Chaplin, McGuiness & Co.
Pittsburgh, Pennsylvania

Mr. Orval L. DuBois, Secretary

Securities and Exchange Commission

500 North Capital Street

Washington, D. C. 20549

RE: Securities Exchange Act of 1934 Release No. 8239

Dear Mr. Secretary:

The undersigned, as Chairman of the Ad Hoc Committee of the Western Pennsylvania Securities Industry, has heretofore requested a hearing before the Commission in respect of proposed Rule 10b-10, which is the subject of the above-mentioned Release. In view of the fact that time is running out with respect to the furnishing of comments and it seems unlikely that we shall be granted a hearing, we are enclosing herewith, as the comments of the above-mentioned Committee, in response to Release No. 8239, various statements which members of said Committee had planned to make had the hearing been granted, in sufficient quantities for distribution to the Commissioners.

We regret that the Commission was not able to hear us personally with respect to our views relative to the proposed rule.

Very truly yours,

J. Mabon Childs

Enclosure

(Statement of Charles T. Koval)

I am Charles T. Koval, President of Allegheny Planned Income, Inc., a Pittsburgh firm which has approximately 5,000 customers. I am speaking on behalf of the retail mutual funds section of the industry. We are of comparatively recent origin

and by virtue of our willingness to work every evening of the week we have built a successful enterprise. For the hours spent, our profitability is modest. The increasing cost of operating is a disturbing factor in our business. I believe that rather than cut commissions, there should be an across-the-board increase in commissions. The reasons why are as follows:

1. Our costs have skyrocketed!

2. We have had dramatic increases in supervision requirements in the past few years.

3. Increases in financial statements and bookkeeping requirements.

4. An increase In requirements for minimum capital to remain in business.

5. Our accounting requirements are above most other businesses, and increasing.

6. Our licenses and fees necessary to operate as a broker-dealer are higher than ever before.

7. Our paper-work burden is tremendous, and Increasing yearly, which means we need more profit margin to see us through this maze of red tape during any business decline.

8. Our taxes to do business, minimum wages, fringe benefits, social security taxes and income taxes are all going up the same way everyone else's are.

9. Training expense of new salesmen much higher ... but the Securities and Exchange Commission is pressing for reduction of commissions while the cost of doing business has increased.

How can the Securities and Exchange Commission expect increased supervision when less and less money is left after expenses? How can the industry do a better job for customers and the public if profit margins are reduced? We think that the general public will be short-changed because the only thing available to them will be a life insurance salesman with a captive Mutual Fund, or the large city office of a large Stock Exchange member, where an economic education means learning your computer number and receiving a phone call every six months. Everything is not answered by life insurance or the largest New York Stock Exchange National wire house, with many branch offices. Profit margin and competition are necessary to a healthy industry. They are there! The public will gladly pay for them in return for non-government service -- a service by people who are so interested, they compete for the public's attention.

As an example of our own firm's profit margins, we have heretofore submitted two statements to you showing a breakdown of reciprocal figures, volume, number of salesmen and other matters. These statements illustrate why reciprocal business is an integral part of our earnings. Were we without the reciprocal business in 1967 we would have had a deficit of over $15,264.31.

If the proposed Rule is enacted, gone is an annual payroll of $200,000, the jobs of 14 full time men and the much needed services we provide to over 5,000 mostly small investors who depend on our integrity to help them choose the best possible mutual funds. We would not be able to remain an independent dealer that handles all funds rather than a captive organization as most, insurance companies will become upon entering the Mutual Fund business.

(Statement to be made by Bruce McConnel)

Your Release #8239 dated January 26, 1968, invites views and/or comments on the proposed Rule 10b-10, as well as the commission rate structure proposal submitted by the New York Stock Exchange in a letter dated January 23 1968, by Mr. Robert W. Haack, President. My firm's comments concerning these two proposals have already been the subject of a letter to you dated March 12, 1968. I would like at this time to reiterate basically those comments.

During the past several years there have been numerous proposals made to organizations representing the financial brokerage industry (i.e., New York Stock Exchange, Investment Bankers Association of America, National Association of Securities Dealers and others) by the Commission which have indicated your desire for:

1. A prohibition of give-up business generated by institutions. Primarily this prohibition would affect commission business directed by mutual funds, unless an extension of this concept would be made to all fiduciaries as indicated in the asterisked footnote in Release #8239, page 9.

