

DETROIT STOCK EXCHANGE

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CHAIRMAN'S OFFICE
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JUL 27 1967

SEC. & EXCH. COMM.

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& SECRETARY

The Honorable Manuel F. Cohen
Chairman
Securities and Exchange Commission
500 North Capitol Street
Washington, D. C. 20549

July 27, 1967

Dear Mr. Cohen:

This is in response to your letter of July 7, 1967 in which you instruct all stock exchanges to consider the question of give-ups and related commission rate structure problems "on a priority basis".

In August 1966, I wrote to Mr. Irving M. Pollack, Director of your Division of Trading and Markets, in response to the initial direction that steps be taken in this connection. My letter to Mr. Pollack made it plain that the Detroit Stock Exchange was strenuously opposed to the proposals for elimination of give-ups and related alteration of the stock exchange commission rate structure. Our opposition is based on our belief that such proposals, if effectuated, will not prove to be in the general public interest; that their adoption could terminate the existence of this and other regional stock exchanges, that they would seriously impair the ability of smaller broker-dealers to continue to exist; that an inevitable result of such changes would be to accelerate the unfortunate trend toward concentration of the securities business in a few major firms in New York City; and that the depth and liquidity of the markets would thereby be endangered or impaired.

In our view, these unfortunate results could ensue without any material, commensurate dollar benefit to the individual mutual fund investor in whose interest the proposals presumably were suggested. Nothing has come to our attention in the interim that would cause us to revise this view.

We have at no time had the benefit of any economic or statistical data that the Commission may have compiled which would tend to demonstrate egregious cost to mutual fund shareholders under the present rate structure and practices. On the other hand, the recent study prepared by the National Association of Securities Dealers, Inc., demonstrates forcefully the gravely adverse consequences that the elimination of give-ups, for example, would have on securities dealers, particularly the smaller firms located outside of New York.

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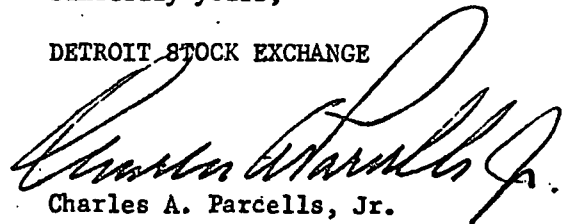
The fact that we have not transmitted any suggestions for conclusion of these matters to the Commission should not be construed as an indication of disinterest or lack of cooperation by this Exchange. The Committee appointed by the Exchange to deal with such questions has been endeavoring to determine whether meaningful proposals can be formulated by us which would represent a judicious balancing of the various important interests that are involved and that would truly be in the public interest. We assure you that we propose to continue these activities and to explore all practicable alternatives. However, we must observe that any proposal that we might formulate would seem to us to be premature for two reasons:

- . First, the commission rate structure proposals are mutual fund-oriented, and, although not included in your mutual fund program, nevertheless are an integral part of the overall question which shortly will receive legislative consideration. We do not believe that any definitive suggestions by a regional stock exchange should be made until we become aware of the Congressional reaction to these directly related subjects.
- . Second, we think that more meaningful consideration could be given to these matters by a regional stock exchange after it has had the benefit of considering such action, if any, as the nation's largest central market place, the New York Stock Exchange, may take or propose in this connection. We believe that a great deal of time will be wasted if purportedly definitive proposals are made by a regional stock exchange before the positions of Congress and the New York Stock Exchange are made clear.

You may be assured that we are ready to discuss these matters in further detail with you or your representatives at any time.

Sincerely yours,

DETROIT STOCK EXCHANGE



Charles A. Parcels, Jr.

President

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