Commissions with 16 new rules and an appendix with the specific Scale of Commissions was passed (8-2, 16 present) and confirmed in the first meeting of March. The new Committee elected in 1910 had only two new members. From this point on, the business of the Committee as far as considering rules and regulations was concerned, focused on tweaking the various commissions and closing various loopholes that appeared in practice. Repeatedly, votes were taken of the members who were self-designated as brokers and each time that the members approved a given scale or set of rules, even if only by narrow margins, the Committee confirmed them. Business with the provincial exchanges was sustained when the Council of the Associated Stock Exchanges recommended that their members adopt the same Scale of Commissions as applied in London, thereby acknowledging the primacy of the London market.

On foreign exchanges, the major threat to securing the revenues of the arbitrageurs came from the New York Stock Exchange. An exchange of telegrams between George W. Ely, Secretary of the NYSE and Edward Satterthwaite, Secretary of the LSE, were read to committee in February 1911.. They all dealt with the issue of Arbitrageurs operating out of London. Ely asked whether any Members were exempt from Rules 80 & 86 that outlawed double capacity? Satterthwaite replied "None exempt." But Ely pressed, "Can a Broker or Dealer get permission on a joint Arbitrage account to charge one-eighth per cent commission?" And Satterthwaite replied "No case has been submitted to the Committee deciding the point raised in your telegram. They have made no definition of the word Arbitrage." Ely continued: "Is it recognised that a Dealer carrying on an Arbitrage business with a Non-Member has the right to charge a Commission for transactions made for that account in London." Satterthwaite asked Committee how to reply to this last, and they directed him to stonewall by saying "Committee regret that in the absence of any decision on a concrete case they are unable to give a general answer to your question." [Ms. 14600/88, February 13, 1911.]

The action taken in response to the implied threat of New York traders replacing the London operators of arbitrage operations was to allow the London arbitrageurs, still subject to annual renewals and inspections of accounts by the Committee, to employ "remisiers" in the foreign exchanges. Remisiers had long been employed by agents de change on the Paris Bourse to bring in business both from the informal coulisse market in Paris and from foreign exchanges, so the practice was well-known and understood. Now it was formally regulated by the Committee and a new appendix appeared in each subsequent copy of the Rules and Regulations with the requirements laid out for remisiers to be employed by those members licensed to engage in arbitrage business, whatever that was. (The Committee refused to be constrained by a specific definition, even one stated in the broadest possible terms.)

Conclusion

So stood the affairs of the world's largest, most active, and most innovative stock exchanges over the course of the long nineteenth century at the eve of the Great War. The shock of World War I in July 1914 disrupted connections with foreign exchanges entirely until the government specified the terms on which trading with the New York Stock Exchange could be resumed. But foreign dealings were on the government's terms, which were designed to eliminate the possibility of war finance for the enemy. Membership plummeted as younger members, especially clerks, were called to service. But lucrative business in retailing the large issues of new government debt sustained the revenues of the remaining members, much to their satisfaction. The longstanding efforts of the brokers and dealers to stabilize their sources of income and minimize their risks from promoting new issues of securities in the London marketplace were now fully realized, but with unintended consequences that were to plague the revival of the British economy for most of the remaining century.

