

STOCK EXCHANGE SETTLEMENTS POSTPONED

London Committee Announces the Fact—Reasons for Extreme Action

On Friday, July 31st, the London stock exchange committee announced that the settlement due on August 13th had been postponed until August 27th, and that the Consols settlement due on August 6th had been postponed until September. A continuation of the rates on existing speculative accounts thus prolonged is being fixed by the committee, based on the bank rate. Stocks which have yet to be delivered for the account just closed must, however, be paid for.

The chief reason for the unprecedented action of the London stock exchange committee was the fact that the system of credit had practically broken down and it was impossible to carry on business in the ordinary way. This situation did not arise through over-speculation, but because bankers could not collect margins which had been gradually shrinking, while at the same time the continent continued to pour stocks into London.

London Stock Exchange Settlement.

What does the London stock exchange settlement mean? The best reply is perhaps given by a well-known financial authority of London.

Business in the London stock exchange is complicated by the fact that a large number of the securities in which it deals are not to bearer, but registered and transferable by deed. In the case of a bearer security, the buyer pays his check, or passes over currency or any acceptable form of credit instruments, takes his bonds or shares, the possession of which is in itself evidence that he is their owner, and the bargain is concluded. And thus, in settling business in securities of this kind, it is merely a question of bringing the real buyer and the real seller together through the machinery of the clearing house and the thing is done. But when registered stock and shares are transferred, the process is much more complicated, for in this case nothing passes from seller to buyer which gives the latter immediate possession. A holder of these securities is registered as such in the books of the company, or, in the case of government and municipal stocks, of the bank or other agent that keeps the register, and only possesses a certificate stating that he is so registered, which is a mere memorandum carrying no evidence of title.

Deed of Transfer.

The transfer from one holder to another is effected by a deed of transfer, to which this certificate is usually attached, and consequently before the bargain can be completed it is necessary that the selling broker should be informed of the name, address, and style of the transferee to whom the stock or shares are to be passed, so that he may be enabled to make out a deed of transfer, signifying that, in consideration of such and such a sum paid by A. the transferee, B. the transferor sells to him so much stock or so many shares. This deed, duly stamped and either certified or accompanied by the certificate, being delivered to the buying broker, he pays the consideration money and lodges the deed with the company, whose securities are transferred, or with the agents of the government or municipality, and his client the transferee is then registered as their possessor.

The complication introduced by this necessity for the preparation of a deed of transfer makes the business of the settlement in London a lengthy process. It involves the preparation by the buying broker of a form called a ticket, stating the name, address, and description of the client to whom the stock is to be transferred, and this ticket is passed to his seller, and so on through intermediate sellers to the real seller, or the party who is prepared to deliver the stock. In the case of most active securities this passing-on process is effected through the clearing house, but in others the ticket is passed on by one firm to another in the settling room.

Fortnightly Settlements.

Hence it is that four days are required for the fortnightly settlements at which all bargains in London are completed, unless specially executed for cash or for a later settlement. The first two days are called the contango, carry-over, or continuation days; on the first of them the account in mining shares is carried over; on the second, the account in other

markets, except the consols market; on them brokers who have bought or sold securities for clients who do not intend to take them up or deliver them, but propose to continue the bargains with a view to covering them at a profit, make arrangements to this end. Every bargain by the rules of the house has to be completed at the settlement, and therefore stock which has been bought and is not meant to be taken up has, on contango day, to be sold for cash and simultaneously bought for the new account.

These carry-over bargains are all entered at the "making up" price which is fixed by the dealers at noon on contango day. And since a buyer is thus released from his obligation to find cash for his purchase he is charged a rate for the accommodation. This rate varies according to the state of the market in the particular stock—in cases where there is a large bull account in a market well supplied with stock the rate is frequently out of all proportion to the rate ruling for money; but when a stock happens to be oversold the rate may "run off," and a bull may continue his stock "even," or is sometimes paid a "backwardation"—a fine paid by bears of stock that they can not deliver.

On Speculative Account.

A large proportion of stock open on speculative account is thus settled by bringing the bulls and bears together, and any balance of stock open is arranged by jobbers or brokers taking up the stock for the speculator on his paying stamp and fee and a fair rate for the accommodation.

The third day of the London settlement is devoted to the passing of tickets described above, setting forth the names into which stock and shares are to be transferred, and this day is consequently called ticket or name day.

On the fourth day bearer securities and transfer deeds of registered stocks are delivered to the buyers and the consideration money is paid; but it should be observed that ten days' grace are allowed for the delivery of registered stock, to give time for the seller to sign the transfer and for the deed to be certified.

Last Day of Settlement.

It often happens, of course, that the seller is not parting with the whole of his holding in a stock, and therefore is not prepared to give up his certificate to be attached to the transfer deed and delivered to the buyer. In these cases the certificate and transfer deed are forwarded either directly to the company, or through the secretary of the share and loan department of the stock exchange, and the transfer deed is certified as in order. A certain amount of time is obviously required for the execution of these formalities and for the procuring of the signature in cases where the transferrer may happen to be abroad. On this last day of the settlement, which is usually called pay day, or account day, or settling day, all differences are paid arising out of speculative transactions.

It should be added that if a seller of stock does not receive a ticket by the proper time on ticket day, informing him into whose name it is to be transferred, he can "sell it out"—that is, sell it to some other buyer, and any consequent loss falls on the party who is responsible for the delay in passing the ticket. Similarly, a buyer who has passed a ticket and has not had the transfer deed delivered after the ten days of grace allowed, can "buy it in"—that is, buy the stock for cash from some other seller.

"A great war in Europe will probably bring economic advantages to the United States. It will enable it to sell its great crops in places which will give a much greater income than if there was no war. It is obvious that for the time being the money markets of Europe will be closed to the demands for new capital of Canada, Brazil, Argentina, Mexico and other countries, and at such a time the prestige of the United States would be immensely enhanced if it were to take the place of Europe and meet the pressing needs of these borrowing countries."—London Statist.

The United States decided to issue emergency currency immediately to facilitate the crop movement and supply every other requirement of business. It was decided that \$100,000,000 of the new currency, which is that authorized by the Aldrich-Vreeland law, should be issued through New York. At the request of the state superintendent of banks, representatives of the New York State Savings Bank Association decided to demand sixty days' notice of withdrawal of deposits, except in very small amounts. Similar action was subsequently taken by private banking houses, except that in the case of the latter only thirty days' notice will be required. The New York Clearing House Association decided to adopt a certificate basis, in the belief that "every means should be adopted to protect the gold supply in the United States." The association also adopted a resolution making available for the payment of balances all forms of currency issued under the authority of the National Government.