2. A recognition that some manner of volume discount should be an accepted practice in security transactions on the major and regional exchanges.

3. Consideration of possible substantial savings to the investing public through the adoption of a policy permitting public ownership of stock exchange membership. (Note Chairman Cohen's budget presentation before the Subcommittee on Independent Offices, Committee on Appropriations, United States Senate on June 27, 1967.)

It is our opinion that if any or all of these three policies were to be adopted as rules without appropriate provision for adequate substitution of the likely loss of gross income for our firm, then in due course we would be forced to merge or liquidate our firm.

Rule 10b-10 is directed toward establishing a policy outlawing give-ups. That rule, as proposed, would have the following effect on our organization based upon income and expense figures as reported in the 1966 New York Stock Exchange Income and Expense Report and corresponding figures for the same period available from our firm accounting records. In 1966 our firm's gross income included approximately 6% commission received from give-ups as a result of our retail sales of mutual funds and/or research services provided to these funds. In addition we received commission business from banks approximating 9%. This commission business was developed as a result of services provided to the banks in the form of research information, pricing of securities, or in recognition of deposits and loans. Net profit before partners' salaries and interest, but after all other expenses, amounted to approximately 26% of our firm's total gross commission. We have heretofore furnished this Commission with stated dollar amounts rather than the percentages which I shall now indicate. The breakdown showing where the gross profit of our firm was generated during the calendar year 1966 is listed below:

Listed Business: 49%

Unlisted Business: 12%

Mutual Funds (excluding reciprocal): 7%

Municipal Bonds: 15

Underwriting: 17%

However, if Rule 10b-10 becomes effective, the profit structure of our firm would be severely affected. Under the proposed rule, if give-ups are prohibited, our firm's profits, before partners' salaries and interest, would decline by 22%, and if fiduciaries such as banks endeavored to seek lower commissions through written contracts providing for rebates as indicated in Rule 10b-10, the total reduction would approximate 56%. Keep in mind that these two items represent only 15% of the total gross commissions earned in 1966, yet with their exclusion they would reduce our profit by 56%.

The reasons for the severity of the effect on our firm's profits assuming the enactment of Rule 10b-10 by the Commission is a subject well worth reviewing.

Most regional firms execute their commission business for institutions through a partner or a salaried employee, but in any case the gross commissions earned are usually credited to the Firm and Partner Account. Give-up business, as we know, involves the receipt of a check in payment for commissions generated by another broker when that broker is directed by the customer to give us a portion of their commission. As mentioned at the bottom of page 2 of your Release #8239, a broker executing an order for 10,000 shares does not have 100 times the expense for executing trades for the same stock at the same price in 100 share lots; so it is on a give-up check, there are no costs incurred by the broker receiving the check.

The present New York Stock Exchange commission rate structure has not been substantially changed since 1958, and because of this fact it becomes quite obvious that there have been profits generated in such a manner, either through commissions such as give-ups or block trades or other facets of operations, such as corporate and municipal underwritings or corporate securities and municipal bond trading, that have provided a profit subsidization to the current commission rate structure. If this were not so, then the loss of give-up business and/or the bank commission business would not have such an adverse effect on a regional firm such as ours. Accordingly, we strongly urge the Commission to consider a review of the entire commission rate structure with appropriate recommendations as a result of this study. The proposed commission rate structure should:

1. Incorporate reasonable profit to the broker who effects this commission business, after all appropriate expenses are charged against the gross profit.

2. Provide a reasonable profit not a "loss leader" to the investment business, and this segment of the investment industry should stand on its own two feet providing a reasonable profit to the broker.

In addition to the economic impact of Rule 10b-10 mentioned above, we call to your attention that this proposal would destroy the principle of a minimum commission rate. Your proposal provides for the negotiation between institutions and brokers to develop the lowest commission charge possible for the institution. The savings by these negotiations would be used to reduce management fees or accrue to the benefit of the shareholders and beneficiaries of funds being managed by the particular institution. We do not see how, under such an arrangement, any institution would not seek the lowest commission rate possible, and that the lowest commission rate possible will undoubtedly be provided by the larger nationally-oriented brokerage firms. This provision adds to the economic impact of Rule 10b-10 in that it will go a long way to destroy what little competitive ability we have left as a smaller regional firm against the large national brokerage firm.