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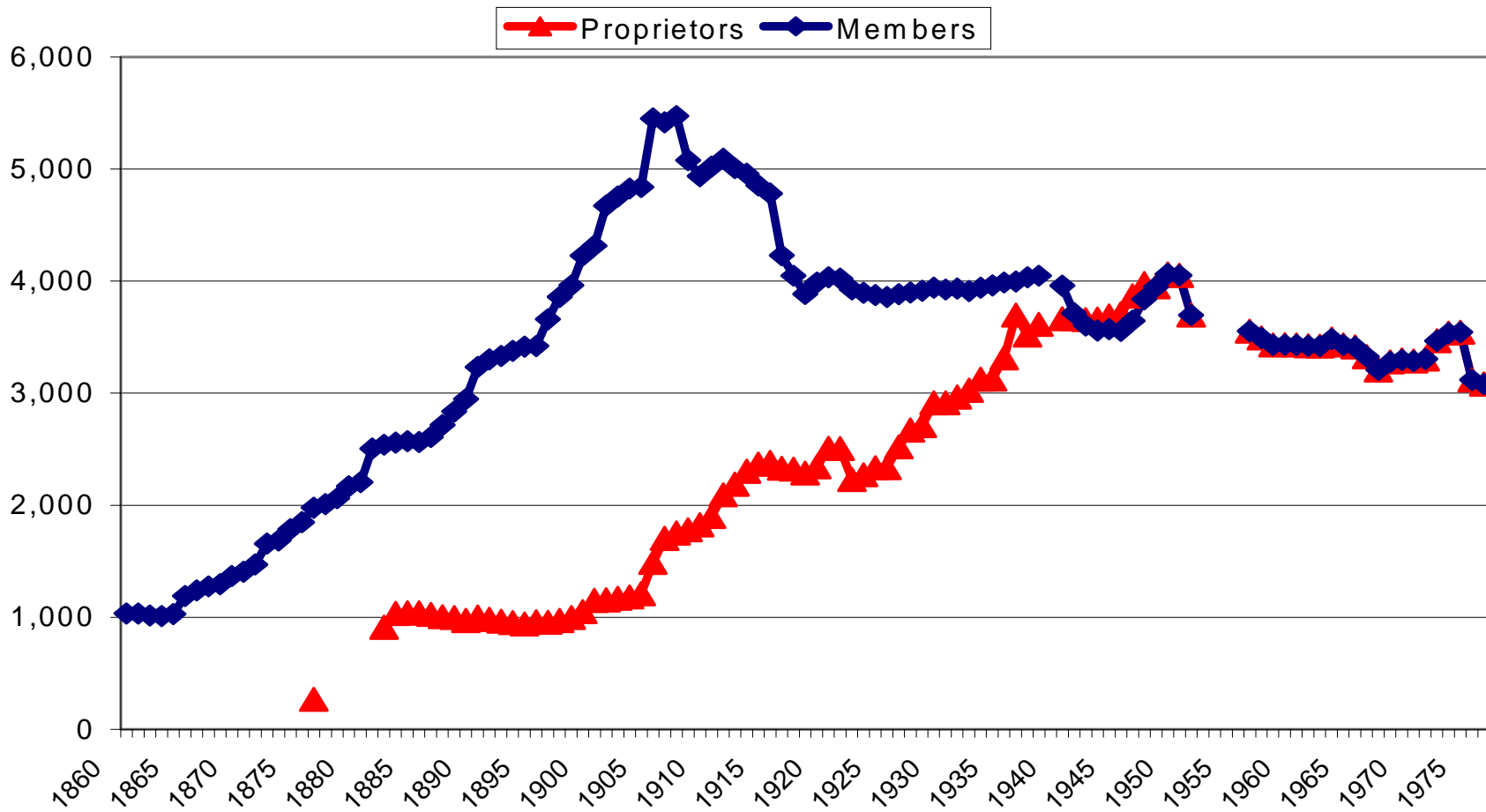
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Members & Proprietors of the London Stock Exchange



