NASD
SPECIAL REPORT
TO NASD MEMBERS
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 888 17th ST. N.W., WASHINGTON, D. C.

SR1, March, 1968

To Members and Branch Offices

On January 26, 1968, the Securities and Exchange Commission requested all interested persons to comment as to proposed SEC Rule 10b-10, which would eliminate customer directed give-ups, and also certain proposals of the New York Stock Exchange having to do with the commission rate structure and give-ups, as well as on any alternative suggestions that could be offered in response to these problems.

The New York Stock Exchange had submitted to the SEC in early January broad proposals for certain revisions of its commission rate structure. These proposals include provisions for----

(1) a volume discount in the minimum commission schedule

(2) support continuation of the practice of customer directed give-ups on their own transactions with a limitation on the percentage amount which may be given up

(3) take steps to prohibit reciprocal practices which result in de facto rebates on NYSE commissions even where those arrangements involve other markets than the NYSE floor, provided that the SEC will aid in prohibiting such practices in other markets

(4) allow a discount in the minimum commission schedule for non-NYSE member brokers, both domestic and foreign

(5) adopt rules limiting membership and broker/dealer allowances to bona fide broker/dealers

Subsequent to these NYSE proposals, the Commission released its proposed 10b-10 rule representing a more drastic course in dealing with what they consider "the give-up problem". The SEC rules would include the following language:

"(1) It shall be unlawful for any registered investment company or affiliated person of such registered investment company to directly or indirectly order or request any broker or dealer:

(a) to pay or arrange for the payment, directly or indirectly, of all or any portion of a commission on any securities transactions to any broker, dealer or any other person *unless* pursuant to a written contract the full amount of such remittance is required to be paid over to such registered investment company, or fees owed by or charged to such registered investment company are required to be reduced in an amount equal to the remittance;

(b) to designate or employ any broker or dealer on any transaction to transmit, execute or clear a transaction or to perform any other function for which compensation is required or made *unless* pursuant to a written contract the full amount of such compensation is required to be paid over to such registered investment company or fees owed by or charged to such registered investment company are required to be reduced in an amount equal to such compensation."

The NASD intends to indicate to the SEC that these proposals will have serious effects on a substantial number of Association members. As a result of requests from other industry organizations, an extension of time has been granted until April 1, 1968, in order to comment on both the SEC and the NYSE proposals.

The Association's comment on the above proposals will be based on the many serious long range implications of proposed SEC Rule 10b-10 that would restrict the use of give-ups as known today causing serious adverse economic consequences to our members. Our comments on 10b-10 will also include economic data developed in the Booz Allen Mutual Fund Study which showed the serious harm any elimination of give-ups would have on a majority of the NASD membership.

Sincerely,

Richard B. Walbert

Richard B. Walbert
President

March 13, 1968