You may be interested to know that in the past four years our firm has incurred substantial expenses in the development of new sales personnel, branches, in the introduction of a data processing billing system to our clients, in the enlargement of our research activities, and has extended both our corporate and municipal trading activities in local market securities. The additional expenses over and above the normal increased operational expenses have been a drain on our firm's profits, and although controllable, it has been the judgment of the firm's management to continue such expenses in order to assure a continuing vibrant and effective investment service to our clients. If Rule 10b-10 is adopted as proposed, we assure you that our activities in all the fields above mentioned will be curtailed, if not discontinued. The loss of profit will necessitate the termination of the growth of our firm and in all probability will necessitate our merger or liquidation in a short period of time.

It is our opinion that the results of profit deterioration, if Rule 10b-10 is adopted, is not limited to our firm alone, and it would be prudent for the Commission to determine the economic impact generally of Rule 10b-10 on brokerage firms throughout the country before this proposal is effected.

If the rules and policies established by your Commission eventually bring about the existence of a minimal number of brokerage firms serving the investing public, then the development of capital and the flow of funds for economic growth will be severely hindered.

The small investment dealer, and particularly the regional Exchange member provides a strategic and vital contribution in both the distribution of securities and the servicing of the individual investor. To give you an example of what our firm has contributed in this area, over the past two decades we have managed the first public offerings of seven companies, and in addition have participated in underwriting distributions of millions of dollars of corporate and municipal securities of local corporations and/or municipalities in our geographical area. If we had not contributed our effort in this distribution in all probability the distribution may not have been made, and if so, not as effectively. We would all do well to consider what the problems might be if the regional firm disappeared from the investment scene. If this were to happen, who would undertake the initial public offering of a small corporation not nationally known for which perhaps $1 million of equity must be generated? Who would provide the township, borough, or school district with a bid for their new addition to an existing school or some other municipal facility when perhaps $1 million to $1.5 million of new funds are needed? Who would provide a continuing market for over-the-counter securities and provide a municipal market where the investing public can seek some measure of market liquidity after the initial offering? These are serious questions when we consider that Rule 10b-10 may very well destroy the regional firm concept.

Mr. Robert W. Haack, President of the New York Stock Exchange, submitted to you a commission rate structure proposal dated January 2, 1968, and you requested all interested parties to make comments on this proposal. We are in sympathy with the five steps of the New York Stock Exchange proposal providing they are offered as a package and providing an economic impact study and a determination of profit effect is made prior to the decision as to what percentage might be incorporated in the various segments of this proposal. Here too we recommend that the commission rate structure be reviewed in detail to the extent that a reasonable profit will be available to the broker after appropriate expenses have been charged against this profit.

We thank you for the opportunity to express our views concerning your proposed Rule 10b-10 and trust that you will give your attention to our comments.

(Statement to be made before the SEC by Mabon Childs)

Mr. Chairman, and other members of the Commission, preliminary to making my presentation, I should like to express my appreciation for your giving me and the others of my group the opportunity to appear personally before you. Let me identify myself and the others. I am J. Mabon Childs, Chairman of the Ad Hoc Committee of the Western Pennsylvania Investment Industry. I am a partner of Chaplin, McGuiness & Co., Pittsburgh, Pennsylvania. The other members of my group and the segments of our industry for which they speak are as follows:

Kirkwood B. Cunningham, President,
Cunningham, Schmertz & Co., Inc., and
President of the Pittsburgh Stock Exchange;

Charles T. Koval, President,
Allegheny Planned Income, Inc., representing retail mutual funds section of the industry;

Karl P. Meyers, Partner of Babbitt, Meyers & Waddell,
representing local stock exchange members; and

Bruce McConnel, Partner of Singer, Deane & Scribner,
representing regional Pittsburgh New York Stock Exchange firms.

