



# The Securities Industry in New York City

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## Highlights

- Broker/dealer profits of the member firms of the New York Stock Exchange averaged \$16.3 billion during 2013 and 2014, a relatively strong performance by historical standards.
- Broker/dealer profits rose by 29 percent during the first half of 2015 to \$11.3 billion, the strongest first half since 2011.
- Noncompensation expenses, which include the cost of legal settlements, declined by 12 percent during the first half of 2015 after increasing by 36 percent between 2010 and 2014.
- The securities industry in New York City added 2,300 jobs in 2014 and was on pace to add more than 4,500 jobs in 2015 before recent concerns over weakness in the global economy roiled the financial markets.
- Despite these job gains, the securities industry in New York City is still 9 percent smaller than before the recession.
- The average bonus paid to securities industry employees in New York City reached \$172,900 in 2014, a level exceeded only by the two years that preceded the 2008 financial crisis.
- The average salary (including bonuses) in the securities industry in New York City grew by 14 percent in 2014 to \$404,800, setting a new record. After accounting for inflation, 2014 was the third-highest year on record.
- Average salaries in the securities industry were nearly six times higher in 2014 than in the rest of the City's private sector (\$72,300).
- Nearly a quarter (23 percent) of the employees in the securities industry in New York City earned more than \$250,000 in 2013, compared with less than 3 percent in the rest of the work force.
- 1 in 9 jobs in New York City and 1 in 15 jobs in New York State are either directly or indirectly associated with the securities industry.
- Last year, the securities industry accounted for 17.5 percent of State tax revenues and 7.5 percent of City tax revenues.

In the seven years since the 2008 financial crisis, regulations designed to increase stability and transparency in the financial system have changed the way the securities industry operates. Firms today have higher capital reserve requirements and are restricted from certain activities, reducing risk but also limiting investment opportunities.

Despite the new regulations and the high cost of legal settlements related to the financial crisis, broker/dealer profits of the member firms of the New York Stock Exchange (the traditional measure of industry profitability) were relatively strong in 2013 and 2014. Profits were even stronger during the first half of 2015 as legal costs declined.

After several years of downsizing, the securities industry in New York City is adding jobs, which will promote job growth in other parts of the City's economy. The industry added 2,300 jobs in 2014, the first year of job gains since 2011, and growth accelerated during the first eight months of 2015.

Average salaries, including bonuses, are also rising. In 2014, the average salary in the securities industry in New York City set a new record (exceeding \$400,000 for the first time since 2007), driven by higher bonuses.

Over the past two months news of weaker global economic growth, especially in China, and concerns over the timing of the Federal Reserve's plan to raise interest rates have shaken the financial markets. The Dow Jones Industrial Average, for example, declined by 7.6 percent in the third quarter, the largest decline in four years. While these developments could hold down profits and job gains in the second half of 2015, the industry may still have a good year given its strong start.

The securities industry is adjusting to changes in its regulatory environment, but now faces a new challenge from a weaker global economy. How the industry responds could impact New York City because it remains an important part of the local economy and a large contributor to the City's coffers.

## Regulatory Reforms

Over the past five years, regulators from around the world have implemented reforms intended to improve the health and stability of the financial system, and to prevent another financial crisis. The reforms have changed the way the securities industry operates.

In the United States, nearly two-thirds of the rules required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 have been finalized.<sup>1</sup> Section 619 of Dodd-Frank, known as the Volcker Rule, prohibits large federally insured bank holding companies from conducting certain investment activities, such as proprietary trading (or trading with their own accounts) and sponsoring or holding an ownership stake in hedge funds or private equity funds, after July 21, 2015.<sup>2</sup>

The Dodd-Frank Act (along with certain international agreements) requires banks to increase their capital reserves. Regulators have also defined the types and amounts of liquid assets large banks must hold to withstand periods of financial stress. The initial regulation excluded municipal bonds from the list of assets approved for these reserves, raising concerns that lower demand for these securities could increase borrowing costs for state and local governments. In May 2015, the Federal Reserve proposed that high-quality municipal bonds be permitted under the regulations. The Federal Reserve will consider public and industry comments before issuing a final rule.

