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TRADING IN SECURITIES IN LONDON AND IN ZURICH

Although they serve essentially the same purpose, the stock exchanges of London and Zurich work on rather different lines. This is no more than a reflection of the marked differences of mentality ruling in the City and in Zurich. To present this rather technical subject, I have relied on the information of a friend of mine, Patrice de Weck, currently working in a brokerage house of the City and privileged to tread, as a "blue button", the consecrated floor of the Stock Exchange.

As the pamphlet given to visitors to the Stock Exchange explains, the Stock Exchange is no more than a market for so-called "securities". These are roughly divided into shares, debentures and bonds and are all vouchers of one sort or the other issued by private companies or official bodies in an effort to raise money. The Stock Exchange is really the pool where the country's savings accumulate and find useful channels. Just as a reminder, shares are a portion of ownership of a company and a stake in that company's fortunes. The price of a marketable share depends primarily on the profits, actual or prospective, of a company since they govern share-dividends. Debentures are fixed-interest and fixed-term loans by private companies; bonds are loans of similar nature contracted by governments and public authorities. They are also negotiable and the prices they fetch reflect the current economic climate as well as trends in investment policies.

Now, when an investor buys a security he would like to be sure of being

able to resell it, should he need ready cash one day. He must therefore know where to meet other buyers, and this is why a market for securities is indispensable. Just like any market, a stock exchange must be located where many buyers and sellers of securities (customers and shopkeepers) are liable to meet. Since the clientèle for securities are the wealthy private investors and the so-called institutional investors such as banks, insurance companies, investment trusts, pension funds and building societies, the Stock Exchange must obviously be situated near to the headquarters or offices of these companies. The Stock Exchange is then more conveniently located in the City than anywhere else.

A stock exchange differs from an ordinary market in that the actual buyers and sellers of the wares (i.e. securities) never have a chance of meeting each other on the trading floor. Their transactions are carried out through the agency of brokers and jobbers in England, of banks in Switzerland. In America, it is possible to buy shares over the counter in chain "share-stores" such as Merrill Lynch. But the share-store must supply itself in a central Stock Market just in the same way as a wholesaler must bid for his goods in a commodity market. Simple practical and economical grounds make intermediaries as well as a small number of securities markets necessary.

The British way of dealing in securities is distinguished by the broker-jobber double agency. Every private person, every company or bank, every public authority wishing to make use of the services of the Stock Exchange must pass through a broker. An insurance company might have cash at hand to invest and wish to buy a hundred thousand shares of a particular name. It would ring up its broker (or brokers), they in turn would give a quotation following a rapid check-up with their jobbers on the floor. The broker is represented by one or more dealers on the floor of the Stock Exchange. He is informed by telephone of the bid and he must find whether or under what terms, the order is to be accepted by finding out what the jobbers have in store. So off he rushes to see the jobbers, lingering in front of their notice-boards with their personal quotations marked in blue and red (blue when the security is rising, red when it is on the downhill) and sees which man has the best offer. The stakes are high and he must act fast. So must the jobber, who, after some lightning computations give him his prices and, if they're the best, the broker's dealer

rushes back to inform his firm of the prospective prices, and the insurance company is in turn informed of the results of its bid. Needless to say, the dealer would not go and see every jobber on the floor (there are about ninety of them today, there were far more in earlier days). He goes to the ones with which he is accustomed to deal or to those liable to have the sought-for security in stock. Had the insurance company not wanted to buy, but wanted to sell a hundred thousand shares, the proceedings would have been similar. The brokers would have deputed their dealers on the floor to find the jobbers with the best bid. A broker stands as an intermediary between a selling-client and a buying-jobber (or a buying-client and a selling jobber) and the jobber (the wholesaler in securities) in turn stands as an intermediary between a selling-broker and a buying-broker or vice-versa.

Jobbers are a unique British invention and actually considered as super-numerary by many specialists. They in fact fix the price of shares. When the dealings for the day stop, at 3.30 p.m., a few jobbers get a £6-a-week tip to give the papers their estimate of what prices shares dealt in the day had fetched. There can be no official quotation of shares in the Stock Exchange since every broker has his personal bid and offer. A dealer may find a share selling for 116 at a particular jobber, 116/1 at another and 116/2 at yet another. It is his craft to find the best tender as fast as possible, and he does not negotiate on an "official price" as he does in Zurich. The "Financial Times Index" is in fact no more than an indication of prices reached by securities averaged over a number of important jobbers. Jobbers don't actually work completely independently, on a uniquely competitive basis, and willingly share information and tips with the effect that the variations in bids and offers among individual jobbers tend to flatten out. Times have been hard for the profession lately, so that jobbers have had to amalgamate and one finds three or four-name partnerships, the former lone-goers keeping their individualities in the new set-up.