Also present is Frank J. Pohl of the law firm of Burgwin, Ruffin, Perry, Pohl & Springer, our counsel. The Ad Hoc Committee represents a regional group of various segments of the securities industry in Western Pennsylvania, and a list of the names of our members has been submitted to you. For obvious reasons this list does not include representatives of certain of the larger New York firms which have regional offices in Western Pennsylvania. These representatives have, however, been attending our meetings.

We are here pursuant to the invitation of the Commission contained in its Release No. 8239 as implemented by the exchange of correspondence between ourselves and the Secretary of the Commission whereby we were granted the right to appear personally to submit views and comments on proposed Rule 10b-10. While we intend to address ourselves principally to the proposed Rule, we will make some observations with respect to the New York Stock Exchange proposals referred to in the Release.

In your Report on the Public Policy Implications of Investment Company Growth, on page 186, you stated as follows:

"The abolition of customer-directed give-ups would appear to have only a slight effect on the gross income of the securities industry. The Booz-Allen study indicates that combined give-up and reciprocal business from all sources accounted for only 2.5 percent of the 1965 gross income of the 2,453 firms studied. Gross income from give-ups and reciprocals from all sources exceeded 5 percent of gross income for only one size group of broker-dealers -- the 37 dealers whose gross income ranged from $185,000 to $200,000 in 1964."

We respectfully dispute this statement in its application to us. In direct contradiction to this part of the Report, the members of the Committee who are with me will take the last fiscal period of their firms as of which figures are available and show the effect upon the economics of their firm to be far from slight if the Rule were in effect during that period.

I should like at this time to submit to this Commission a schedule, marked Schedule A, which sets forth the impact of the loss of give-ups and reciprocal business upon regional firms in the Pittsburgh area. These are summaries of the operations of certain of the firms in our area which have written to the Commission setting forth their comments with respect to the proposed Rule. In light of the footnote appearing on page 9 of the Release, these summaries reflect losses in commissions from banks in our area. The Commission is familiar with the manner in which institutional transactions are handled on the books of our regional firms. To emphasize the point, these institutional transactions do not involve the payment of commissions to our salesmen because they are considered to have been handled by a principal of the firm, and the total amount

is credited to partnership income. In other words, give-ups and reciprocals actually represent net income. Column A represents net income, without deduction of partners' and principal officers' salaries, before taxes. Column B represents the dollar loss, and Column C represents the loss in percentages, I call your attention to the percentages of profit that would be lost if the proposed Rule becomes effective. These would be staggering losses and would create financial crises for all of us. It would ultimately lead to the liquidation or drastic curtailment of the services of many of these firms. Bearing on the same matter, but on a national scale, is Schedule B which shows the result of a survey of 132 regional firms, located in all sections of the country, for the year 1966, I call to your attention that the total of the give-ups and reciprocal business, and this does not include commissions from banks, amounts to $14,900,000, or in excess of an average of $100,000 for each of the firms reporting. Considering that this is net income, the impact on the economics of these firms would be disastrous.

If the regional firms were eliminated or their number sharply reduced, what would be the impact upon the money equity market for the small businessman who is interested in raising $500,000 and not $5,000,000 for his enterprise? I assume that you are all aware that most of the national securities firms have no interest in a financing unless the amount to be raised is a certain minimum which I believe to be $1,500,000. Bearing on this matter of the small businessman and the regional firms, I refer you again to Schedule B. You will note that the 132 regional firms who participated in the survey have 405 branch offices in cities of 75,000 population or less. 75,000 or less by some standards is a pretty small place. Obviously, not by regional firm standards.

I should also like to present to you two additional schedules, designated Schedules C and D, which relate, respectively, to underwritten equities registered with the SEC and the underwriting syndicate management of said equities and the participation of the smaller firms in the distribution of said equity securities. The information in said Schedules is for the year 1966 and has been taken from the IBA Statistical Bulletin for the month of January, 1967. These schedules, I believe, will further highlight the part the regional firm plays in our economy.