The Federal Reserve conducts stress tests to determine if large bank holding companies have sufficient capital to absorb losses and support operations during adverse economic conditions. Results for the most recent round of tests were released in March 2015, and for the first time all of the participating banks passed.<sup>3</sup>

In addition, large bank holding companies are now required to submit to government regulators credible resolution plans, commonly known as living wills. These plans must provide details on how a bank would approach an orderly liquidation without government intervention in the event of the firm's failure. Last year, the living wills submitted by most large banks had shortcomings, and the banks were required to revise their plans. Federal regulators have not yet indicated whether the revised plans are adequate.

## Industry Profitability

Securities industry profitability is traditionally measured by the pretax profits of the broker/dealer operations of New York Stock Exchange (NYSE) member firms. Many of these firms, such as the large bank holding companies, engage in a broader range of activities (e.g., commercial and retail banking, and mortgage origination), which are not captured by this measure.

After reporting record losses in 2007 and 2008, industry profitability rebounded to its two highest levels on record in 2009 and 2010 (see Figure 1). Profitability during these years was aided by the low-interest-rate policies of the Federal Reserve, which significantly lowered the cost of doing business.

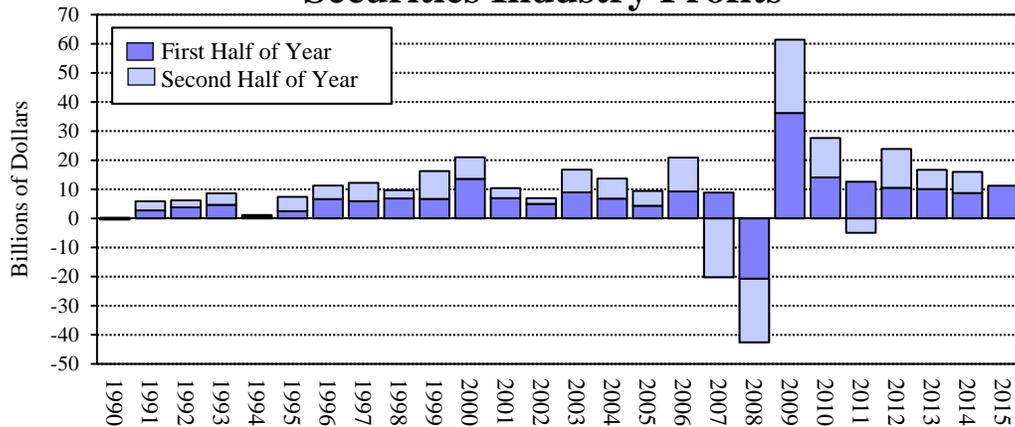
After a strong first half in 2011, the industry reported losses for the second half because of the European sovereign debt crisis and weakness in the global economy. Profitability rebounded in 2012, reaching its third-best year on record.

In 2013 and 2014, industry profitability fell by 30 percent and 4.5 percent, respectively, in large part because of the high cost of legal settlements related to the 2008 financial crisis. Nevertheless, profitability remained relatively strong, averaging \$16.3 billion annually in those years.

While the combined financial statement for the broker/dealer operations of all NYSE member firms does not identify the cost of legal settlements, such costs are included in noncompensation expenses.<sup>4</sup> Noncompensation expenses (excluding interest costs) increased by 36 percent between 2010 and 2014.

The Office of the State Comptroller (OSC) estimates that the cost of legal settlements for the six largest bank holding companies (including their securities operations) has totaled more than \$134 billion since 2010.<sup>5</sup> Nearly two-thirds of the total dollar value of these cases was settled in 2013 and 2014. While firms face the potential for additional settlement costs from ongoing investigations (such as those related to the currency markets), it appears that most investigations related to the 2008 financial crisis have been concluded.

**Figure 1**  
**Securities Industry Profits**



Note: Pretax profits for broker/dealer operations of New York Stock Exchange member firms.  
Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange; OSC analysis

Industry profits for the first half of 2015 were strong at \$11.3 billion, 29 percent higher than one year earlier, driven by a 12 percent reduction in noncompensation expenses. While this was the strongest first half since 2011, weakness in the global economy and financial markets could dampen profitability in the second half of 2015.

In August 2015, U.S. stock markets had the largest percentage declines in at least three years as investors worldwide reacted to economic data showing slowing growth in China, the world's second-largest economy. More generally, the financial markets have been experiencing increased volatility in recent months.

