

The First Boston Corporation  
New York, NY

February 29, 1968

Securities and Exchange Commission  
Washington, D.C.

Attention: Mr. Orval L. DuBois, Secretary

Gentlemen:

In the Securities and Exchange Commission Release #8239 dated January 29, 1968, it was suggested that interested persons comment on the New York Stock Exchange proposal for certain revisions of its commission rate structure and/or the proposed Rule 10b-10 of the SEC. The First Boston Corporation would like to submit the following comments in view of the importance of these subjects in its affairs.

The NYSE proposal for volume discounts and the question of give-ups as reciprocal business are closely related. As a dealer-broker member of the financial community, we have not taken a stand either for or against give-ups, but have argued consistently that the same rights or restrictions should apply in the over-the-counter market as in stock exchange transactions throughout the country. We have already submitted to the Commission a proposal whereby this can be accomplished if give-ups are to continue to be permitted.

From the Release and other publications, the Commission appears to lean toward eliminating or curtailing the practice at least in mutual fund transactions. We suggest that if it is considered morally wrong for an investment trust to direct give-ups either for additional sales compensation, investment advisory work, friendship, or any other reason, that similar problems may exist in other areas of institutional investing. For example, should a commercial bank, executing an order for its trust department, be allowed to direct the commissions to brokers and dealers as reciprocal compensation for loan business or deposits or both? Reciprocal business has been a fact of life for many years, not only in the securities industry, but in many other industries. There are those who will argue in favor of reciprocal business; others who will point out the abuses; but few will defend it for trustees.

It is our opinion that many of the practices that have developed in the area of give-ups are the result of the high-minimum rate of commissions applicable to all exchange transactions and that give-up problems would tend to disappear if the

exchanges approved a meaningful discount on block transactions. To achieve this, block commissions should be set at a level which profitably compensate the registered representative and his firm for executing a block transaction. Compensation beyond this point opens the way for the problems involved in the present give-up system.

Perhaps an indication of the proper percentage discount for volume transactions could be developed through a survey of current practices of the NYSE and regional stock exchange firms on give-up business. Some firms execute volume transactions for 25% of the commission, giving up the balance to other firms, others insist on receiving 30% or 40% or more of the commission involved. By surveying the current practices of member firms of the NYSE and other regional exchanges, the SEC could get an appraisal from the industry itself as to what the proper block discount should be if give-ups were not a factor.

When considering the proper discount for block transactions, the practices of the third market also should be considered. This market is not governed by fixed commissions but rather by the forces of supply and demand and competition. For block transactions in the over-the-counter market the going commission rate is often 1/4 point.

To sum up, we believe that if give-ups are undesirable for investment companies, they are equally undesirable for other fiduciary institutions. We further believe that if a meaningful block commission discount is established by the various exchanges, the principal problems of the give-up system will disappear.

Among the NYSE proposals was the suggestion that the Exchange might allow a discount in the minimum commission schedule for non-member brokers, both domestic and foreign, with qualifications to be specifically defined at a later time. We have made known to the SEC the position of The First Boston Corporation in regard to discriminatory policies of the NYSE concerning membership requirements. As explained in a recent letter to the Commission, we are convinced that changes on this score should be a matter of fundamental concern in the future of the New York Stock Exchange and the interests of the investing public. We do not regard some commission allowance to non-members or other compromise as a suitable substitute for the real solution which is permission for membership of qualified publicly held securities firms.

If you would care to have us amplify any of the comments or suggestions made in this letter, we would be very happy to meet with you at your convenience.

Very truly yours,

Emil J. Pattberg, Jr.

Chairman of the Board