

Singer, Dean & Scribner
Pittsburgh, Pennsylvania

March 12, 1968

Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Attention: Orval L. DuBois, Secretary

Gentlemen:

Your Release #8239 dated January 26, 1968, invites views and/or comments on the proposed Rule 10b-10, as well as the commission rate structure proposal submitted by the New York Stock Exchange in a letter dated January 2, 1968, by Mr. Robert W. Haack, President. Listed below are our firm's comments concerning these two proposals. With the knowledge that our comments may be available for public inspection, and because we believe that the Commission's proposal of Rule 10b-10 will have drastic consequence upon the profit structure of our organization, we wish to advise you that copies of this letter have been sent to the Pennsylvania Congressmen who service political constituents in the geographical area where our firm has its major business activities, as well as to the Senators representing our state.

During the past several years there have been numerous proposals made to organizations representing the financial brokerage industry (i.e. New York Stock Exchange, Investment Bankers Association of America, National Association of Securities Dealers, etc.) by your Commission which have indicated your desire for:

1. A prohibition of give-up business generated by institutions. Primarily this prohibition would affect commission business directed by mutual funds, unless an extension of this concept would be made to all fiduciaries as indicated in the asterisked footnote in Release #8239, page 9.
2. A recognition that some manner of volume discount should be an accepted practice in security transactions on the major and regional exchanges.
3. Consideration of possible substantial savings to the investing public through the adoption of a policy permitting public ownership of stock exchange membership. (Note Chairman Cohen's budget presentation before the

Subcommittee on Independent Offices, Committee on Appropriations, United States Senate on June 27, 1967.)

It is our opinion that if any or all of these three policies were to be adopted as rules without appropriate provision for adequate substitution of the likely loss of gross income for our firm, then in due course we would be forced to merge or liquidate our firm.

Rule 10b-10 is directed toward establishing a policy for item 1 above -- prohibition of give-ups. That rule, as proposed, would have the following effect on our organization based upon income and expense figures as reported in the 1966 New York Stock Exchange Income and Expense Report and corresponding figures for the same period available from our firm accounting records. In 1966 our firm's gross income included approximately 6% commission received from give-ups as a result of our retail sales of mutual funds and/or research services provided to these funds. In addition we received commission business from banks approximating 9%. This commission business was developed as a result of services provided to the banks in the form of research information, pricing of securities, or in recognition of deposits and loans. Net profit before partners' salaries and interest, but after all other expenses, amounted to approximately 26% of our firm's total gross commission. (Attached is Appendix A which is being furnished only to the Securities and Exchange Commission with stated dollar amounts rather than percentages as indicated above.) The breakdown showing where the gross profit of our firm was generated during the calendar year 1966 is listed below:

Listed Business: 49%

Unlisted Business: 12%

Mutual Funds (excluding reciprocal): 7%

Municipal Bonds: 15%

Underwriting: 17%

However, if Rule 10b-10 becomes effective, the profit structure of our firm will be severely affected. Under the proposed rule, if give-ups are prohibited, our firm's profits, before partners' salaries and interest, would decline by 22%, and if fiduciaries such as banks endeavored to seek lower commissions through written contracts providing for rebates as indicated in Rule 10b-10, the total reduction would approximate 56%. Keep in mind that these two items represent only 15% of the total gross commissions earned in 1966, yet with their exclusion they would reduce our profit by 56%.

The reasons for the severity of the effect on our firm's profits assuming the enactment of Rule 10b-10 by the Commission is a subject well worth reviewing. Most regional firms execute their commission business for institutions through a partner or a salaried employee, but in any case the gross commissions earned are usually credited to the Firm and Partner Account. Give-up business, as we know, involves the receipt of a check in payment for commissions generated by another broker when that broker is directed by the customer to give us a portion of their commission. As mentioned at the bottom of page 2 of your Release #8239, a broker executing an order for 10,000 shares does not have 100 times the expense for executing trades for the same stock at the same price in 100 share lots; so it is on a give-up check, there are no costs incurred by the broker receiving the check.

The present New York Stock Exchange commission rate structure has not been substantially changed since 1958, and because of this fact it becomes quite obvious that there have been profits generated in such a manner, either through commissions such as give-up checks or block trades or other facets of operations, such as corporate and municipal underwritings or corporate securities and municipal bond trading, that have provided a profit subsidization to the current commission rate structure. If this were not so, then the loss of give-up business and/or the bank commission business would not have such an adverse effect on a regional firm such as ours. Accordingly, we strongly urge the Commission to consider a review of the entire commission rate structure with appropriate recommendations as a result of this study. The proposed commission rate structure should:

1. Incorporate reasonable profit to the broker who affects this commission business, after all appropriate expenses are charged against the gross profit.
2. Provide a reasonable profit not a "loss leader" to the investment business, and this segment of the investment industry should stand on its own two feet providing a reasonable profit to the broker.