Slower economic growth in China has also contributed to falling commodity prices (disrupting emerging market economies) and currency fluctuations. Canada, the United States' largest trading partner, has slipped into recession, and weak growth in the Eurozone has led the European Central Bank to further lower interest rates.

While many economists had expected the Federal Reserve to begin raising short-term interest rates in September 2015 (after keeping them near zero for almost seven years), the central bank decided at its September meeting to maintain interest rates at the current level. The Federal Reserve cited low inflation, a strong dollar, and recent global economic and financial developments as reasons for its decision. The Federal Reserve is scheduled to meet twice more in 2015 and has indicated that it will continue to assess economic conditions in determining when to raise rates.

New York City's four-year financial plan assumes that broker/dealer profits will decline for the third consecutive year, to \$14.5 billion in 2015. Despite recent developments, the City's forecast still appears conservative given the high level of profitability in the first half of 2015.

## Revenues

New capital requirements and restrictions on certain activities, such as proprietary trading, have altered the composition of industry revenue in recent years. For example, income derived from trading activity declined by 39 percent between 2010 and 2014. In its place, the industry has developed new sources of revenue and has expanded existing business lines.

Revenues from institutional and private client services reached \$38 billion in 2014, which was nearly double the amount earned in 2010. Revenue from underwriting activity surpassed \$25 billion in 2014, the highest level on record. According to Thomson Reuters, the value of worldwide mergers and acquisitions completed in 2014 was the highest since the financial crisis.

While total revenue for the first half of 2015 was unchanged from the same period one year earlier, income from trading activity has continued to decline (by 30 percent). Although the industry has not yet reported third-quarter results, individual firms have indicated that revenues will be weaker.

## Employment

The securities industry in New York City added 2,300 jobs in 2014, the first full year of job gains since 2011 (see Figure 2). Job growth accelerated during the first eight months of 2015 and the industry was on pace to add more than 4,500 jobs for the year. Given recent global economic developments, however, the industry could curtail hiring to preserve profitability.

As of August 2015, employment in the securities industry in New York City totaled 174,000 jobs (as seasonally adjusted by OSC). Despite recent job growth, the industry has regained only 38 percent of the jobs it lost during the recession, and it is now 9 percent smaller (17,400 fewer jobs) than before the recession.

Unlike in prior economic recoveries, the industry in New York City has not played a large role in the current jobs recovery. While New York City has thus far added more than 500,000 jobs (four times as many as were lost during the recession), the securities industry accounted for just 2 percent of these jobs. During the recoveries after both the 1990-1992 and 2001-2003 recessions, the industry accounted for an average of 10 percent of the job gains.

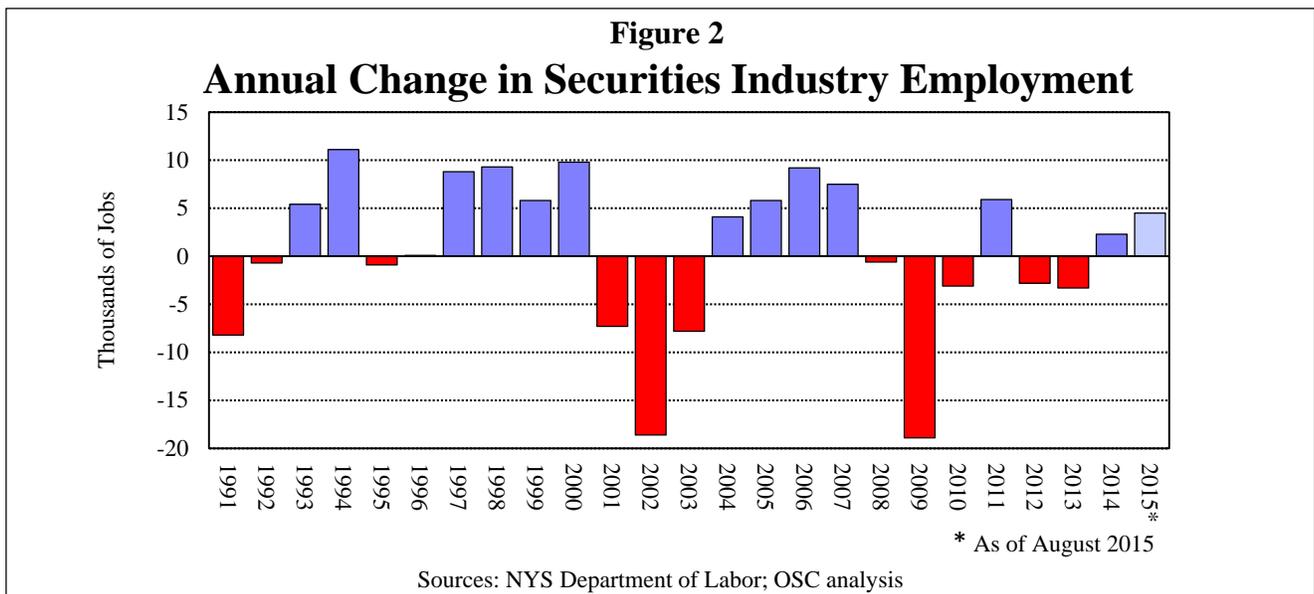
Nonetheless, the recent growth in employment is a positive development for the City's economy. OSC estimates that, because of the high salaries in the securities industry, each job added in that industry

