Schwabacher & Co.
San Francisco, California

March 29, 1968

Orval L. DuBois, Secretary
Securities and Exchange Commission
500 North Capitol Street N.W.
Washington, D.C. 20549

Dear Mr. DuBois:

This letter is in response to your invitation to reply to S.E.C. Release No. 8239 on the Proposed Rule 10b-10.

As a regional firm headquartered in San Francisco since its inception in 1919, and involved in a general securities business, Schwabacher & Co. has contributed to the economic growth of the communities which it serves and to the growth of the capital markets nationally. We feel strongly that our firm's contribution to the general well-being of our clients gives us the right to strongly object to the proposed changes of SEC Rule 10b-10.

To suggest that directed give-ups to other members or non-member firms could constitute a fraudulent act is shocking to us and is not consistent with normal business practices. The sale of mutual fund shares to our clients by our retail sales force is of real value not only to the clients but also to all shareholders of the mutual funds.

Schwabacher & Co. performs valuable research services on western companies for mutual fund management companies and is compensated for its efforts through reciprocity. Without this compensation, Schwabacher & Co. cannot afford to provide the services. Without this service research people from all over the country would be required to spend time and money to travel to the West Coast at further expense to the funds' shareholders.

We as a member firm employ over 225 account executives, who require intensive as well as expensive training and supervision. Our training program is formalized and extremely selective, assuring us of the best available men and women to represent Schwabacher & Co. and the securities industry. Our training cost per representative is approximately $14,000.00.

In 1967, mutual fund gross commissions accounted for 5% of our total products mix, and reciprocal income added a net of another 1.98%. <u>BUT IN TERMS OF</u>

<u>NET PROFIT TO OUR FIRM, THE COMBINATION OF COMMISSIONS AND RECIPROCAL INCOME ACCOUNTED FOR ONE-THIRD OF OUR NET PROFIT.</u>

The elimination of give-ups as proposed in Rule 10b-10 would force us, as well as other regional firms, to retrench. It would cause us to release a considerable number of men and women from our work force, perhaps up to 1/3 of our total personnel. A merger or sell-out of Schwabacher & Co. might be forced upon us.

The demise of the regional firm would have an economic effect nationally since it serves its communities through:

1. Financial support of small companies,

2. underwriting of local issues too small for consideration by major underwriters,

3. the maintenance of markets in local securities,

4. the generation of capital for both local and national companies, and

5. investment service to communities which are too small for consideration by the national firms.

Certainly it is not our national policy to destroy small business.

In 1967, Schwabacher & Co., for example, participated in 350 underwritings with a dollar volume of $115,687,000, the major part of which was distributed to investors on the West Coast. In 1967 the regional West Coast dealers originated 26 underwritings of local companies with a dollar volume of $258,000,000 -- obviously an important contribution to the economy of the West.

We are also concerned about the effect of the proposed rule change on our auction markets. The rule would require that transactions be executed where the maximum rebate is available, even though the overall terms of such execution would be less favorable.

The proposed rule would destroy the minimum commission structure of the industry and leave small firms in a position where they could not compete with the large national brokerage houses. <u>Over 45% of all orders we execute are unprofitabl</u>e, but we continue to provide this service in the public interest.

Elimination of the minimum commission rule and proposed block discount to large accounts will force us to abandon this service. Certainly the very institutions whom you seek to aid would be penalized if the orderly auction process were disrupted.

The severe competition for the public's investment funds by all forms of financial services is obvious. We are not only competing with firms in our own industry, but with commercial and savings banks, savings and loan institutions, insurance companies, and real estate brokers.

In Summary: The elimination of give-ups, the elimination of the minimum commission rule, with the resultant destructive price competition, will undoubtedly result in severe income losses to us and other regional firms and may well mean the demise of the regional firm.

Sincerely,

A. E. Schwabacher, Jr.