

M E M O R A N D U M

TO: Edward R. Gilleran  
Bruce J. Simpson

FROM: Douglas F. Parrillo

DATE: August 14, 1970

RE: Broker/Dealer Insolvencies (Revised)

In mid April 1970, this department initiated a program to obtain meaningful financial information with regard to all non-exchange members which became insolvent since July 1, 1968. Our records indicate that a total of 34 firms in eight districts have "failed" since that date. Of this total one failed in 1968, thirteen in 1969 and twenty thus far in 1970. It is interesting to note here that more than 25 percent of these firms became insolvent in the first year of operations. The chart below reflects the experience factors for these members:

<u>Period of Operations*</u>	<u>No. of Firms</u>
Less than 6 months	2
Six months to one year	7
One year to two years	10
Two to three years	2
Three to five years	4
Over five years	<u>9</u>
Total	34

Much of the financial information presented in the attached exhibits was obtained through the efforts of our District offices. In many instances they found it necessary to rely upon outside sources for this data. These sources included receivers, trustees, their agents, referees, the Federal District Courts in which the bankruptcy petitions were filed, the SEC Regional Offices and the Securities Commissioners of the various states.

The variety of sources for information complicated both the collection and collating of the data. In several instances we encountered a reluctance on the part of certain of these parties to provide us

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\*The period of operations relates to the time lapse from date of membership in the Association to the date of the appointment of a receiver or the date the firm ceased operations.

with the information requested. In other instances cooperative sources had not refined the data sufficiently or presented it in the detail desired for our purposes. That is, some information is so sketchy that we cannot identify the various types of liabilities and to whom they are owed. Our inability to obtain precise information in certain areas stems primarily from the fact that the firms under study are in varying stages of liquidation and/or reorganization. The differing types of proceedings further complicates matters. Involved here are voluntary and involuntary bankruptcies as well as Chapter XI Arrangements.

In the past few years many firms experienced operational control problems as a result of significant increases in volume. The failure of some members to immediately institute corrective action to rectify this problem set the stage for an eventual insolvency.

It is a fact that many members in the face of soaring volume continued to do business while unaware of their financial condition. It would appear that many of these firms, if not all, were in this exact position. With the overall decline in securities prices they found their capital resources depleted to such an extent that they were unable to honor their commitments as they fell due. As a consequence of these deteriorating conditions, bankruptcy proceedings ensued.

As could be expected, many of the court appointed agents found themselves handicapped by these very same control problems in their attempts to identify with accuracy both the assets and liabilities of these members.

The purpose of the above discussion is to qualify in some measure both the validity and completeness of the data in the attached exhibits. It should be noted however, that although this is the best data available to us at the present time, efforts are currently underway by the Districts to attempt to obtain revised information through the aforementioned sources.

As of this date, the following statistics can be presented within the framework of the limitations outlined above:

(A) Total dollar amount of insolvencies (30 of 34 firms)	\$12,865,729.99
Per firm average A	428,857.66
30	
(B) Total dollar amount due to customers (27 firms)*	\$ 2,157,106.53
Per firm average B	79,892.83
27	

\*Two of the 27 firms had -0- customer credits.

(C)	Total dollar amount due to customers where number of customers is known (14 firms)	\$1,145,618.53
(D)	No. of customers (14 firms)	2,188
	Per firm average $\frac{C}{D}$	\$ 523.59

AMOUNT OF INITIAL NET CAPITAL\*  
BEFORE HAIRCUTS  
FOR ALL NON-EXCHANGE FIRMS  
HAVING FAILED DURING THE PERIOD  
July 1, 1968 to June 30, 1970

<u>Range</u>	<u>No. of Firms</u>	<u>%</u>	<u>Cumulative No. of Firms</u>	<u>Cum. %</u>
\$2,500 - \$5,000	4	.12	4	.12
\$5,001 - \$10,000	7	.21	11	.33
\$10,001 - \$25,000	14	.43	25	.76
\$25,001 - \$50,000	3	.09	28	.85
\$50,001 - \$250,000	3	.09	31	.94
\$250,001 - \$1,000,000	2	.06	33	100
TOTALS	33	100	X	X

\* As of DATE OF MEMBERSHIP - Net Capital computed under SEC Rule 240.15c3-1 as amended March 6, 1969

AMOUNT OF INITIAL ADJUSTED NET CAPITAL\*  
 FOR ALL NON-EXCHANGE FIRMS  
 HAVING FAILED DURING THE PERIOD  
 July 1, 1968 to June 30, 1970

<u>Range</u>	<u>No. of Firms</u>	<u>%</u>	<u>Cumulative No. of Firms</u>	<u>Cum. %</u>
\$2,500 - \$5,000	4	.12	4	.12
\$5,001 - \$10,000	10	.31	14	.43
\$10,001 - \$25,000	11	.33	25	.76
\$25,001 - \$50,000	3	.09	28	.85
\$50,001 - \$250,000	3	.09	31	.94
\$250,001 - \$1,000,000	2	.06	33	100
TOTALS	33	100	X	X

\* As of DATE OF MEMBERSHIP - Adjusted Net Capital computed under SEC Rule 240.15c3-1 as amended March 6, 1969

RANGE OF INSOLVENCIES  
 FOR ALL NON-EXCHANGE FIRMS  
 HAVING FAILED DURING THE PERIOD  
 July 1, 1968 to June 30, 1970

<u>Amount of Insolvency</u>	<u>No. of Firms</u>	<u>%</u>	<u>Cumulative No. of Firms</u>	<u>Cum. %</u>
- 0 - to \$25,000	0	0	0	0
\$25,001 to \$50,000	5	.17	5	.17
\$50,001 to \$250,000	16	.53	21	.70
\$250,001 to \$500,000	3	.10	24	.80
\$500,001 to \$1,000,000	3	.10	27	.90
\$1,000,000 and Over	3	.10	30	100
TOTALS	30	100	X	X