Schedule C, which relates to underwriting syndicate managements, includes co-managed issues and, by reason of the lack of additional information, each co-manager is credited with one issue. Of said type of equity financing for the year 1966 you will note that approximately 87%, involving 192 issues, was managed by 24 large firms which either managed $40,000,000 or more of equity financing or managed 5 or more equity issues during 1966. On the other hand, while only 12% of said equity financing was managed by other than said large firms, the total number of issues was not much less than the 192 issues or, specifically, 175 issues. I wonder how many of these 175 issues would have come to market if the regional firms were not available with their services. I will concede that

some of the smaller firms are located in the New York area, but for the purposes of this presentation it seems to me fair to place them in the same category as the regional firms. The average amount per issue for the large firms was approximately $16,000,000, and for the smaller firms was approximately $2,500,000. As a further refinement of these comparisons, only one issue of equity securities was handled by each of 68 of the regional firms during the period in question. The median average of these 68 issues was approximately $1,000,000. On the other hand and quite significantly, although these large firms managed approximately 87% of these equity issues they did not distribute and sell that proportion of the issues, Schedule D shows that approximately 41% of the distribution was handled by said 24 firms, which would include their branch offices, while approximately 59% was handled by the regional firms. The percentage would be higher for the regional firms if the figures were available with respect to the amount of distribution which was accomplished by the regional firms as members of the selling group. The sense of the above comparisons is that the regional firms handled the small equity issues, apparently originating in their own areas, and that, numerically, they handled almost as many issues as the larger firms. In addition, when it came to the matter of distributing all these issues, the regional firms had an impressive 59% participation in the distribution which not only assured the success of the issues but provided widespread retail distribution, as well.

While on the subject of participation of the small firms versus the large firms In financings, there is one area of the securities business which is virtually dominated by the regional firms and that Is the financing of municipal improvements for the communities located in their areas through the means of sewer, water and parking bonds. These Issues rarely go above $1,500,000 and there are a substantial number of them below $1,000,000. To bring financing of this sort to market is a long and tortured process sometimes taking years and requiring attendance at numerous evening council meetings and numerous informal meetings with the officials whose responsibility it is to carry out such financing and sometimes at meetings, not always friendly, of the general community. It is In this area that the regional firms excel and I have not the slightest hesitation in claiming that if these financings had not been accomplished many of our regional community areas would not have developed, particularly as residential areas.

Give-ups and reciprocal practices have become an integral part of the profitability of our firms. While we had reason to believe that in recent years the Commission was not entirely satisfied with these practices, it took no action to disapprove of them. In other words, we have geared our operations to a certain type of business, at least with the sufferance of the Commission, which the Commission now proposes to take away from us.

It is clear to us that if the proposed Rule were adopted, many of the regional firms would either be forced out of business, seek consolidation or mergers with the large New York Stock Exchange firms or drastically reduce their staffs. The concentration of the securities business in a relatively small number of large national securities firms would be inevitable. It would be ironic, indeed, if action by this Commission would trigger a chain of events which would lead to a monopoly in the securities business.

It seems to me that our problems really stem from the fact that at the present time there is no rate structure in the securities business which properly allocates the costs of trading securities and realistically, by reason of the various diversionary practices, there is no fixed minimum commission. The proposed Rule, I believe, is designed to produce volume discounts for the benefit of mutual funds. In light of the footnote on page 9 of the Release and the unequivocal statement of the Commission contained therein, it should also raise the question of volume discounts for managers of pooled funds who act in fiduciary capacities such as banks in their management of pension trusts and common trust funds. Quite apart from the economic consequences upon the regional firms, I should like to set forth certain developments which might reasonably be expected to take place if said Rule becomes effective:

1. The introduction of a new type of specialist in the securities business, namely, the discount specialist or the "I can get it for you wholesale" breed.

2. The compulsion upon managers of pooled funds to shop for discounts regardless of the impact of this policy upon the economics of their regional community.