leads to the creation of two additional jobs in other industries in the City and one additional job elsewhere in New York State, mostly in the City's suburbs. Overall, OSC estimates that 1 in 9 jobs in the City and 1 in 15 jobs in the State are either directly or indirectly associated with the securities industry.

New York City accounts for nearly 90 percent of all securities industry jobs in New York State, a share that has declined slightly over the past two decades. Despite the industry's smaller size, New York State still has many more securities industry jobs than any other state, with more than twice the number of second-ranked California (88,700) and three times as many as third-ranked Texas (61,000).

Although New York City remains the nation's preeminent financial center, its share of securities industry employment nationally has shrunk over the past few decades, primarily because of geographic diversification, new technologies and cost-cutting. In 1990, New York City accounted for 32 percent of the nation's securities industry jobs, but its share had fallen to 23 percent by 2000, and fell further to 19 percent by 2013, remaining at that level in 2014.

Unlike New York City, the rest of the nation has recovered nearly all of the securities industry jobs that were lost during the recession. Some states, such as Texas, California and Arizona, have reported double-digit job growth.



## Compensation

The securities industry’s share of private sector wages compared to its share of jobs is a key measure of the industry’s importance to New York City’s economy. In 2014, the industry accounted for less than 5 percent of all private sector jobs in New York City, but 22 percent of all the private sector wages paid in the City.

The total amount of wages (including bonuses) paid to securities industry employees in New York City grew by 15 percent in 2014, the fastest pace since 2007, to reach \$66.9 billion. Even though the industry gained jobs in 2014, the relatively fast pace of wage growth was driven primarily by increases in base salaries and bonuses. Total wages paid to the rest of the City’s private sector work force grew by only half as much (8 percent), despite a much faster rate of job growth.

