



SECURITIES AND EXCHANGE COMMISSION

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COMMISSION STUDY EXAMINES IMPACT OF SECTION 11(a)

The Commission today published the results of a voluntary survey of national securities exchange member firms that deal with the public. The survey was developed and analyzed by the Commission's Directorate of Economic and Policy Research and Division of Market Regulation to measure the impact of Section 11(a) of the Securities Exchange Act of 1934 upon those exchange members who provide exchange brokerage services to institutional accounts over which they exercise investment discretion.

The survey, which was mailed to all 636 national securities exchange member firms, elicited information regarding the nature and extent of such services, the problems created for member firms by Section 11(a), and the means by which firms are coping with the problems of adapting to the full implementation of Section 11(a).

The 428 survey responses came from all segments of the surveyed exchange members. The results reveal the extent to which the respondents continue to manage institutional accounts subject to Section 11(a), the size and characteristics of their institutional money management business, and the extent to which they rely upon

the "effect versus execute" rule. For example, 84 of the 428 respondents indicated that at some time since 1973 they have provided exchange brokerage services to institutional accounts that they also manage. Seventy-eight firms continue to manage such accounts after the full implementation of Section 11(a), while 13 of these firms have discontinued providing exchange brokerage services to such accounts. Thus, 65 respondents provide such accounts with exchange brokerage services.

Enacted as part of the Securities Acts Amendments of 1975, Section 11(a) makes it unlawful, subject to certain exceptions, for any member of a national securities exchange to effect any transaction on the exchange for an institutional account over which the member exercises investment discretion. Although this provision was intended to place exchange members and non-members on an equal footing in connection with the provision of money management and exchange brokerage services to such accounts, the Commission concluded, before Section 11(a) became fully effective, that implementation might have unintended and undesirable effects, particularly upon the ability of regional and smaller exchange members to compete with the larger exchange members in the provision of money management and exchange brokerage services to institutional accounts. These anticompetitive

effects might have resulted in increased concentration in the securities industry and a reduction in the general availability of money management services, especially to those smaller institutional accounts traditionally served by regional and smaller exchange members.

In response to this and other concerns, the Commission adopted on a temporary basis in March 1978 a rule that allows members to continue to provide money management and exchange brokerage services to institutional accounts over which the member exercises investment discretion under certain conditions that largely reduce any special advantages exchange members might have had over non-members.

Although the Commission's rule was designed to alleviate the unintended anticompetitive effects of Section 11(a), at the time the rule was adopted the Commission did not have sufficient data to anticipate the magnitude of these effects. The survey was initiated, therefore, to measure certain of these effects and to gauge the impact of the rule in alleviating such effects. The results of the survey are presented in narrative and tabular form. Comments are solicited from interested persons regarding the data generated by the survey, the validity of the results and conclusions which the survey data may support with regard to the impact of Section 11(a).

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