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March 27, 1968

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

Re: Comment on Proposed Rule 10b-12 [sic], 1934 Act.

Gentlemen:

Small insurance companies sometimes find it necessary to adjust their capital and surplus accounts to fit within State Insurance Statutes which specify a definite amount of capital and a definite amount of surplus. Usually small insurance companies do not have earned surplus and therefore the adjustment is out of the capital surplus account. This adjustment is sometimes accomplished by a pro rata distribution of shares. The number of shares distributed is computed closely (oftentimes on other than a one for one basis) to bring the company to the necessary capital position and still keep as much capital surplus as possible.

I recognize that paragraph (c) of the proposed rule provides a procedure for applying to the Commission for relief. However, the release includes the statement "It is contemplated that this exemptive provision will be narrowly construed and will be exercised by the Commission only sparingly in cases involving unusual circumstances."

It is my understanding that the rule is designed to avoid the problem of issuers causing unsophisticated investors to believe that they are receiving a dividend in a case in which there is merely a readjustment of accounts. As the rule provides, one solution is to prohibit the activity without Commission clearance. However, I suggest that an automatic exemption from the rule should be included to permit such pro rata distributions if (1) the object of the distribution is to adjust capital accounts to comply with a State Statute or rule and (2) the issuer explains in a letter transmitting the additional certificates the reason for the adjustment of capital accounts, including a warning legend in heavy type "This is not a dividend and your present shares are reduced in value to the extent that you are receiving additional shares."

Sincerely,

George W. Hopper

cc: Denver Regional Office