OFFICE OF THE NEW YORK STATE COMPTROLLER

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The Securities Industry in New York City

Highlights

- Securities industry profits declined by 11 percent to $14.3 billion in 2015, the third consecutive year of decline.
- The industry earned $9.3 billion in the first half of 2016, 18 percent less than last year.
- After two years of strong job growth, the industry has resumed downsizing in New York City. In August 2016, there were 2,600 fewer employees than in March 2016.
- The average salary (including bonuses) of industry workers in New York City declined by 4 percent to $388,000 in 2015. The average bonus fell by 9 percent to $146,200.
- While the disparity in pay has narrowed since the financial crisis, the average salary in the securities industry was still five times higher in 2015 than in the rest of the City's private sector ($74,100).
- The industry was responsible for 6 percent of the high-paying jobs created in New York City between 2010 and 2015, compared with one-quarter between 1990 and 2007.
- The securities industry accounted for 21 percent of all private sector wages in 2015, down from 28 percent in 2007.
- OSC estimates that 1 in 10 jobs in New York City and 1 in 16 jobs in New York State are either directly or indirectly associated with the securities industry.
- Last year, the securities industry accounted for 18.5 percent of State tax collections and 7 percent of City tax collections.
- New York City accounted for less than one-fifth of the nation's securities industry jobs in 2015, down from 32 percent in 1990.

The role of the securities industry in New York City's economy has changed since the financial crisis. The industry is smaller after shedding 8 percent of its jobs since 2007, while the rest of the City's private sector has grown by 17 percent.

The securities industry has been a less powerful economic engine during the current recovery than in the past. While it was responsible for 39 percent of total private sector wage growth between 1990 and 2007, the industry accounted for just 11 percent between 2010 and 2015. Nonetheless, the industry still accounts for one-fifth of all private sector wages in New York City.

The securities industry in New York City has also moved beyond its traditional home in Lower Manhattan after the terrorist attacks on September 11, 2001. In 2000, half of all industry jobs were located in Lower Manhattan, but the share fell to 19 percent by 2015. Two-thirds of the jobs are now located in Midtown Manhattan.

Profits in the securities industry have declined for three consecutive years. Last year, the industry got off to a strong start, but it reported a loss in the fourth quarter, the first quarterly loss since 2011. This year, the industry also had a solid start, and profits are on pace to exceed last year's level barring an unexpected development.

Compensation trends suggest bonuses could be lower in 2016 for the third consecutive year. In addition, job growth has slowed in New York City and it appears that the industry has resumed downsizing after two years of job growth.

Over the past decade, the City's economy has become more diversified and less reliant on the securities industry. However, the industry continues to be a major contributor to State and City tax revenues, as well as an important part of the economy.

Regulatory Reforms

Over the past six years, regulators from around the world have implemented reforms designed to improve the health and stability of the financial system, and to prevent another financial crisis. The law firm Davis Polk & Wardwell LLP reported that, as of July 2016, 70 percent of the rules required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 had been finalized.

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 (i.e., trading with the firm's own money). After receiving three 12-month extensions, the industry has until July 21, 2017, to divest its ownership stakes in private equity or hedge funds.

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. (As of July 2016, holdings of high-quality municipal bonds can be used to meet these requirements.) The Federal Reserve has also proposed that certain banks, including those that pose a systemic risk to the financial system, set aside additional capital.

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 tests were released in June 2016, and 31 of 33 banks passed.

Large bank holding companies are now required to submit resolution plans, commonly known as living wills, to government regulators. These annual plans must provide details on how a bank would approach an orderly liquidation without government intervention in the event of the firm's failure. In April 2016, regulators determined that the resolution plans for five of the eight largest companies were deficient. The companies submitted revised plans in October 2016.

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. Other business lines of the member firms, such as retail and commercial banking, are not included.