### Bonuses

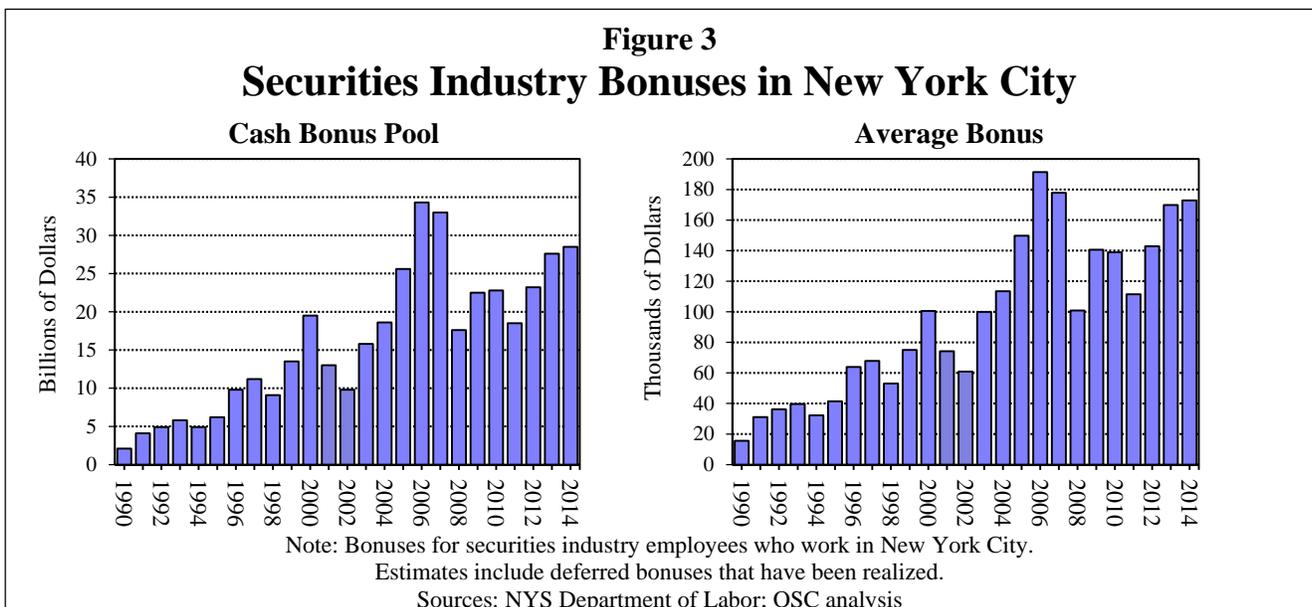
Like most businesses, financial firms report compensation (i.e., base salary, fringe benefits and bonuses, including deferred remuneration) on an accrual basis of accounting. As such, cash bonuses paid in January through March of one calendar year (for work performed during the prior calendar year) are reported in the prior year’s financial statements. For example, most of the resources that are being set aside for bonuses in 2015 will be paid out during the first quarter of 2016.

In recent years, the securities industry has changed its compensation practices in response to new regulations and other compensation reforms designed to discourage excessive risk-taking. Firms have raised base salaries for some employees, and now pay a smaller share of bonuses in the current year while a larger share is deferred to future years (usually for a period of three to five years) in the form of cash, stock options or other types of compensation.

Clawback provisions are also more frequently being adopted,<sup>6</sup> and a larger share of bonuses is now being paid outside the traditional bonus period, making it harder to distinguish bonuses from base salaries. Despite these actions, bonuses remain an important part of total compensation packages paid to securities industry employees.

In March 2015, OSC estimated that the bonus pool paid to the City’s securities industry employees for work performed in 2014, including bonus payments deferred from prior years, reached \$28.5 billion (see Figure 3). This was the third-highest level ever and the highest level since the financial crisis.

Over the past three years, the average bonus paid to securities industry employees in the City grew by more than 50 percent. In 2014, the average bonus reached \$172,900, a level exceeded only by the two years that preceded the 2008 financial crisis (also shown in Figure 3). Compensation trends during the first half of 2015 suggested a small increase in bonuses for the year, but it remains to be seen how recent developments will affect compensation.



### Average Salaries

The securities industry has the highest average salary of any major industry in New York City. In 2014, the average salary (including bonuses) rose by 14 percent to \$404,800 (see Figure 4), setting a new record. After adjusting for inflation, 2014 was the third-highest year on record.

The gap between average salaries in the securities industry and those in the rest of the City’s private sector is much larger today than it was 30 years ago. In 1981, the average salary was twice as high as the average in the rest of the private sector. By 2007, the average salary in the securities industry had become six times higher.

While the average salary gap narrowed in 2008 and 2009, it has grown since then and is approaching the 2007 peak. In 2014, the average salary in the securities industry in New York City was approaching six times (5.6 times) higher than in the rest of the City’s private sector (\$72,300).

The average salary in the securities industry is skewed by employees who earn very large salaries. To better understand how pay is distributed in the industry, a new rule (Section 953 of Dodd-Frank) requires firms to report a median salary for their employees and how that pay compares to the chief executive officer, beginning in 2017.

