

Association of Stock Exchange Firms  
New York, NY

August 23, 1968

Honorable Manuel F. Cohen  
Chairman  
Securities and Exchange Commission  
500 North Capitol Street, N. W.  
Washington, D. C. 20549

Dear Chairman Cohen:

In response to your letter of August 9, 1968, the Association of Stock Exchange Firms is pleased to present its views concerning the commission rate proposal recently submitted to the Securities and Exchange Commission by the New York Stock Exchange.

The Association supports overall the interim changes recommended by the Exchange and will urge its members to accept the Exchange proposal if and when it is presented to them for vote. We believe that the proposal realistically recognizes the need for a volume discount. At the same time, it reaffirms the fundamental importance of a minimum commission structure, without which a viable public securities market would no longer exist.

We must stress, however, our strong conviction that the changes should be considered interim in nature. As the Commission recognizes, the pricing of securities services is an extremely complex matter. It is impossible for anyone to know in advance the full impact of the recommended changes upon the investing public and securities firms. For example, introduction of a non-member discount and shifting of customer trading patterns -- particularly the bunching of orders by bank trust departments -- could produce undesirable market effects, resulting in poor executions as well as a substantial reduction in commission revenue beyond those presently estimated by the Exchange.

In addition, the effects of the Exchange proposal will vary considerably among securities firms, making early review necessary to ensure that changes which do occur in the industry are understood and intended rather than inadvertent. In this connection, some members of our policy board are convinced that the revisions will put a number of firms out of business. Considerable concern has been expressed regarding the potential impact of the changes on the services of institutionally-oriented firms and on firms doing a correspondent business.

The importance of considering the changes as interim ones is further heightened by sharp increases in fixed costs and break-even points which have occurred in the securities industry over the past few years. Historically, trading volume has been cyclical, and commission rates which might prove adequate under high volume conditions could be entirely inadequate in a period of lesser activity.

The Association also wishes to express concern over the complexity and awkwardness of the proposed schedule. In our view, an interim proposal should be simple and uniform, easy for both customers and employees to understand and administer, and capable of ready adjustment. In concept, we would prefer a schedule which allows a volume discount via a single percentage rate. Subsequent adjustment of such a rate could be effected readily. Operationally, it is highly desirable that the rates be identical for all exchanges as well as for over-the-counter transactions where a broker acts as agent. The present proposal, by concentrating the discount on equities in the under \$50 range, raises serious problems for the American Stock Exchange and over-the-counter stocks.

Finally, we find within our membership strong convictions on portions of the Exchange's proposals regarding the specialized division of labor in the handling of orders. Where no element of give-up to non-participating members for other services is involved, a customer should be able to have his order handled through the channels he deems most efficient, e. g. , using the specialized services of a particular executing broker or, where a bona fide correspondent relationship exists, by placing the order with the New York agent of a member organization. Admittedly, such procedures will require the self-regulatory agencies to develop new surveillance checks to protect their give-up rules. These costs, however, would be a reasonable price to pay for the efficient handling of customers' orders.

Given these reservations, the Association reiterates its support for the proposal advanced by the New York Stock Exchange. Our industry is anxious to be responsive to constructive changes which will foster the health of securities markets and benefit the investing public. Changes which are made must reinforce rather than impair the confidence vitally necessary to ensure future availability of capital and talent in a volatile industry. We urge, again, therefore, that the revised rates and procedures be subject to early, continuous review. In order to provide the data for this review, we believe that the New York Stock Exchange and the Securities and Exchange Commission should conduct systematic fact-finding on the results of the new commission rule. The agencies will then be in a position to identify and resolve promptly actual problems before they develop to serious proportions.

Sincerely,

James W. Davant  
Chairman