3. The forced entry of banks into the stock brokerage business.

4. The undermining of the auction market.

It would be unfortunate if discount houses became part of our industry. Experience has demonstrated that you cannot out-discount a discounter. Price wars may be the ultimate in competition but hardly a healthy thing for our industry. If banks and other managers of pooled investments were required on every trade to shop the transaction what would be the guidelines used? No trade would be executed unless at least one of the large New York brokerage firms were asked to bid for the business. There is an obvious reason for this statement. The vast majority of regional firms who are members of the New York Stock Exchange do not have a member on the floor. Therefore, when a regional New York Stock Exchange firm executes an order it is faced with the necessity of paying 20% of its commission to the large New York Stock Exchange firm that does have a member on the floor. In other words, the regional New York Stock

Exchange firms start off with a 20% commission handicap. In any competition for this business the staying power of the New York firms, by reason of their financial resources, would surely overcome the regional firms. Furthermore, who would be the judge as to whether these managers acted consistently with the standards of the proposed Rule. I visualize that the smaller firms may be subjected to the same type of competitive pressures that small grocery stores have been subjected to by the big chain stores. If discounts on block transactions become part of the commission rate structure, I believe the banks, willingly or not, will make their entry into the stock brokerage business by providing pooled purchases and sales for their customers.

In commenting upon the New York Stock Exchange proposal with respect to discounts, the Release stated that the Exchange had not determined the amount of such discounts or circumstances under which they would be available. The Release further goes on to state that there are a number of possible alternatives including a discount based on the size of a particular order. Although I have no intention of endorsing discounts unless included as part of a sound rate structure, I should like to comment upon this alternative. Any structure which provides for a discount based upon the size of a particular sale should be unequivocally rejected. If managers of pooled funds were to accumulate transactions for the purpose of obtaining discounts, they would surely miss the market for one or more of their customers. One-quarter of a point loss could eliminate any savings obtained on a block transaction. It is axiomatic in our business that orders should be executed promptly. It was formerly the practice of mutual fund managers to distribute a particular transaction among various brokers for various reasons. It soon occurred to them, however, that by reason of this practice they were missing the market on some portions of the trade to the detriment of their fund. In order not to miss the market and at the same time compensate the brokers who would otherwise lose commissions, the managers of mutual funds went to the lead broker technique and directed the lead broker to give up a part of the commission to the other brokers. Actually the development of give-ups resulted from the need to get the best price possible on the transaction and at the same time compensate the brokers to whom a part of the trade would otherwise have been given.

I think that the adoption of the proposed Rule would not be salutary for securities firms generally and regional firms specifically. It is at best a halfway measure and halfway measures amount to tinkering. Tinkering is a dangerous technique when applied to such a sensitive field as the securities industry and our auction markets; my experience has been that if you tinker long enough with something, it won't work. To be blunt, the problem is not being squarely faced. As for the New York Stock Exchange proposals, they have a recognizable element of self-interest in them from the standpoint of the large national stock exchange firms

but certainly not from the standpoint of the regional firms including regional New York Stock Exchange firms.

If, as we contend, the real issue is a sound rate structure, would it not be possible to attempt to solve the problem by the use of Section 19(b)(9) of the Exchange Act, particularly in the light of the Kaplan case. We believe that the legislative mandate contained in said Section and the power granted under the Investment Company Act and the Investment Advisory Act might reasonably be construed as giving you the power to direct all the Exchanges to produce a rate schedule using guidelines laid down by you. One of these guidelines would be that the Exchanges should be required to establish a fact-finding committee upon which there would be representatives from the various categories of the securities business. We believe, for example, that there should be a spokesman for all the regional firms.

This committee should be given a time limit as of which they would come up with recommendations as to reasonable rates of commission, and more importantly, recommendations with respect to a commission rate structure as distinguished from solely a level of rates. You, of course, would review them under the power granted to you under Section 19 of the Exchange Act for the purpose of determining their reasonableness from the standpoint of every segment of the securities industry.

We believe that up to this time the many factors, particularly the economic factors, that should be considered in the development of fair commission, rates and a fair commission rate structure have not been explored thoroughly. For example, the many services furnished by brokerage firms such as research and analytical services and the many other services which brokerage firms are required to furnish. How should the cost of these services be divided between institutional buyers and an ordinary member of the public? Should the flow of individual savings into mutual funds be slowed down? We are well aware of your concern with the increasing use of mutual fund shares as vehicles for speculation rather than as media for investment, with the dramatic effect this stock market policy is having upon stock prices. Should not the institutions support these services even though they may not have any use for them? Taxes to support the public school system are not paid solely by the people who use the system because that system is necessary for those who use it as well as those who do not. An auction stock market, with its depth and liquidity, is essential to our system. Are we tending to erode the auction market and reduce it to a negotiated market? Should not persons such as third market firms and persons who effect transactions off exchanges contribute to the maintenance arid existence of such a market? In arriving at a fair commission structure should not consideration be given to the preservation of the regional security houses? Is it not desirable that the regional stock exchanges be preserved? Among other considerations, would