In Switzerland, brokers and jobbers don't exist, since their function is taken over by a limited number of banks (25 to 30 in the case of Zurich) entitled to deal on the Stock Exchange. A client wanting to sell or buy shares addresses himself to a bank, if the bank is not among the odd 25 to 30 banks with a telephone on the trading floor, the bank will in turn have to use one of these banks as a second agent. Banks act on

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the Stock Exchange on behalf of clients or for themselves.

The trading floor in Zurich is lined with telephone-cabins or telephone-halls. There are about ten of the latter, reserved for the more important banks. The Union Bank, for example, has a 15-telephone and 25-line centre. Each telephone is attended and calls ring non-stop during trading hours. Just as the British brokers, Swiss banks have their own dealers on the floor. A large bank might have five of them, each specialised in a particular kind of security. This of course means that the Zurich trading-floor is far less populated than the Stock Exchange. There may be three to five hundred dealers, telephonists, clerks and messengers present on a normal day in Zurich. The average Stock Exchange attendance is 2,500.

The dealer doesn't see a jobber: when trading starts at 10 a.m. with the unquoted stock, he meets other dealers and settles transactions on an individual give-and-take basis. At 10.15, trading in unquoted stock gives way to officially-quoted dealings. There are in fact two separate tables, one for equity, one for debentures and bonds, but the auctioneering is the same in both cases. Price-fixing on the Zurich *Borse* is indeed run rather like an auction, with the difference that there may not only be many bidders, but many sellers all yelling at the same time. There are 150 Swiss, some 20 American, some eight German, and two or three French and English (mining) securities officially quoted at Zurich. This is a minute figure compared with the 9,000 titles dealt with on the London Stock Exchange, and it is only thanks to this small number that official price-fixing is possible.

A reader at the table reads out the list of individual share-titles. Another man records the settled prices for each and a third plays the rôle of an auctioneer, with an electric bell instead of a gavel, keeping track with a keen ear of the moving bid-offer agreements and bellowing the figures amidst a racket of shouting dealers clustered around the table. At the same time, the telephonists dart from their neighbouring cabins to the dealers in full sway, bringing to them their latest orders, changing their hands and making their fast-minds whirr. The reader may spell out a security which draws no interest. In that case, its official price remains the same as that of the previous day. Sometimes, there will just be two shouts coming from one dealer wanting to sell a particular share and from the only interested buyer. They may agree immediately, in which case the price at which the share is sold becomes the official quotation. In other cases, buyer and seller may not agree and one of them has to lead the ante till the bid-offer gap is narrow enough for one to agree on the other's terms; or there may be two buyers, in which case the highest bid becomes official; or two sellers, in which case the undercutting offer wins. There can be many buyers and many sellers of a highly active stock

and the price-fixing may take quite some time. In these cases, a number of shouts from the side of the sellers and buyers gradually become more attuned on the terms of transaction till one bidder makes a sign to an agreeable seller or vice versa to show him that he is interested in his offer. The auctioneer bellows the agreed price which remains the official quotation as long as there's no more undercutting or counterbidding. Finally, nobody improves on the terms of the deal and the official quotation is settled. The litany is thus repeated for the whole list of 150 shares in the official order. No dealer may start haggling over a security until its turn has come. If Swissair, for the sake of argument, comes after Brown Boveri in the list, then there's no question of dealing in Swissair shares before Brown Boveri's turn, but it is possible to come back to Swissair after it has been read out, which means that the day's official quotation is definitely settled only at the end of the dealings. This can take place any time between 12 a.m. and 2 p.m., depending on the days' activity. The recorder notes down the quotations as they vary in time and his figures are televised into the adjoining call-rooms so that telephonists have before them a television-display of the latest figures, which allows them to give immediate information to enquirers and customers.

It will be seen that this system has a few essential differences with what is practised in the Stock Exchange of London. First, there is an official quotation. This is the settlement noted down for each individual security by the recorder after a round of bidding. When this price is settled, everybody must stick to it. Official quotations may change during trading hours if, for some reasons, a dealer wants to revert to a particular security after it has been read out. But what is important to note is that although prices may vary in time, they may not vary in space too, as they do in London, since one jobber may offer a price different from that of his colleague. Another difference is the