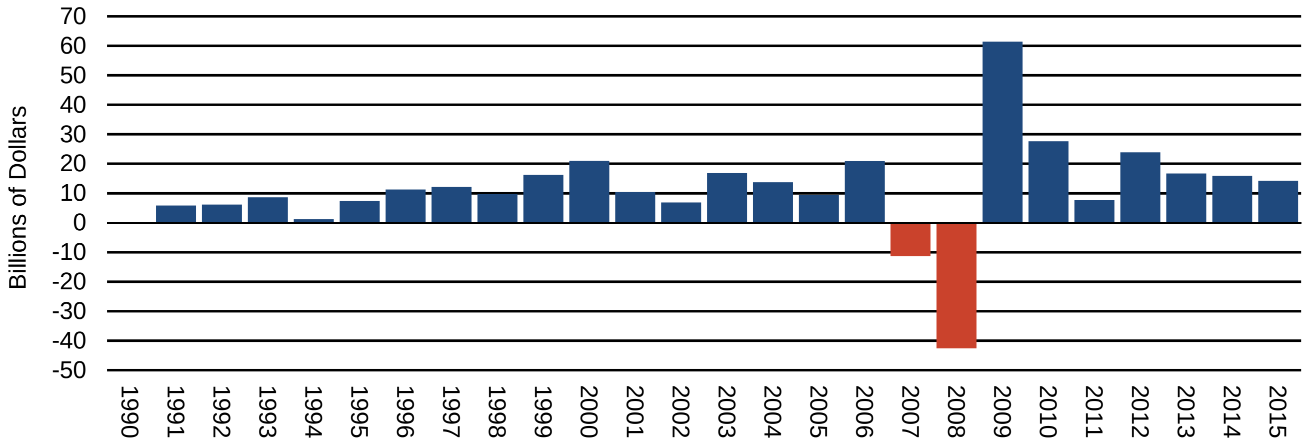
The industry endured record losses in 2007 and 2008 as volatility rocked the financial markets in response to the financial crisis. Profitability bounced back to record levels in 2009 and 2010 (see Figure 1), aided by the low-interest-rate policies of the Federal Reserve, which lowered the cost of doing business.

Profits fell sharply in 2011, when a strong first half gave way to losses in the second half as a result of the European sovereign debt crisis and weak international economic growth. Although profits rebounded in 2012 to register the third-best year on record ($23.9 billion), profits have declined in each of the three subsequent years.

Between 2012 and 2015, profits fell by more than 40 percent as higher capital reserve requirements and the cost of legal settlements stemming from the financial crisis eroded earnings. Although the securities industry does not disaggregate settlement costs from other noncompensation expenses, noncompensation expenses increased by 18 percent ($9.4 billion) during this period.

Since the financial crisis, the composition of industry revenue has changed in response to regulatory changes and economic conditions. For example, income derived from trading activity declined by 61 percent between 2010 and 2015. In its place, the industry has expanded existing business lines. Revenues from institutional and private client services, for example, reached $41 billion in 2015, nearly double the amount earned in 2007.

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

After a strong first half last year ($11.3 billion) and a solid third quarter, the industry reported a small loss in the fourth quarter ($180 million), the first quarterly loss since 2011. Despite lower noncompensation expenses, profits for all of 2015 fell by $1.7 billion to $14.3 billion as revenues weakened.

In 2016, the industry is once again off to a strong start, with profits of $9.3 billion in the first half. Although profits were 18 percent lower than last year, it was still a solid first half by historical measures. A number of external factors could impact profits in the second half of the year, including interest rates and the outcome of the November elections. While the Federal Reserve has signaled that it may raise interest rates before the end of the year, it has postponed previously planned increases.

New York City's four-year financial plan assumes securities industry profits will decline to $10.6 billion in 2016, which, in hindsight, now appears overly cautious in light of the strong first half. The nation's six largest bank holding companies, which are engaged in a broader range of activities than just securities, reported solid profits for the third quarter based on higher revenue from trading and other securities activities, an encouraging development.[1]