not their preservation provide protection against indiscriminate and unreasonable taxation by those in a position to tax New York Stock Exchange trades? At the present time, the sale of 100 shares of stock on the New York Stock Exchange at $20.00 a share requires the payment to New York State of a $5.00 tax. Assuming an eight million share day on the New York Stock Exchange of stock selling at $20.00 per share, and assuming 250 trading days, the amount of tax which would be collected by the State of New York in one year would be $100,000,000. Incidentally, what does the Investor get in return for this $5.00? It seems to us that these are but a few of the factors which must be taken into consideration in the establishing of a fair rate structure.

We therefore earnestly request that this Commission consider the possibility of taking action along the lines we suggest. By prescribing a time limit, we believe that this would prevent this proposed committee from being used as a means of obtaining a further reprieve from facing squarely the issues.

In closing, I would like to make a few observations which I believe come under the heading of fair comment. The adoption of the proposed Rule will pretty effectively eliminate the regional firms from the securities business. There are many who will benefit from our demise -- the large national securities firms, the banks, the insurance companies, the New York Stock Exchange and perhaps the mutual fund holders. My uncertainty as to benefits to mutual fund holders could be well founded. Cost is one of the factors in determining whether securities should be traded. If the commission structure were to be changed to such an extent that the cost of executing transactions by mutual funds would be reduced by 60% to 70%, as a result of the proposed Rule, this could very well encourage more trading by the funds. If more trading were to result, the aggregate amounts paid in commissions with the proposed Rule in effect would not be much different than the amounts presently paid. If this were to happen, the overall savings to the mutual fund holders could therefore be minimal.

Who of these who would benefit from our demise would man the 405 branch offices in cities of populations of 75,000 or less to which I have heretofore referred? Who of these would handle the 68 equity issues of approximately $1,000,000 which were brought to market in the year 1966? Who of these would be prepared to execute trades of 6, 10 or 20 shares of stock at a loss for the residents of small communities? Who of these would furnish the non-remunerative auxiliary services that are presently being furnished by the regional brokerage firms for citizens of small regional communities which we presently service and, more importantly, who would bring the little sewer, water, school and parking deals to market? I think these are very pertinent questions and deserve answering in any evaluation of the effect of the proposed Rule.

I would like to acknowledge the courtesy that the Commission has shown me in permitting me to appear here today and I trust that I may have contributed something to the subject of your Release.

(Statement to be made by Karl Meyers)

I am Karl Meyers, a partner of Babbitt, Meyers & Waddell, a stock brokerage firm which is a member of the Pittsburgh Stock Exchange and associate members of the Philadelphia-Baltimore-Washington and Boston Stock Exchanges. I am speaking here today on behalf of the local stock exchange firms doing a general brokerage business. We are a small firm as are the members for whom I speak. We have six offices -- one located in DuBois, Pennsylvania, another in Beaver, Pennsylvania and another in Uniontown, Pennsylvania, The population of these communities are, respectively, 10,300, 5,900 and 17,200.

We have carefully reviewed our operations in light of the impact that Rule 10b-10 would have upon said operations if it were in effect during the year 1967. We would have lost our reciprocal business and bank-directed business and the impact would have been such that our profits would nearly have been cut in half. In addition, we would have lost business directed to us from firms to which we give our New York Stock Exchange business, which would have resulted in an additional loss of 42% of our profit. In other words, the full impact of said Rule upon our 1967 operations would have been to eliminate nearly 90% of our profits. A policy of this Commission which would produce results of this nature in respect of a firm such as ours which has been engaged in a legitimate business operating within rules and observing standards sanctioned by this Commission has to be, by the very nature of things, wrong in its concept.

Our operations are not immoral nor are we engaged in some type of business that should be ruled out of existence.