immediate publicity given to the official quotation. The public can check the markings of the recorder on television screens in street bank-windows, displayed for all to see. Then there is this remarkable difference in the number of quoted companies. In England, any limited company choosing to become public can be quoted on the Stock Exchange, provided it passes a not-too-stringent admission test, which includes a submission of the balance-sheets for the past five years to the Council of the Stock Exchange. In Switzerland, the policy and tradition seems to be to limit the number of quoted companies to a minimum. This is really a neater method of handling the securities' business because the bulk of transactions is conducted on a very limited number of titles. It is clear that of the 9,000 quoted securities of the London market, only a small proportion are actively handled. Thousands of dormant and listless shares need hardly be quoted at all and could be dealt with on an unpublicized basis. It can also be argued that the Zurich *Borse* is more efficient than the Stock Exchange in that the value of securities dealt with per man-hour spent on the trading floor is greater in Zurich than in London. Although we have no figures at hand, there can be little doubt that the capital market is greater in London than in Zurich. Where a telephonist in Zurich might be passing an order for ten U.B.S. shares, he might be contacting a jobber about ten thousand de Beers in London. The volume of dealings in London is greater but actual value may perhaps not be so superior due to the fact that shares dealt in Zurich are usually worth over £100 whereas it is common to deal in £5 shares on the London Stock Exchange. In fact, the most expensive shares in the world are Hoffman-la-Roche 1945-issues, sold at 1,200 francs and now worth 180,000 francs. Shares like this are more likely to stay well protected in the armour of a numbered safe, deep in the vaults of an impregnable Swiss bank, than be profanated on a trading floor.

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The Zurich *Borse* may be more efficient, the London Stock Exchange is more fun. The rules of the game are more exciting, and besides, there are more participants. In Zurich, the players are rather scarce and a small number of mammoth banks usually determine the market. The dealer acting on behalf of a bank or its clients has naturally a given scope within which to exercise his speculating talents and may even bull and bear if such is the bank's policy. But the glossy floor on which he moves has short bounds compared with the bustling fair-ground of the Stock Exchange. All he does, after all, is to conduct square deals, to bid and to shout. The London dealer, on the other hand has the privilege of reaching gentlemen's agreements (his "word being his bond"), of getting whispers of inside information, of using his social flair and making secret alliances. The job has a human dimension lacking in Zurich.

Stock Exchange people try to uphold a standard. There is a fringe of mystery and noblesse around the Stock Exchange. In Zurich, any bank employee who has risen to the post of *mandataire commercial* and carries the signature of his bank may trade on the floor; there is not even a distinction between "members" and "non-members". In London, you have the members and non-members. To be

allowed to step on the select floor of the Stock Exchange, you have to pass through a small intronisation ceremony and be delivered a short speech by a Council dignitary. But to be a member is another matter: the candidate must show an impeccable business and moral record, have been "blue button" for two years, dealer for another two years, be British, pass two exams and when he is finally elected, pay a thousand pounds' admission fee and a further £350 every three months. The status of a member of the Stock Exchange must obviously be covered with honour, since it has cost so much hardship to get. It even confers some practical advantages, namely, access to confidential Stock Exchange files and the right of ruling on any dispute or misunderstanding with non-members.

But in spite of the fact that the place is run rather like a select club, there is no snubbing of non-members. The human atmosphere on the trading floor is far friendlier than in Zurich and my informant tells me that, as telephonist at the *Borse*, he was kicked around by ruthless dealers all day long. But non-member dealers at the Stock Exchange, clerks and messengers are all treated alike and with respect by their titled colleagues.

But this difference goes for all the other fields of business practiced in the City, insurance, banking, shipping, real

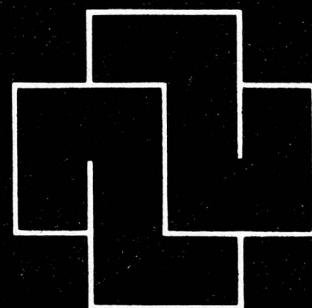
estate, and what have you. The City conjures the image of a rookery of black-dressed gentry; bowler hats, striped shirts and double-breasted suits; the "Financial Times", the underground and the Rolls Royce; the clans, the tribes and the who-you-know; packed pubs, beer, billiards, steaks and three-hour lunch-breaks; prestigious partnerships, princely merchant-banks, sanctuaries of finance, Victorian splendour, shiny mahogany and brass. Against this, Zurich evokes plump bank buildings, quiet streets and inconspicuous billion-franc transactions, hidden gold beneath the pavements, staid executives, glum burger faces, square business and what-you-know, unsocial lunches and secret lives in Zollickerberg villas.

Admittedly, the City has been losing in relative importance during recent years, but this has been due to the developments of history as much as to its nonchalance. In fact, the City prides itself on keeping abreast of events without too much effort. Many houses are unenterprisingly run and live on their name. But they get their customary millions through all the same. Also, their staffers might spend more time doing business over beer than over a desk.

That can be described as the English art of mingling pleasure with work. Maybe Zurich could take example, with Swiss circumspection, of course.

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