Members & Clerks in the London Stock Exchange

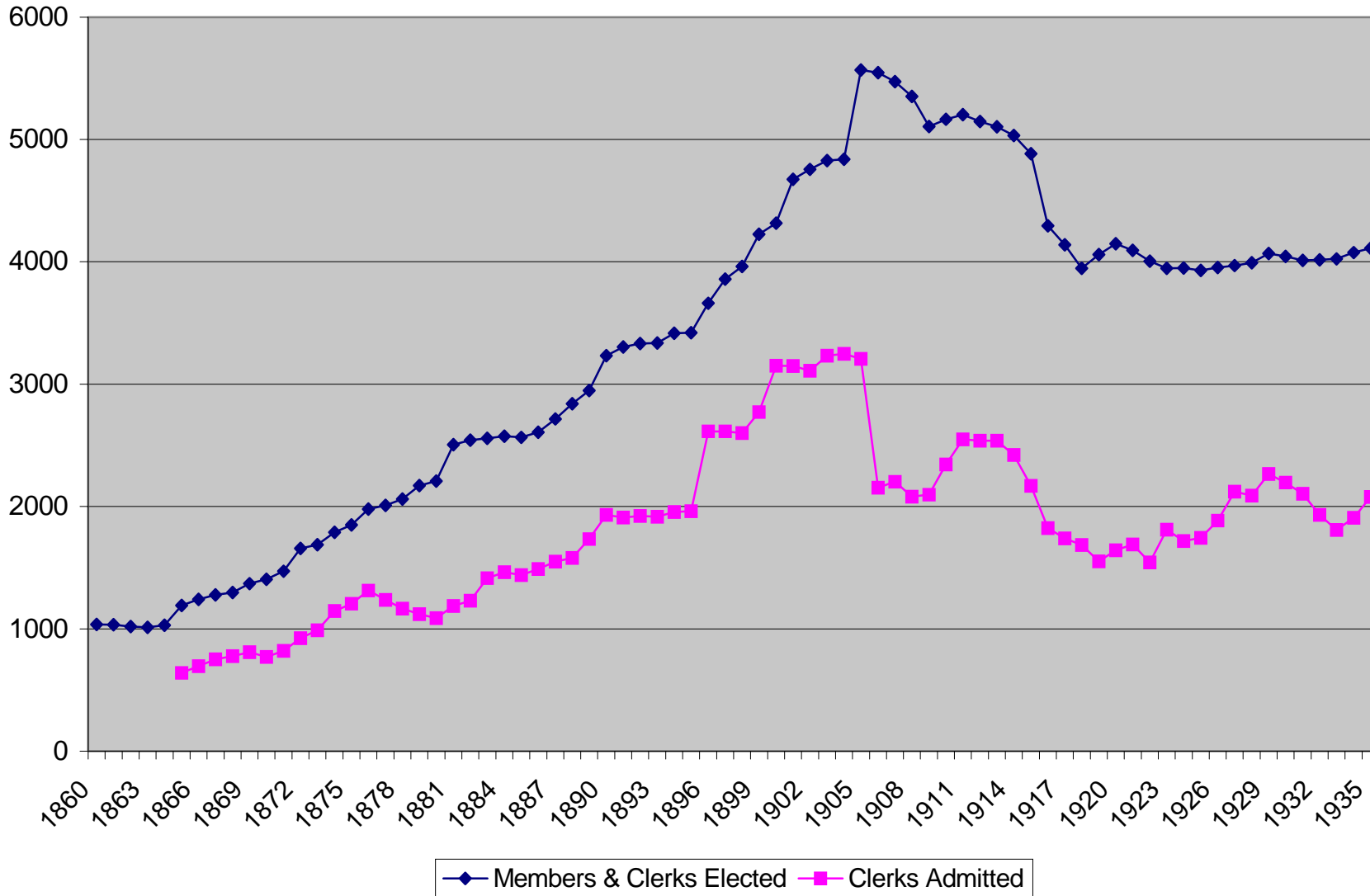
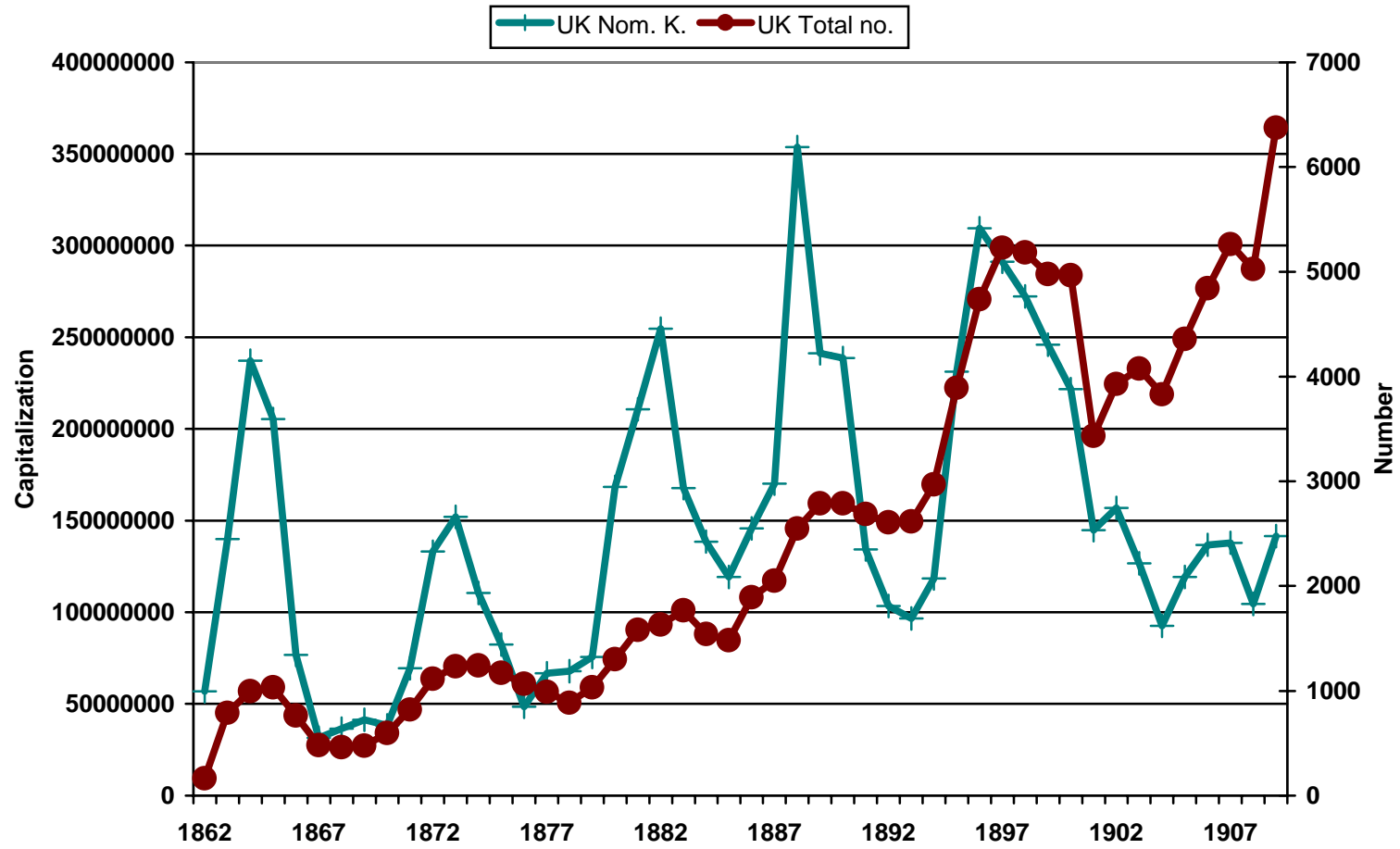
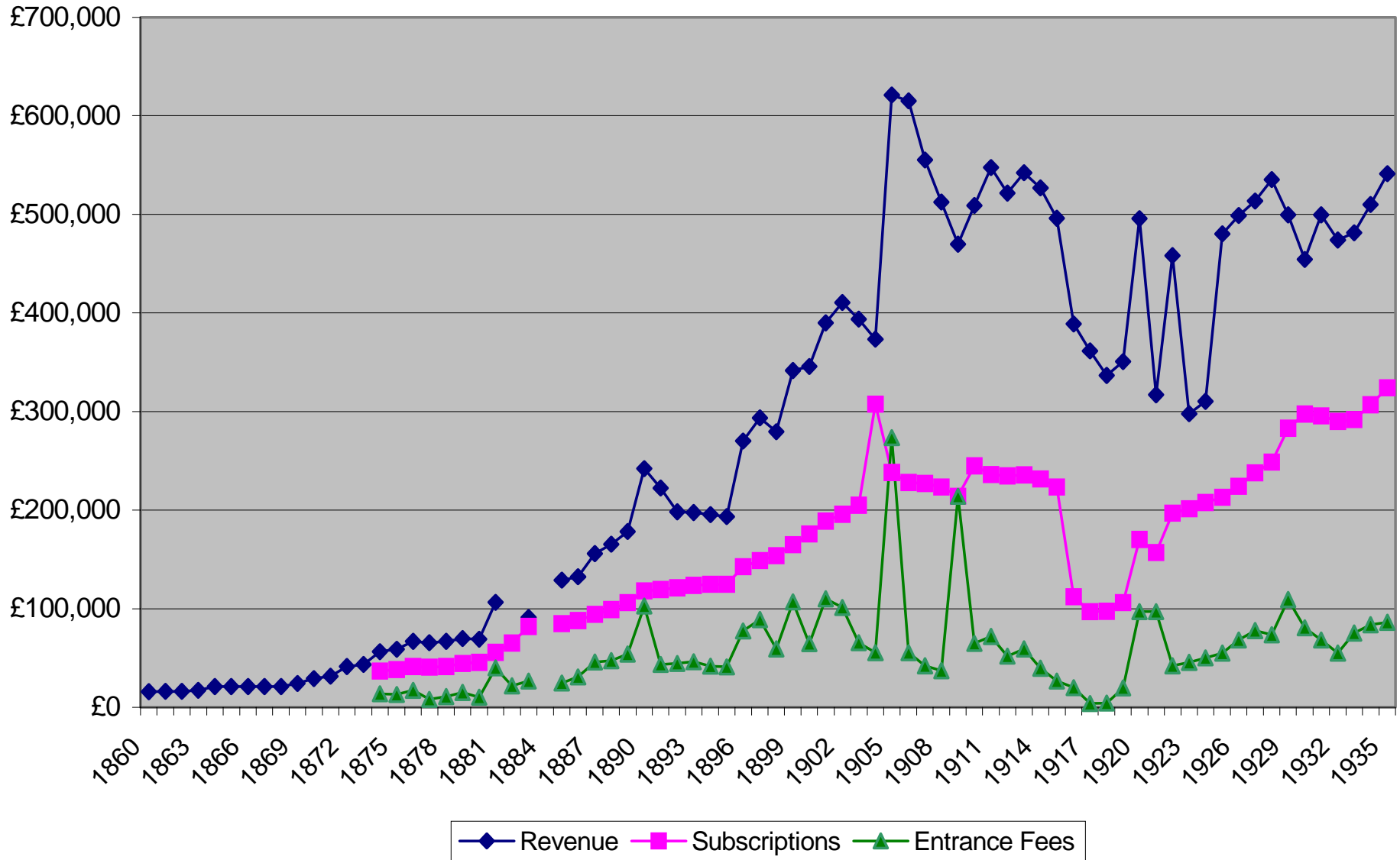


Figure 3. Registered Companies in the United Kingdom, 1861-1909
Number and Capitalization



Revenue:Subscriptions & Entrance Fees, London Stock Exchange



Endnotes:

¹ [Avner Greif, “Institutions and Impersonal Exchange: From Communal to Individual Responsibility,” *Journal of Institutional and Theoretical Economics*, 158 (1), 2002.]

² . John J. McCusker and Cora Gravesteijn, *The Beginnings of Commercial and Financial Exchange Rate Currents, and Money Currents of Early Modern Europe* (Amsterdam: NEHA, 1991).

³ Larry Neal and Stephen Quinn, “Networks of Information, Markets and Institutions in the Rise of London as a Financial Centre, 1660-1720,” *Financial History Review* (April 2001), pp. 7-26; Eric Schubert, “Arbitrage in the Foreign Exchange Markets of London and Amsterdam during the 18th Century,” *Explorations in Economic History*, 26 (January 1989), pp. 1-20.

⁴ Josef De la Vega, *Confusion de Confusiones*, 1688.