We make a real contribution to the communities in which we operate. We provide services for the citizens of Pittsburgh and those of DuBois, Beaver and Uniontown as well. We have a pride in our business. By virtue of hard work, sound planning and willingness to take risks which are necessarily inherent in the ownership of a small enterprise, we have built a solid little firm. It seems to me that this Commission should be concerned with our continued existence. If proposed Rule 10b-10 is enacted, it would seriously impair the ability of small firms, such as ours, to remain in business. I therefore sincerely request this Commission to seek alternatives. I think the rate structure of the securities business should be reviewed from its economic aspects and a structure

developed which will permit sufficient profitability in our operations to stay in business.

(Statement to be made by K. B. Cunningham)

I am Kirkwood B. Cunningham, President of Cunningham, Schmertz & Co., Inc., which has one office, located in Pittsburgh, Pennsylvania. We employ 25 people. Although 60% to 70% of our business is in tax-exempt municipal bonds, approximately 20% is in stock exchange business. I am also President of the Pittsburgh Stock Exchange. The activity of the Pittsburgh Stock Exchange has risen substantially in recent years because of its association with the Philadelphia-Baltimore-Washington Stock Exchange. Although there were just a little over a million shares traded on the Pittsburgh Stock Exchange in 1967, the shares traded on the Philadelphia-Baltimore-Washington Stock Exchange by members of the Pittsburgh Stock Exchange have increased from about 1,000,000 in 1960 to 3.5 million in 1967. Incidentally, the million shares traded on the Pittsburgh Stock Exchange has been fairly constant for the last five or six years.

In my comments in referring to reciprocal business I am speaking not only of business generated by mutual funds but the same type of business we get from banks and other institutions for services performed for them.

In 1967 the reciprocal business of Cunningham, Schmertz amounted to 9.5% of our gross income or about 60% of our profits before taxes. If this profit had been eliminated, our profits after taxes would have been reduced by 65%. In 1966 we sustained a loss for the year and it is fair to say said loss would have been tripled had the proposed Rule been in effect. In 1965 the modest profit that we had would have been turned into a deficit and in 1964 we would have just about broken even.

These are not educated guesses. These statements are based upon actual figures, and since we are a corporation, I'm talking about figures arrived at by accounting procedures which have been consistent for the periods in question. There are no exorbitant salaries involved and salaries of executive personnel have remained reasonably constant in these periods.

Perhaps, in view of the comments and figures above, you may well ask the question -- "Well what difference will it make in the financial scheme of things if a small firm like Cunningham, Schmertz & Co., Inc. was forced out of business or a regional exchange like The Pittsburgh Stock Exchange was forced out of

business?" In 1967, we acted as brokers for 1650 individual accounts and 1000 institutional accounts. Almost all of these accounts are small individuals who rely on us not only for execution of orders, but really to hold their hands on all kinds of financial matters. Unless you have been in a small regional firm you have no idea of the dependence these people have upon us and the faith that they place in us and the amount of help, advice and work that we have to do for them in addition to just executing an order. These people are dealing with us because the investment business is done on a highly personal basis and because they trust us with the knowledge and intricate details of their financial situations. In addition to the above, there are three small local companies in Pittsburgh who have approximately a total of 3,000 local stockholders, who would have no market for their securities because we are the only firm maintaining a market in their securities. Also, there are literally hundreds of small communities in Western Pennsylvania whose bonds would never have been financed without the existence of a small firm such as ours who was willing to purchase their bonds and re-sell them to the public. This would mean a lot of communities without schools, sewers, water, and other essential community facilities. There would be numerous small communities that would have no one to turn to for financial advice and counsel were we not in business. I have a constant stream of small businessmen coming into my office asking the question, -- "To whom can I look for advice and will you help m. I have been to the large New York Stock Exchange firms and they do not have time to talk with anyone as small as I am." Therefore, I maintain that there is an economic justification for our existence and for the existence of a Pittsburgh Stock Exchange through which we can operate and make money.

In 1968 the Commission will be collecting for the first time from many firms all over the country income and expense data, which data should provide a lot better basis for determining the financial impact of the proposed Rule on the investment community. It seems to me that it would be advisable to analyze this data before making any drastic changes in the rate structure. Incidentally, the cost of collecting and furnishing this data will increase substantially our back office costs.