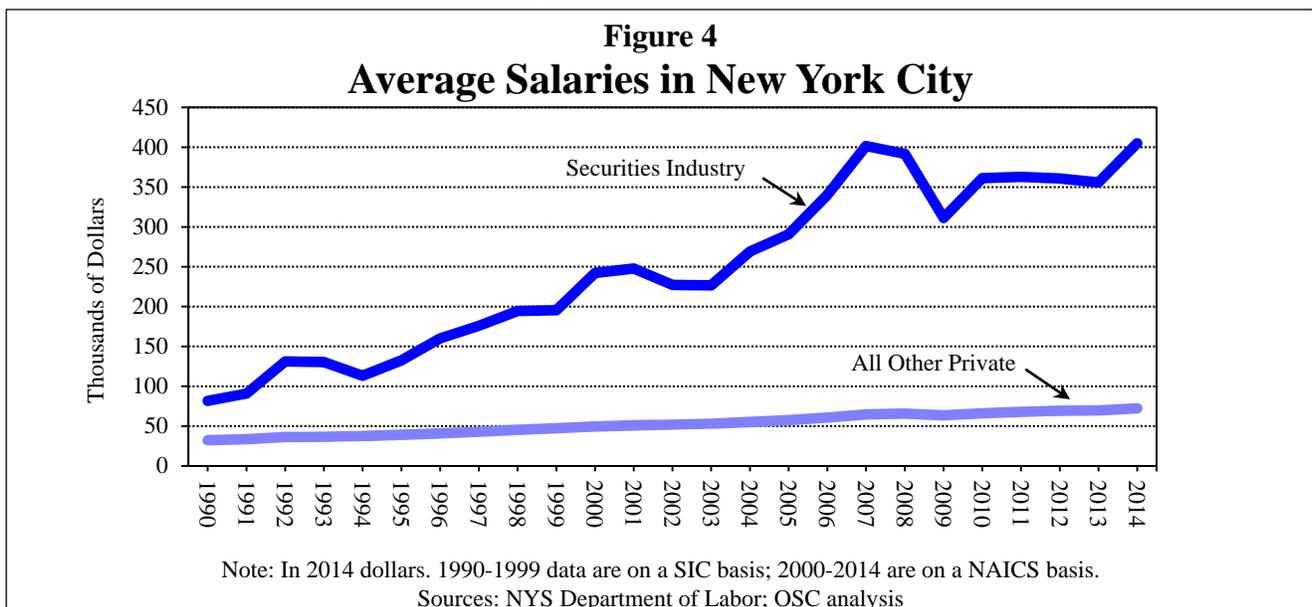
Until then, OSC is using data from the U.S. Census Bureau’s American Community Survey to better understand wage distribution in the industry. In

2013 (the most recent data available), 23 percent of the workers in the securities industry in New York City earned more than \$250,000, compared with less than 3 percent in the rest of the City’s work force. Conversely, only 10 percent of industry employees earned less than \$35,000 in 2013, compared with 45 percent in the rest of the City’s work force.

As previously discussed, the securities industry has become more geographically diverse. Initially, lower-paying back-office jobs were relocated, but a large number of higher-paying jobs have been relocated since the terrorist attacks on the World Trade Center, benefiting the City’s suburbs.

In 2014, the average salary for securities industry employees working in Long Island reached \$348,200, twice the amount of ten years earlier. For employees working in Westchester County, it grew by nearly 80 percent to reach \$264,500. Average salaries for employees working in New Jersey grew by 41 percent to \$178,800 (reaching \$195,400 in Hudson County).

Nonetheless, the average salary for securities industry employees who work in New York City (\$404,800) remained substantially higher in 2014 than for industry employees in the rest of New York State (\$233,300) and the nation (\$173,900). This reflects the concentration in New York City of highly compensated employees, such as chief executives and investment bankers.



## Tax Revenues

The securities industry is a major source of tax revenue for both New York City and New York State. Firms pay business taxes pursuant to the State's franchise tax on general business corporations, and the City's general corporation or unincorporated business taxes. In addition, high compensation in the industry boosts personal income tax receipts. Capital gains derived from Wall Street's activities are also subject to personal income tax. (The Internal Revenue Service reports that securities-related activities generally account for most capital gains.)

### New York City

OSC estimates that in City Fiscal Year (CFY) 2015, the City received tax payments of \$3.8 billion from securities industry-related activities.<sup>7</sup> This amount was 12 percent higher than the year before and the highest level since the financial crisis. As a result, the industry's share of City tax revenues rose to 7.5 percent (see Figure 5).