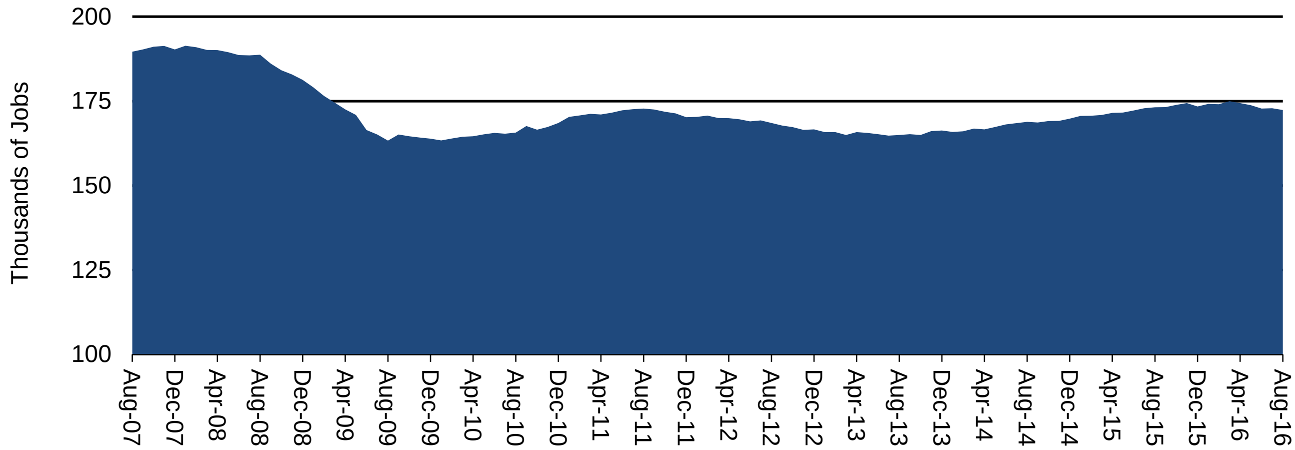
Employment

The securities industry in New York City lost 33,700 jobs between 2000 and 2003, a period that included the terrorist attacks on the World Trade Center and the bursting of the dot-com bubble. From 2003 to 2007, the industry added 26,600 jobs, but the financial crisis caused the industry to shed 22,600 jobs between 2007 and 2010. The industry was unable to sustain a recovery in 2011 and resumed downsizing through 2013.

The industry added 2,400 jobs in 2014 and 4,500 jobs in 2015, the first time since the financial crisis that the industry has added jobs for two consecutive years. Despite the job gains, there were 8 percent fewer industry jobs in New York City in 2015 than before the financial crisis.

Industry employment rose until March 2016, but since then it has declined as the industry sheds jobs to bolster profitability (see Figure 2). In August 2016, there were 172,400 employees (seasonally adjusted) in the securities industry in New York City, 2,600 fewer than in March. Despite the decline, the industry is still likely to post a small net gain for all of 2016 because of job growth earlier in the year.

FIGURE 2
Securities Industry Employment



Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; OSC analysis

Nationwide, securities industry employment declined sharply from 2008 through 2010. Unlike New York City, however, the rest of the nation has recovered all of the industry jobs that were lost during the recession.

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, the 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 over the next two years.

In 2015, New York City accounted for 89 percent of all securities industry jobs in New York State, a share that has declined only slightly over the past two decades. Despite the industry's smaller size, New York State still had many more securities industry jobs than any other state, with more than twice the number of second-ranked California and three times as many as third-ranked Texas.

Among the 10 states with the largest number of securities industry jobs (see Figure 3), employment growth between 2010 and 2015 has been strongest in Texas and Pennsylvania. Together, these two states have added more than 29,000 jobs, accounting for one-quarter of the industry's national job gains since 2010. In six of the ten states, job growth was faster than in New York.

FIGURE 3
Securities Industry Employment in Leading States
(in thousands)

Area	2015 Level	Change 2010-15	Percentage Change 2010-15
United States	902.7	102.3	13%
New York	**192.1**	**9.3**	**5%**
California	89.3	10.3	13%
Texas	63.7	15.7	33%
Illinois	51.0	2.6	5%
Florida	44.1	4.8	12%
Massachusetts	44.0	(0.4)	-1%
Pennsylvania	40.2	13.4	50%
New Jersey	40.1	(7.3)	-15%
Connecticut	25.4	2.9	13%
North Carolina	22.2	5.3	31%

Sources: U.S. Bureau of Labor Statistics; OSC analysis

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 performance-related compensation in 2016 will be paid out during the first quarter of 2017.

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 deferring a larger share to future years (a minimum of three years) in the form of cash, stock options or other types of compensation.

