Pressman, Frohlich & Frost, Incorporated
New York, NY

March 28, 1968

Securities and Exchange Commission
Washington, D.C. 20549

Attention: Mr. Orval L. DuBois, Secretary

Gentlemen:

Re: Proposed Rule 10b-10 Under Securities Exchange Act of 1934

Pressman, Frohlich & Frost, Incorporated is a member of the New York, American and Boston Stock Exchanges with offices in New York, New York, Newark, New Jersey, South Orange, New Jersey, Wayne, New Jersey and Washington, D. C. We have reviewed the proposed Rule 10b-10 as set forth in Securities and Exchange Release No. 8239 on January 26, 1968 and have the following comments:

The Commission's proposed rule would prohibit investment companies from directing brokers executing transactions for that investment company to divide their commissions in any way with other brokers unless the benefits of such division accrue to the investment company and its shareholders. It is our contention that the outlawing of customer directed division of compensation or commissions (give ups) would be harmful to the investment company and therefore its shareholders and harmful to smaller members of the brokerage community and their customers. It is our further feeling that the prohibitions set forth in the proposed rule conflict with the concept that the activities of the investment company should contribute to the welfare of its shareholders.

I. The Position of the Small Firm with the Institution

Our firm, like hundreds of other small New York Stock Exchange firms, does relatively little direct brokerage for institutions and yet our income from institutional clients is sizeable. The Research Department of this firm is extremely good and well respected. However, like many other small firms, the sphere of our research activities is limited to only certain areas of the economy. We believe that in those areas our research is in depth and of extremely high quality and have found that the advice of our research partners and associates has been well accepted by the institutional investor. Such acceptance has not manifested itself, however, in the form of direct commission business. Our institutional clients have told us that for ease of operation and for a minimum of confusion it is necessary that they use a limited number of principal brokers. However, our institutional clients do value our research and therefore instruct their principal brokers to give up certain amounts to this firm. Essentially, we are selling research services. Our services do not cost the institutional client or the ultimate stockholder any money as we are compensated by a share of commissions which must be paid out somewhere to someone.

Ostensibly, if customer directed commission splitting or give ups were prohibited, institutions could give us direct commission business. We believe that it is impossible or impractical for an institution to split up its orders and deal with scores of different brokerage firms on a direct commission basis. Such a procedure would greatly increase the number of personnel required by the firm, thus increasing their operating costs. It would also result in the possibility of different brokerage firms competing for an execution on behalf of the same customer and would be very much like going to an auction and bidding against your wife who is seated in the balcony. It is also obvious that if the New York Stock Exchange were to enact a block commission discount, it would be impossible for the institution to split up its order as that would result in direct increased commission costs. Therefore, rather than get commissions instead of give ups it is more likely that we will get no institutional business or a greatly reduced amount of institutional business. It is our opinion that the net result of prohibiting of give ups would be larger firms benefiting from increased business and smaller firms limited to the business of the public customer.

In addition to the obvious loss of institutional business, the structure of the brokerage community would be deleteriously affected.

Our firm currently is able to attract some of the best security analysts in the industry because the man can earn a salary plus sizeable commissions. The commissions in most cases result from give ups obtained through his services. Without give up income it would be impossible to compete for top quality analysts. Accordingly, we would not be in a position to service our public customers because of lack of talent.

It is difficult to accept the proposition that the public customer is entitled to a lower standard of excellence than the institutional investor and yet the commissions generated by public customers cannot pay for quality research in depth in a firm our size and probably much larger than ours. Without the give up income from investment companies a firm must spread its research department costs over a score or more of branch offices and hundreds of salesmen. By the time a firm reaches the size that a good and expensive research department is warranted by its public business it will probably get principal institutional brokerage business and the whole problem is moot.

II. <u>The Institutional Investor and its Research Source</u>

The mutual fund shareholder currently benefits from the best research facilities available in the country as judged by mutual fund managers. The institutional investor can take the advice from whom it considers the best analyst in every industry, regardless of the size of the firm with which the analyst is associated or the back office or floor brokers of that firm. The institutional client may prefer the floor brokerage facilities and general administrative function of one firm, but is able to make use of research analysts in another firm and compensate these analysts by virtue of the give up. To prohibit the give up would be to claim that the only function of the stock broker is to execute the stock brokerage order. We obviously cannot agree with such a theory.

We have found that our research associates can easily be completely candid with the institutional client. For instance, the mutual fund has some interest in buying a large block of stock in a particular industry, followed by one of our men. Our man can put scores of hours into appraising the company and conclude that it is not a wise investment. The analyst at our firm can easily tell the institution not to buy the stock. Since he is not working on pure commission, he cannot be emotionally swayed by the fact that his negative opinion may result in a lost commission. To the institution, advice not to buy is as good as advice to buy and, therefore, our analyst will be compensated in the form of a give up. If his income depended upon his getting the order in the stock named by the institution, his judgment may be colored and a completely objective decision would be impossible. Compensation based only upon the actual execution of an order turns what should be an intellectual and objective function to a selling tool.

To the small brokerage firm give ups earned through research provide a sizeable income and enable that firm to service the public customer through quality research. To the institutional investor, give ups allow the choice of the best analytical help in the industry and allow the institutional investor to separate the brokerage function from the research function. The public investor, whether he be the stockholder in an institution or the customer of a small brokerage firm, benefits directly and sizably from the give up concept. The Mutual Fund has a free choice of research and floor brokerage at no extra cost and/or its brokerage firm is allowed the luxury of top personnel.

Without give ups, the institutional investor will not use Pressman, Frohlich & Frost, Incorporated. Without give ups sufficient money will not be generated to obtain superior research personnel. The result will be a general stifling of competition and a great hardship on the smaller firms in the investment industry. We believe the emphasis on give ups is unduly put upon payment for the sale of mutual funds. We feel the Commission has not taken sufficient cognizance of the dual aspects of the brokerage industry, to wit, floor brokerage and execution of the orders and research facilities.

We respectfully submit that the proposed Rule 10b-10 would be deleterious to the investing public and will result in a reduction of competition in the securities industry.

Very truly yours,

Stanton L. Pressman
Chairman of the Board