**Securities trading in the US banking system**

Securities trading plays a significant role in the U.S. banking system, with banks engaging in various activities related to stocks, bonds, and derivatives.

**Here are the key points:**

**Types of Securities Traded by Banks**

**Equity securities:** Banks trade stocks representing ownership stakes in companies, such as shares of common or preferred stock in companies like JPMorgan Chase, Bank of America, and Citigroup.

**Debt securities**: Banks trade bonds and other debt instruments representing borrowed funds, such as corporate bonds, municipal bonds, and U.S. Treasury securities.

**Derivative securities:** Banks trade financial contracts whose value derives from underlying assets, such as options, futures, and swaps on stocks, bonds, commodities, or currencies.

**Asset-backed securities:** Banks trade interests in pools of income-generating assets like loans or mortgages, such as mortgage-backed securities issued by government agencies like Ginnie Mae or government-sponsored enterprises like Fannie Mae and Freddie Mac.

**Purposes of Securities Trading**

**Raising capital:** Banks issue their own securities like stocks and bonds to raise funds for their operations, as seen with recent stock offerings by Wells Fargo and bond issuances by Goldman Sachs.

**Managing risk:** Banks use derivatives to control or exploit risks arising from fluctuations in asset prices, interest rates, and currency exchange rates, as exemplified by JPMorgan Chase's use of credit default swaps.

**Earning trading revenue:** Banks generate profits by trading securities, both for their own accounts and on behalf of clients, as a significant part of their business model.

**Regulatory Framework**

The Securities and Exchange Commission (SEC) oversees public securities offerings by banks and ensures compliance with regulations, as in the case of Bank of America's $1.7 billion settlement with the SEC over mortgage-backed securities.

Self-regulatory organizations like the Financial Industry Regulatory Authority (FINRA) also play a key role in supervising banks' securities activities, as seen in FINRA's fines against Citigroup and Morgan Stanley for misleading investors.

**Risks and Challenges**

Securities trading exposes banks to various risks, including market risk, credit risk, and liquidity risk, as highlighted by the losses suffered by Barclays, UBS, and other banks during the 2008 financial crisis due to their exposure to mortgage-backed securities and derivatives.

**The most active investment banks in securities trading in the US are:**

**Goldman Sachs:** A leader in M&A and capital markets, offering a wide range of securities trading services.

**JPMorgan Chase:** One of the largest investment banks, with a strong presence in investment banking, asset management, and trading.

**Morgan Stanley:** Prominent in equity and debt capital markets, as well as M&A advisory.

**Bank of America Securities:** A major player in fixed income, equities, and derivatives trading.

**Citigroup:** A global investment bank involved in securities trading, investment banking, and asset management.

These banks are known for their extensive involvement and expertise in various securities trading activities, catering to a diverse range of clients and financial instruments.

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| --- | --- |
| **Metric** | **Statistic** |
| **Types of Securities Traded** |  |
| Equity securities as % of banks' total securities holdings | 15-20% |
| Debt securities as % of banks' securities portfolios | 50-60% |
| Derivative securities as % of banks' total securities trading | 20-25% |
| Asset-backed securities as % of banks' securities holdings | 10-15% |
|  |  |
| **Purposes of Securities Trading** |  |
| Banks' stock and bond issuances in 2023 | Over $500 billion |
| CAGR of derivatives trading by US banks over past decade | 12% |
| Derivatives trading as % of total trading volume | Over 60% |
| Securities trading as % of total revenue for largest investment banks | 25-30% |
|  |  |
| **Regulatory Framework** |  |
| Fines levied by SEC against Bank of America for mortgage-backed securities violations | $1.7 billion |
| Fines levied by FINRA against major banks in past 5 years for misconduct | Over $500 million |
|  |  |
| **Technological Advancements** |  |
| Increase in US retail investors using online trading platforms over past decade | From 45% to 75% |
| High-frequency trading as % of total trading volume in US equities markets | From 21% to over 60% |
| Asset managers in US using AI and machine learning | 68% |

**Technological advancements in US securities trading, with statistical and numerical data:**

**Online Trading Platforms**

* 75% of US retail investors now use online trading platforms to execute trades, up from 45% a decade ago.
* Online trading has reduced the average cost of a stock trade from $29.95 in 2010 to just $0 today at major brokerages.

**High-Frequency Trading (HFT)**

* HFT accounts for over 60% of total trading volume in US equities markets, up from 21% in 2005.
* HFT firms are able to execute trades in less than 1 millisecond, 1,000 times faster than the blink of an eye.

**Real-Time Market Data**

* 95% of active traders in the US use real-time market data to inform their investment decisions, up from 72% in 2015.
* The global real-time market data industry is valued at $32.1 billion as of 2023, growing at a CAGR of 7.2%.

**AI and Machine Learning**

* 68% of asset managers in the US are using AI and machine learning for investment research and portfolio management.
* AI-powered trading strategies have delivered 15-20% higher returns on average compared to human traders.

**Blockchain Technology**

* 41% of US stock exchanges are exploring the use of blockchain technology to improve trade settlement and transparency.
* Blockchain-based trading is expected to reduce post-trade processing costs by up to 30% for financial institutions.

Securities trading is a vital component of the U.S. banking system, enabling banks to raise capital, manage risk, and generate revenue. Banks trade a wide range of securities, including equities, debt, derivatives, and asset-backed instruments. The industry is regulated by the SEC and FINRA, which oversee public offerings and enforce compliance. Technological advancements have reshaped securities trading, with online platforms, HFT, real-time data, AI, and blockchain driving efficiency and accessibility. However, risks such as market, credit, and liquidity exposures remain. Leading investment banks in this space include Goldman Sachs, JPMorgan Chase, Morgan Stanley, Bank of America, and Citigroup.