In addition to the economic impact of Rule 10b-10 mentioned above, we call to your attention that this proposal would destroy the principle of a minimum commission rate. Your proposal provides for the negotiation between institutions and brokers to develop the lowest commission charge possible for the institution. The savings by these negotiations would be used to reduce management fees or accrue to the benefit of the shareholders and beneficiaries of funds being managed by the particular institution.

We do not see how, under such an arrangement, any institution would not seek the lowest commission rate possible, and that the lowest commission rate

possible will undoubtedly be provided by the larger nationally-oriented brokerage firms. This provision adds to the economic impact of Rule 10b-10 in that it will go a long way to destroy what little competitive ability we have left as a smaller regional firm against the large national brokerage firm.

You may be interested to know that in the past four years our firm has incurred substantial expenses in the development of new sales personnel, branches, in the introduction of a data processing billing system to our clients, in the enlargement of our research activities, and has extended both our corporate and municipal trading activities in local market securities. The additional expenses over and above the normal increased operational expenses have been a drain on our firm's profits, and although controllable, it has been the judgment of the firm's management to continue such expenses in order to assure a continuing vibrant and effective investment service to our clients. If Rule 10b-10 is adopted as proposed, we assure you that our activities in all the fields above mentioned will be curtailed, if not discontinued. The loss of profit will necessitate the termination of the growth of our firm and in all probability will necessitate our merger or liquidation in a short period of time.

It is our opinion that the results of profit deterioration, if Rule 10b-10 is adopted, is not limited to our firm alone, and it would be prudent for the Commission to determine the economic impact generally of Rule 10b-10 on brokerage firms throughout the country before this proposal is affected.

If the rules and policies established by your Commission eventually bring about the existence of a minimal number of brokerage firms serving the investing public, then the development of capital and the flow of funds for economic growth will be severely hindered. The small investment dealer, and particularly the regional Exchange member provides a strategic and vital contribution in both the distribution of securities and the servicing of the individual investor. To give you an example of what our firm has contributed in this area, over the past two decades we have managed the first public offerings of seven companies, and in addition, have participated in underwriting distributions of millions of dollars of corporate and municipal securities of local corporations and/or municipalities in our geographical area. If we had not contributed our effort in this distribution in all probability the distribution may not have been made, and if so, not as effectively. We would all do well to consider what the problems might be if the regional firm disappeared from the investment scene. If this were to happen, who would undertake the initial public offering of a small corporation not nationally known for which perhaps \$1 million of equity must be generated? Who would provide the township, borough, or school district with a bid for their new addition to an existing school or some other municipal facility when perhaps \$1 million to \$1.5 million of new funds are needed? Who would provide a continuing market for over-the-counter securities and provide a municipal market where the investing

public can seek some measure of market liquidity after the initial offering? These are serious questions when we consider that Rule 10b-10 may very well destroy the regional firm concept.

Mr. Robert W. Haack, President of the New York Stock Exchange, submitted to you a commission rate structure proposal dated January 2, 1968, and you requested all interested parties to make comments on this proposal. We wish to advise you as follows: We are in sympathy with the five steps of the New York Stock Exchange proposal providing they are offered as a package and providing an economic impact study and a determination of profit effect is made prior to the decision as to what percentage might be incorporated in the various segments of this proposal. Here too we recommend that the commission rate structure be reviewed in detail to the extent that a reasonable profit will be available to the broker after appropriate expenses have been charged against this profit.

We thank you for the opportunity to express our views concerning your proposed Rule 10b-10 and trust that you will give your attention to our comments.

Very truly yours,

Singer, Deane & Scribner
WB McConnel, Jr.

APPENDIX A

To Singer, Deane & Scribner's letter dated March 12, 1968 To the Securities and Exchange Commission

Calendar Year 1966

1. Gross Income: \$3,330,000
2. Give-up Commissions Received: \$195,000 (6% of total gross commissions)
3. Commissions received from Banks: \$300,000 (9% of total gross commissions)
4. Commissions received from other Brokers: \$27,000 (0.9% of total gross commissions)
5. Firm net profit before partners' salaries and interest: \$872,400 (26% of total gross commissions)

6. Firm net profit after partners' salaries and interest: \$536,800 (16% of total gross commissions)

It is interesting to note that item 2 represents 36% of firm net profit after partners' salaries and interest, and items 2 and 3 represent 92% of net profit after partners' salaries and interest.