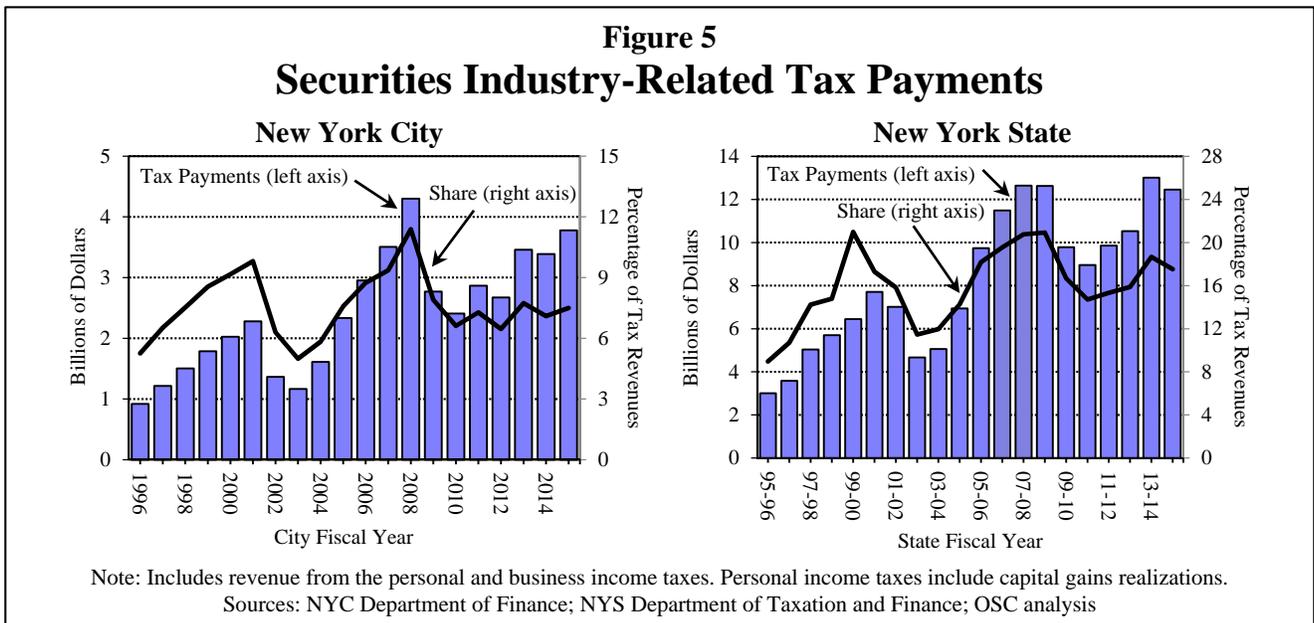
While tax collections were higher from all three taxes, personal income tax collections were particularly strong, reflecting a large increase in capital gains realizations. New York City's Office of Management and Budget estimates that capital gains increased by more than 20 percent in calendar year 2014.

### New York State

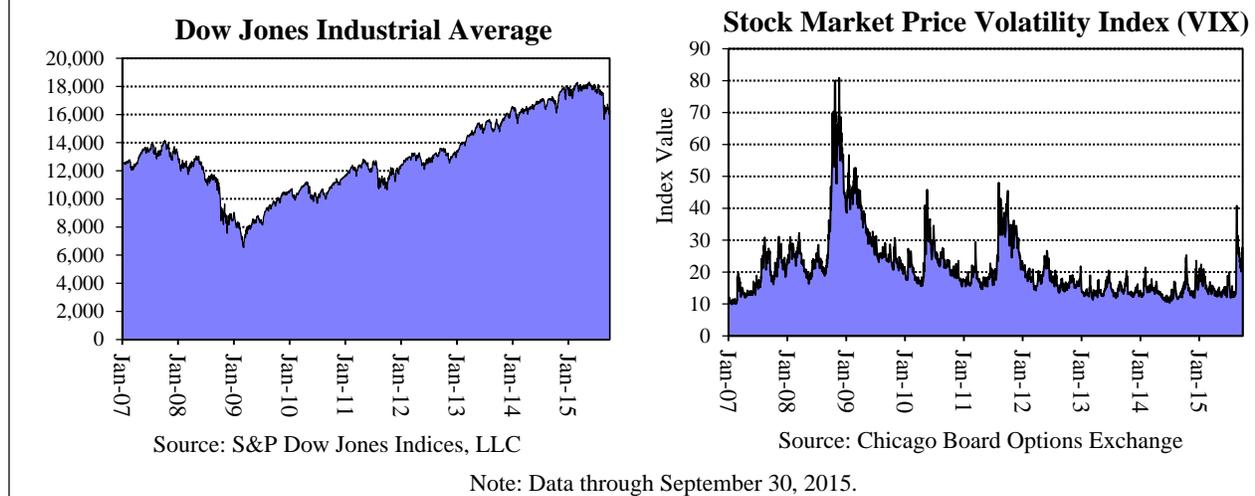
New York State depends on Wall Street even more than New York City, because the State relies more heavily on personal and business taxes and does not levy a property tax as New York City does. In addition to the sources cited above, New York State also receives tax payments from industry employees who commute into New York City from the surrounding suburbs (including those outside of New York State), and from the larger statewide pool of capital gains realizations.

