

Advest Co.  
Putnam, Coffin & Burr Division  
Hartford, Connecticut

February 29, 1968

Mr. Orval L. DuBois, Secretary  
Securities and Exchange Commission  
500 North Capitol Street  
Washington, D.C. 20549

RE: Securities Exchange Act of 1934 Release No. 8239

Gentlemen:

This letter is for the purpose of submitting the views and comments of the thirty-three General Partners of Advest Co. on proposed Rule 10b-10 and the related proposal of the New York Stock Exchange dated January 2, 1968.

Three basic claims are made in this Release; (1) "it does not cost anywhere near 100 times as much to execute a 10,000 share order than to execute a 100 share order, " (2) "the executing brokers are willing to accept substantially less compensation for executing-large institutional orders," and (3) a fiduciary should execute orders at a minimum cost.

The proposed Rule 10b-10 attempts to eliminate the give-up and other resulting practices to which the Commission objects by making them unlawful, rather than taking action to get at the root of the problem as proposed in the N.Y.S.E. plan, primarily through a volume discount. The adoption of Rule 10b-10 might merely be viewed by some as an obstacle to be circumvented by new and more ingenious techniques or by spreading their transactions among many brokers, neither of which would be an improvement over the present situation. At best it would make a mockery out of minimum commission rates and damage the image of the securities industry by creating synthetic dealers to recapture commissions.

Based on the three claims of the Commission referred to above the only real solution would appear to be a volume or money involved discount as proposed by the N.Y.S.E. Competition from the third market and from other exchanges may also be a factor in favor of a volume discount.

In 1967 income from give-ups received by Advest Co. was equal to 16% of the net income of the firm (before income taxes) for the year. In nearly all previous

years the percent of profits accounted for by give-ups was substantially higher -- over 100% in some years.

Where the only services rendered by a broker involve executing and handling the orders themselves, block transactions may well result in high profit margins. The corollary to this, however, (with which we as a medium sized regional firm are much more familiar) is that on small retail orders where the gross commission is less than \$25 we sustain a loss. The Income and Expense figures of the N.Y.S.E. as shown in the Security Commission Business reports in recent years have clearly shown that many of the small or regional firms operate at a loss on the major portion of their business.

The adoption of Rule 10b-10 or of a volume discount will be far more damaging to the medium and small firms, who receive important income from give-ups and cannot hope to capture significant amounts of institutional block business, than it will to the large firms. Therefore, while we agree with the logic of the volume discount, we believe that the same logic and the cost figures available from most any large or medium sized firm also clearly demonstrate that small orders are executed at a loss. To lower the commission on large blocks will in effect probably have a more adverse impact on the small broker than on the large broker who is already giving up an amount at least equivalent to the volume discount that might be adopted.

It can be argued that the institutions spend large sums of money to retain their own high quality research talent, and therefore, why should brokers be compensated for providing additional research ideas and information. It seems quite obvious, however, that the vast number of public securities with broad enough markets to qualify for institutional ownership, the complexity of evaluating each security and the need for personal knowledge of the managements of each company, make the task far beyond the capabilities of any one research group. The institutions do benefit from research assistance from brokers and should be permitted to pay for it. An extremely important related problem is that of providing research advice to retail customers of brokers. The removal of income from institutional clients would force many brokers to reduce their research departments and cause a real decline in the quality of research information available to retail securities salesmen and their customers.

The overall effect of 10b-10 would tend to accelerate the trend toward mergers among brokers and reduce the number of small and medium sized brokers. We at Advest recognize the changes that have been occurring in the securities industry and have made sweeping changes in our operations during the past three years, including two mergers, a complete reorganization of our structure, addition of partners on the floor of the N.Y.S.E. and A.S.E., automation and efforts to strengthen our research department. We are dedicated to the goal of

becoming a strong and consistently profitable regional firm that can serve the northeast. We and the other regional firms maintain offices to serve the public in cities with a population of 25,000 to 100,000, which are too small to be of interest to the larger national firms. Any action such as proposed 10b-10 that can have a substantially adverse effect on the smaller brokers and result in the closing of offices in these cities would not appear to be in the public interest.

The securities industry is already severely competitive. We feel that such competition is healthy and is steadily eliminating those brokers who will not or cannot make the necessary changes and improvements. We are already heavily burdened by regulation, the need for most of which we recognize, and thus do not see the justification for Rule 10b-10. Reciprocity and indirect compensation for service rendered is common and acceptable in other businesses. An attempt to limit this reciprocity or compensation to a reasonable amount through a volume discount appears to be in the public interest. To seek to eliminate it will be damaging to the securities industry and to the institutions and their share owners and the effort will fail because means will be found to circumvent the intent of the Rule.

The other proposals of the N.Y.S.E. also appear to be clearly in the public interest. Certainly the allowing of a discount to bona fide non-member brokers is in conformity with standard practices in most other industries and will in many cases result in lower transaction costs to the public through the elimination of any add-on. We agree with the N.Y.S.E. that membership on the registered exchanges should be limited to bona fide broker-dealers.

We also subscribe to the view that commissions to the public should vary only with volume or dollars involved and not with the amount of sophistication of the customer in devising techniques to reduce or eliminate commissions -- such as through membership on exchanges or creation of brokers that are not truly established for the purpose of selling securities to the public.

We believe that the adoption of a volume discount, discounts to non-member brokers and a minimum percentage of commission that must be retained by the broker executing the order will provide a more effective and direct means of accomplishing the goals set forth in the Commission's Release No. 8239 than the adoption of Rule 10b-10.

Very truly yours,

ADVEST CO.  
Charles T. Larus  
Executive Partner