BROKERAGE—U.S. v AUSTRALIA

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It is often said that rates of commission in transactions in ordinary shares are high in Australia. In fact this is not necessarily so. In this article I will demonstrate that if the Australian Associated Stock Exchanges adopted the rates of commission charged in New York the Australian investing public would find brokerage charges were higher not lower.

In Australia the commission is charged on the amount of money involved. The basic rate is 2%. For amounts in excess of $10,000 the rate is 1½% up to $50,000 and 1% on the excess over $50,000. These concessional rates apply when there is a single instruction given at the one time to buy or sell on behalf of the one beneficial interest, securities of the same class and paid-up value on that part of the order completed within one calendar month. This reducing rate applies no matter what the price of the shares or how many transactions are involved.

When the amount involved in an order is $10 or more the commission must not be less than $2, and when the order is for less than $10 then a minimum charge of $1 must be made.

The New York rates can be summarized as follows:

ROUND LOTS:

Units of 100 shares. (For orders involving multiples of shares, e.g., 200, 300, etc., multiply the 100-share commission by 2, 3, etc.).

RATES

Amount of money involved (per 100 shares)	Minimum Commission
Under $100	as mutually agreed
$ 100 to $ 399	2% plus $ 3
$ 400 to $2,399	1% plus $ 7
$2,400 to $4,999	½% plus $19
$5,000 and over	1/10% plus $39

ODD LOTS (usually 1 to 99 shares)

RATES

Odd-Lot Orders involving	Minimum Commission Rates
under $100	as mutually agreed
$ 100 to $ 399	2% plus $ 1
$ 400 to $2,399	1% plus $ 5
$2,400 to $4,999	½% plus $17
$5,000 and over	1/10% plus $37

Exception: When the amount involved in a transaction is $100 or more, the minimum commission charge shall not exceed $1.50 per share or $75 per single transaction, but in any event shall not be less than $6 per single transaction. The $75 maximum applies only to shares priced above $360 since each hundred is considered a separate transaction for the calculation of commission.

Compare a number of typical Australian transactions under both rates as shown in the table below.

COMMISSION CHARGED
(for simplicity $US is taken as equal to $Aust.)

		Value	Aust.	New York	Basis New York Commission
100 Coles	at $ 1.18	$ 118	2.36	6.00	(minimum commission)
100 ICI	at $ 2.00	$ 200	4.00	7.00	(2% plus $3)
1000 ICI	at $ 2.00	$ 2,000	40.00	70.00	(10 times 100 Share commission)
5000 ICI	at $ 2.00	$10,000	200.00	350.00	(50 times 100 Share commission)
100 EZ	at $ 3.20	$ 320	6.40	9.40	(2% plus $3)
2000 EZ	at $ 3.20	$ 6,400	128.00	188.00	(20 times 100 Share commission)
100 Mt. Isa	at $ 4.72	$ 472	9.44	11.72	(1% plus $7)
3000 Mt. Isa	at $ 4.72	$14,160	262.40	351.60	(30 times 100 Share commission)
100 North B.H.	at $ 6.80	$ 680	13.60	13.80	(1% plus $7)
500 North B.H.	at $ 6.80	$ 3,400	68.00	69.00	(5 times 100 Share commission)
10 B.H.P.	at $15.30	$ 153	3.06	6.00	(minimum commission)
50 B.H.P.	at $15.30	$ 765	15.30	12.65	(1% plus $5)
100 B.H.P.	at $15.30	$ 1,530	30.60	22.30	(1% plus $7)
10 W.M.C.	at $30.00	$ 300	6.00	7.00	(2% plus $1)
100 W.M.C.	at $30.00	$ 3,000	60.00	34.00	(½% plus $19)

This table demonstrates a number of points. Firstly: The rates of commission in the United States are higher than 2% for all stocks less than $7.00. At a recent count of the securities quoted in the Main Room of the Stock Exchange of Melbourne only eight of the fifty-