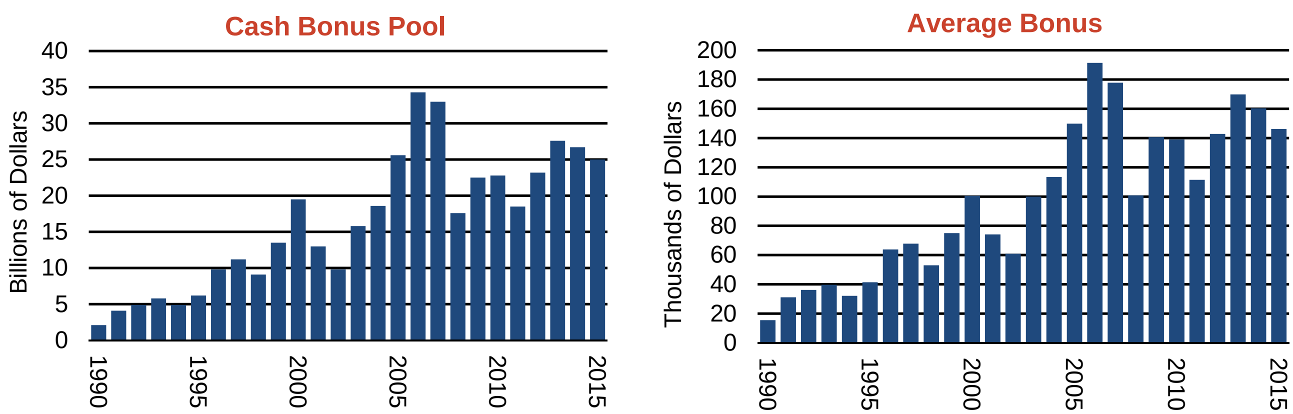
Federal regulators recently proposed rules to restrict excessive risk-taking by regulating bonus payments at financial institutions. The rules would require the biggest firms to defer at least half of the bonus payments for top executives and significant risk-takers for a minimum of four years. In addition, firms could "claw back" bonuses for a period of seven years or longer if a particular action was found to be detrimental to the institution or fraudulent.

In addition, 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 the total compensation packages paid to securities industry employees.

In March 2016, the Office of the State Comptroller (OSC) estimated that the bonus pool paid to New York City's securities industry employees for work performed in 2015 (including bonuses deferred from prior years) had declined by 6 percent to $25 billion (see Figure 4).

The average bonus was $146,200, which was 9 percent lower than the year before (also shown in Figure 4). The amount set aside by the member firms of the New York Stock Exchange for compensation in the first half of 2016 was 7 percent lower than last year, which suggests that bonuses could decline in 2016 for the third consecutive year.

FIGURE 4
Securities Industry Bonuses in New York City



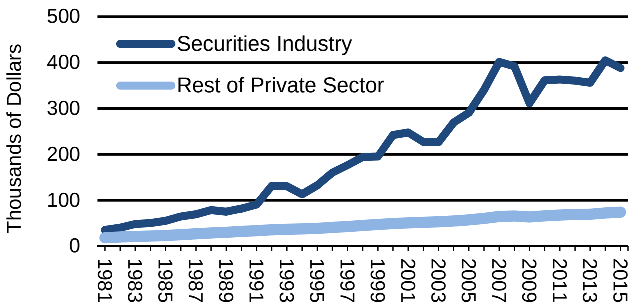
Note: Bonuses for securities industry employees who work in New York City. Estimates include deferred bonuses that have been realized.
Sources: NYS Department of Labor; OSC analysis

Average Salaries

The average salary in the securities industry (adjusted for inflation) declined by 16 percent between 2007 and 2015, but it was still the highest by far of any major industry in New York City ($388,000). Moreover, the gap between the average salary in the securities industry and in the rest of the City's private sector ($74,100) is much larger today than it was 30 years ago (see Figure 5).

FIGURE 5

Average Salaries in New York City



Note: 1981-1999 data are on an SIC basis; 2000-2015 are on a NAICS basis.
Sources: NYS Department of Labor; OSC analysis

In 1981, the average salary in the securities industry in New York City was twice as high as the average in the rest of the private sector, but the disparity rose to more than six times higher by 2007. By 2015, the disparity had narrowed, but it was still more than five times higher than in the rest of the private sector.

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 that of the chief executive officer, beginning in 2017.

Until then, OSC uses data from the U.S. Census Bureau to illustrate wage distribution patterns in the securities industry. In 2015, 23 percent of industry workers in New York City earned more than $250,000, compared with 2 percent in the rest of the work force. Conversely, only 8 percent of industry workers earned less than $35,000, compared with 43 percent in the rest of the work force.