Mostly because of timing differences between the State and City fiscal years, the decline in tax payments that the City experienced in CFY 2014 was experienced by the State in the following fiscal year (State Fiscal Year 2014-15). OSC estimates that tax payments from securities industry-related activities declined to \$12.5 billion in that year (see Figure 5), and the industry's share of State tax revenues declined to 17.5 percent. The strong growth in capital gains in calendar year 2014 will boost securities industry-related tax collections in SFY 2015-16.<sup>8</sup>

In addition, New York State received a total of \$7.5 billion in SFY 2014-15 and SFY 2015-16 from financial firms to settle legal actions, mostly related to the 2008 financial crisis. Most of these one-time resources have been earmarked to support economic development and infrastructure investments, as well as to settle a federal aid disallowance.



**Figure 6**  
**Financial Market Indicators**



## Financial Market Indicators

The Dow Jones Industrial Average (“the Dow”) fell by more than 50 percent to 6,547 over a 17-month period ending on March 9, 2009, in response to the developing global financial crisis. The Dow stabilized only after governments around the world intervened to shore up the global financial system.

As economic conditions improved, the Dow rose steadily, with the exception of a few months in 2011 during the European sovereign debt crisis. By December 2014, the Dow broke 18,000—nearly three times higher than the level in March 2009—for the first time. The Dow remained at record levels until the end of July 2015.

Over the following three weeks, the Dow fell by more than 2,000 points (11 percent) in response to weakness in the global economy, particularly in China. The Dow regained less than one third of its losses in September 2015.

The Chicago Board Options Exchange Volatility Index (VIX) measures market expectations of near-term volatility. As shown in Figure 6, the VIX spiked to more than 40 on August 24, 2015, in response to an 8.5 percent decline in the Shanghai Stock Exchange Composite Index. The last time the index reached this level was during the European sovereign debt crisis. Although the VIX eased in September 2015, it has remained elevated.

<sup>1</sup> According to the law firm Davis Polk & Wardwell LLP, of the 390 rules required by the law, nearly two-thirds had been finalized as of September 30, 2015. The remaining rule-making requirements focus mainly on consumer protection, derivatives, mortgage reforms and systemic risks.

<sup>2</sup> The Federal Reserve granted financial institutions that had made hedge fund or private equity fund investments prior to 2014 a longer period to comply with the new regulations.

<sup>3</sup> On July 20, 2015, the Federal Reserve announced additional capital requirement rules for the eight U.S. financial firms considered globally systemically important banks.

<sup>4</sup> Noncompensation expenses also include the cost of rent, communications and technology.

<sup>5</sup> The six largest bank holding companies (by total asset size) are: JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Wells Fargo & Co., Goldman Sachs Group Inc., and Morgan Stanley.

<sup>6</sup> Some clawback provisions require a share of bonuses to be returned if the firm’s financial condition weakens or if an executive’s investments turn from profits to losses.

<sup>7</sup> These estimates exclude revenue from real property taxes, real estate transaction taxes and sales taxes because OSC is unable to identify the securities industry’s share of those tax payments.

<sup>8</sup> The New York State Division of the Budget estimates that capital gains realizations increased by 30 percent in 2014.