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nine mining securities were over $7.00 and only five of the two hundred and twenty industrial securities were over $7.00. Thus the adoption of the New York commission rates would result in increased charges on transaction in two hundred and sixty-six of the two hundred and seventy-nine stocks listed in the Main Room of the Stock Exchange of Melbourne. This sample is representative of all stocks listed on Australian Stock Exchanges. The situation in New York is different. There the price of shares are, on the average, much higher. IBM recently sold at $629 and only about one in two hundred of the securities quoted are traded at prices less than $7.00. Thus the commission charged on round parcels of shares (usually 100) is in fact less than 2% for most companies listed in New York. Few Australian investors would take advantage of these rates, as few can buy shares in, say, Western Mining, at $33.00 each, in lots of one, two, or more, hundred. And it is only in round parcels of such high priced shares that the New York scale of charges shows substantial reductions of charges over the Australian rates: And further to this the volume discount effect of the Australian rates starts to take effect for orders exceeding $10,000, and order for as few as 400 Western Mining would be liable for some reduction of commission.

Secondly, the New York rates state that the commission in any event shall not be less than $6.00 per single transaction. In Australia the minimum is $2.00.

Not many Australian transactions are so small as to be affected by the $2.00 minimum. However, the New York minimum is much higher and would affect many more transactions and affect the commission charged on these transactions more substantially.

EARNINGS ADJUSTMENTS

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this order cannot be attained in investment analysis, because of variation in practice involved in providing the basic figures, and so dividend differences may be ignored in adjusting earnings per share.

A more basic consideration occurs when the issue in question is a bonus one. If we were to take dividend differences into account when adjusting for cash issues, we would be inconsistent if we did not do so for bonus issues, too. We would then treat bonus shares as if they were a cash issue, the application money being the dividend difference between the bonus shares and the old shares. Such a course would be quite justifiable prima facie, but would have some strange effects on the sequence of adjusted earnings per share as the following example illustrates.

Issued capital. $1,000,000 in one million shares paid to $1.

Profit. $300,000 for three consecutive years.

of the company's equity in both cases. The company's profit has not varied at all and it may well be felt that making an adjustment for dividend difference has caused a distortion of earnings per share which is not justified. On the other hand, it must be observed that to make case (ii) strictly comparable with case (i) the dividend had to be dropped in year 2 and restored in year 3, whereas in case (i) an adjusted record of dividend per share might show constant dividends paid throughout. Would it be fair compensation to show a decline of earnings per share in case (i) as occurs when dividend differences are taken into account?

My own feeling is that dividend differences should be ignored in all cases where the difference is one year's dividend or less. There have been special cases where the differences have been much more, e.g., issues some years ago by Broken Hill South and North Broken Hill

	Case (i)	**Case (ii)**
Bonus issue.	1 for 1 in year 2	No issue
Dividend—Year 1.	20 cents per share	20c per share
—Year 2.	10 cents per old shares only.	10c per share
—Year 3.	10 cents per share all shares.	20c per share
Share price at time of issue.	$4.	$4
Allowing for dividend difference.	$2p = 4.00 + 0.10 = 4.10$	—
	$p = 2.05$	—
	$p/P = 0.5125$	—
Ignoring dividend difference.	$p/P = 0.5000$	—

Year	Earnings per share cents	Adjustment No. div. diff.	Adjustment Div. diff.	Adjust. Earnings per Share No. div. diff. cents	Adjust. Earnings per Share Div. diff. cents	Case (ii) Earnings per share cents
1	30	0.5000	0.5125	15	15.4	15
2	15			15	15	15
3	15			15	15	15

As far as the shareholder is concerned, the only difference between cases (i) and (ii) is that in case (i) he ends up holding two share certificates. He receives the same dividend and owns the same proportion

of shares that did not receive dividends for several years. In such cases, I think some allowance for the difference between the new shares and the old would certainly have to be made.