The average salary of securities industry jobs in New York City ($388,000) remained substantially higher in 2015 than for industry jobs in the rest of New York State ($231,300) and the rest of the nation ($175,300). This reflects the concentration in New York City of highly compensated employees, such as chief executives and investment bankers.

The average salaries of industry jobs in the City's suburbs have been growing. In 2015, the average salary in Long Island reached $352,100, more than twice the average 10 years earlier. For jobs in Westchester County, the average salary grew by more than 70 percent during this period to reach $263,300. The average salary in New Jersey grew by 33 percent to $179,700 (reaching $203,000 in Hudson County).

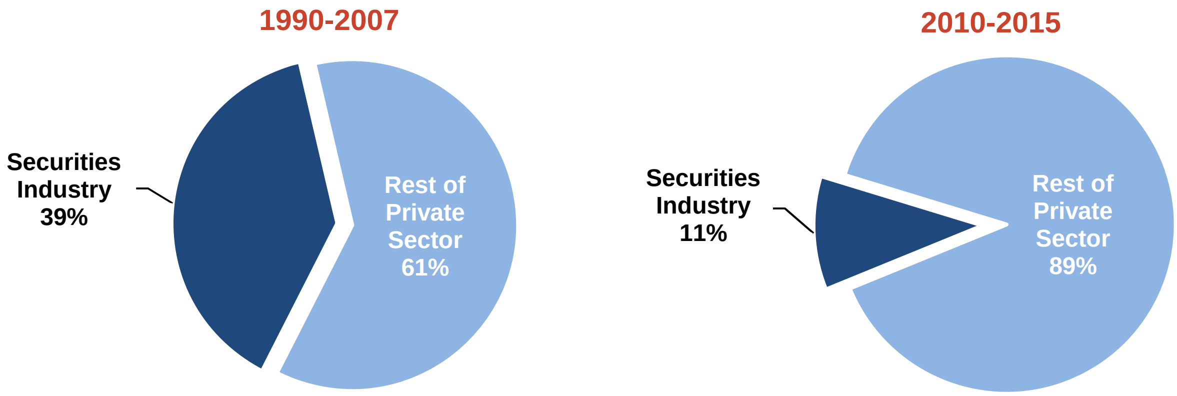
Role in New York City's Economy

The role of the securities industry in New York City's economy has been changing since the 2008 financial crisis. The industry contracted by 8 percent between 2007 and 2015, while the number of jobs in the rest of the City's private sector increased by 17 percent.

The securities industry accounted for 39 percent of the growth in total private sector wages between 1990 and 2007, but accounted for only 11 percent between 2010 and 2015 (see Figure 6). The technology, advertising, media and information sector (TAMI) and the business services sector each accounted for one-fifth of private sector wage growth between 2010 and 2015, nearly twice the share of the securities industry.

FIGURE 6

Share of Private Sector Wage Growth

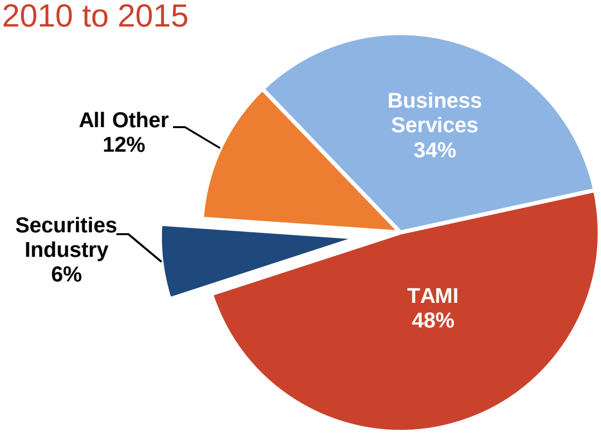


Sources: NYS Department of Labor; OSC analysis

As shown in Figure 7, the securities industry accounted for just 6 percent of the high-paying jobs (i.e., industries with average salaries of more than $100,000) added in New York City since job growth resumed in 2010. (In contrast, the industry was responsible for one-quarter of the high-paying jobs added between 1990 and 2007.) Most of the high-paying jobs added in the City between 2010 and 2015 were in the TAMI and the business services sectors.

