

Piper, Jaffray & Hopwood
Minneapolis, Minnesota

March 22, 1968

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

Dear Sir:

I am writing you on behalf of those fifteen member firms of the "Round Table" who are members of the New York Stock Exchange and for whom I have been asked to speak in connection with proposed Rule 10b-10 under the Securities Exchange Act of 1934. Mr. Warren Heidel's letter to you of March 1 asks for a hearing for representatives of this group, and my letter of March 7 to you alludes to such a hearing. This letter attempts to put forth more thoroughly our views in case there is not a hearing.

The Round Table is an informal association of seventeen regional investment banking firms (none of which has its principal office in New York) of which fifteen are members of the New York Stock Exchange. The two members of the Round Table who are not members of the New York Stock Exchange (but are members of regional exchanges) have not authorized me to speak for them and my references in this letter to the Round Table and to its members will be to the fifteen NYSE member firms.

At most recent count, the Round Table firms had an aggregate of 193 branches of which 113 were located in cities of 75,000 or less. The aggregate number of registered representatives and partners associated with our firms was in excess of 1500 and the total number of employees in excess of 3500.

"Give-ups" have been received and given by all of the members of the Round Table in varying amounts in recent years in accordance with established industry practices. Give-ups are of real significance to some of the members and of less significance to others but they are a factor in the profitability and financial strength of all of the members.

We believe that the members of the Round Table, as well as other firms similarly situated (that is, fully professional and adequately capitalized regional firms), are an important factor in bringing sound investment opportunities and advice to those areas of the country which the major New York firms choose not to serve.

As indicated above, a majority of the branches of the members of the Round Table are in cities with a population of 75,000 or less and in many of these cities the member's office is the only medium through which the professional investment community is represented. In most of those cities, I believe, the member's branch is the only investment office supervised in accordance with the rules of the New York Stock Exchange. Offices in cities of 75,000 or less are, historically, only moderately profitable. The ability of the members of the Round Table to open offices in these cities and to maintain and supervise them in accordance with the highest professional standards is in great measure a result of the fact that the regional firms currently receive a fair and equitable share of the aggregate commission income of the investment community; give-ups received are a significant factor in the fair and equitable distribution of that income to regional firms.

In addition to our activities in bringing the major securities markets to the smaller cities, the members (including my own firm) maintain substantial and expensive professional research organizations. Generally speaking, the research and investment information emphasizes the local or regional aspects of investment which may be ignored or slighted by the larger New York firms. This information is available to mutual funds and others and may not be available from any other source. We must be compensated for our research efforts (which mutual funds as well as other investors find valuable) and traditionally our compensation has come either through commissions on execution (whether from funds or otherwise) or from give-ups. A major portion in recent years has come from give-ups and if give-ups are prohibited and no other compensation is substituted, many of our members could no longer maintain their research organizations intact. We trust that you would share our view that the presence of capable and experienced securities analysts in areas outside of New York is in the interest of the industry as well as in the interest of the investor.

Further, the ability of our members to carry on investment banking activities, providing sources of capital to regional industrial firms and maintaining orderly markets in their securities is greatly influenced by our overall profitability.

Under proposed Rule 10b-10, give-ups are for all practical purpose eliminated. If no other action is taken to assure that the regional firms can continue to receive a fair and equitable share of the aggregate income of the investment community, it is my view that Rule 10b-10 will probably produce either of two results -- execution of mutual fund portfolio business will be concentrated in a few major investment banking houses in New York City, or -- mutual funds will fragment their orders (for whatever reason) and thereby continue what the market place continues to view as an equitable distribution of the gross income of the securities industry.

In the former case, essentially none of the commission income from portfolio business will accrue to the regional firms, even though they have helped greatly to produce such business both through sales and non-sales activities.

The probable alternative to concentration in New York, fragmentation of orders is clearly undesirable and we recognize that the Commission in its report on the Public Policy Implications of Investment Company Growth has treated with this subject. The suggested method of dealing with fragmentation (i.e., "to prohibit broker-dealers from acting as broker for or sharing in the brokerage commission paid by funds whose shares they sell") seems to us so disruptive of the well established and traditional methods of operation on the free securities markets as to suggest the analogy of the treatment killing the patient.

It appears to us both from Release 8239 and from the Investment Company Report that the purpose of Rule 10b-10 is, primarily, to reduce the cost of management and the sales load of mutual funds. While we are not in a position to agree or disagree with the Commission's view that fund management and sale costs are too high, we submit that any attempt to reduce them should be direct (such as through a fairness test as the Commission has proposed in the past). The indirect approach suggested by Rule 10b-10 will not necessarily accomplish the desired results. We believe that Rule 10b-10 would seriously disrupt the securities industry and would particularly and severely impair the services now being provided by regional firms to the investing public in the smaller cities as well as the ability of those firms to maintain at their principal offices the valuable and effective research organizations which many of them support. Further, the proposed rule would adversely affect the ability of Regional firms to carry on their investment banking and market-making activities for regional industrial organizations.

The New York Stock Exchange proposal included with Release 8239 appears to us to be a much more rational approach to the problem which Rule 10b-10 seeks to cover. The principal of reduction of commission expenses to mutual funds is central to that proposal while wholly absent from proposed Rule 10b-10. The details of the stock exchange proposal have not yet been made public and, accordingly, while we approve of it in principal we can not discuss it at length.

Respectfully submitted,

H. C. Piper, Jr.