FIGURE 7

Share of High-Wage Jobs Added, 2010 to 2015



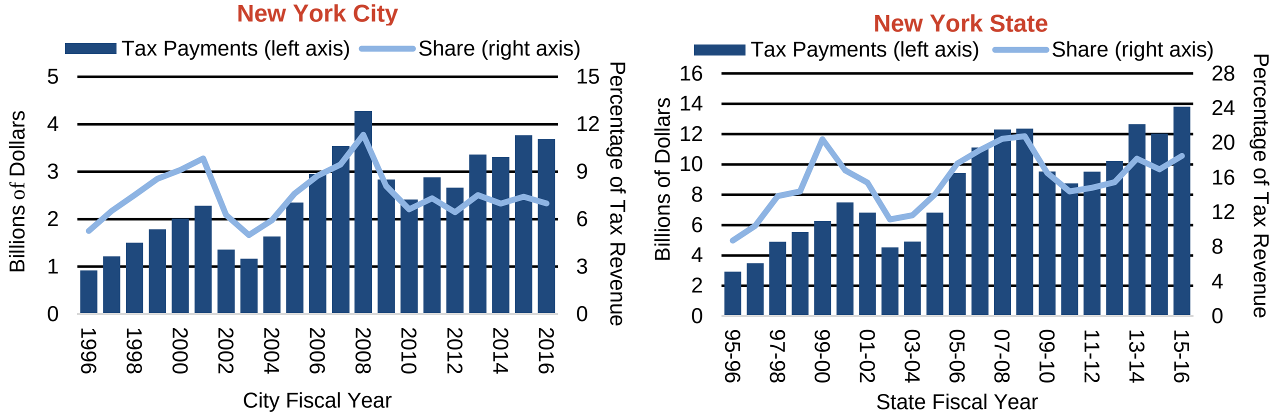
Note: TAMI is technology, advertising, media and information.
Sources: NYS Department of Labor; OSC analysis

Today, the securities industry is smaller, but it remains an important part of New York City's economy. In 2015, it accounted for nearly 21 percent of all private sector wages (down from 28 percent in 2007), even though it accounted for less than 5 percent of the jobs. OSC estimates that 1 in 10 jobs in the City and 1 in 16 jobs in the State are either directly or indirectly associated with the securities industry.

The securities industry has also moved beyond its traditional home in Lower Manhattan[2] after the terrorist attacks on September 11, 2001 and the financial crisis, which precipitated restructuring within the industry. Nearly half (49 percent) of the industry's jobs were located in Lower Manhattan in 2000, but the share fell to 19 percent by 2015. Two-thirds of the jobs are now located in Midtown Manhattan.

Between 2000 and 2015, industry employment in Lower Manhattan declined by 60,100 jobs (65 percent) to 33,000. During the same period, employment in Midtown Manhattan (primarily between 59th Street and 42nd Street) increased by 42,400 jobs (59 percent) to 113,700.

FIGURE 8
Securities Industry-Related Tax Payments



Note: Includes revenue from the personal and business income taxes. Personal income taxes include capital gains realizations.
Sources: NYC Department of Finance; NYS Department of Taxation; OSC analysis

Tax Revenue

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 general business corporation tax (Article 9A), 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.

New York City

OSC estimates that tax collections derived from the securities industry fell by 2 percent in City fiscal year 2016 to $3.7 billion (see Figure 8).[3] As a result, the share of tax revenue attributed to the industry also declined slightly to 7 percent. The drop off in collections was largely due to a decline in capital gains realizations, which had surged in the previous year.

New York State

New York State depends on Wall Street tax revenues 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 the City does. The State also receives tax payments from industry employees who commute into New York City from the surrounding suburbs, including those located outside of New York State, as well as from the statewide pool of capital gains realizations.

Because of timing differences between the City and State fiscal years, the State did not benefit from the surge in capital gains realizations until State fiscal year 2015-16. OSC estimated that payments from the securities industry reached a record $13.8 billion in State fiscal year 2015-16, an increase of nearly 15 percent over the prior year. Industry payments accounted for 18.5 percent of all State tax collections, compared to 16.9 percent the year before.

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1 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.

2 Lower Manhattan is generally defined as the area south of Chambers Street and the Brooklyn Bridge.

3 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.

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