May 2, 1966

<u>M E M O R A N D U M</u>

To: Commissioner Budge

From: Jim Buck

Re: Commission's position on "give-ups" and volume discount
of brokerage commissions.

Very recently the Commission tentatively decided to
advocate that Exchanges do away with the "give-up" where no
function related to the purchase or sale of securities has been
performed. At the time a staff member argued that if give-ups
were abolished, pressure within the industry would force the
adoption of a volume discount.

The staff is presently preparing a report on mutual funds
to be submitted to Congress. The staff involved with this
report does not agree with those persons who advocated abolishing
the give-up as described above. These staff members feel that
the report now being prepared in its analysis, will lead unescap-
ably to the conclusion that a volume discount must precede the
abolition of give-ups. Possibly these staff members should be
heard before the Commission goes very far in implementing its
recent decision.

The staff preparing the Mutual Fund Report also argues
that, assuming the Commission insists on abolishing the give-up
prior to adopting a volume discount, the give-up rule must be
coupled with a segregation rule in order for it to succeed.
Segregation is defined to be the separation of the function
of selling mutual fund shares and the handling of fund portfolio

transactions. The staff says that by the separation of the two functions, give-ups really become impossible.

Inherent in our present posture is the possibility for conflicting statements from the Commission. If we advocate doing away with the give-up at one moment and a few months later submit a statement to Congress which takes another position, we may look very silly. Since the Commission will have an opportunity to rewrite the Mutual Fund Report before it goes to Congress, it can prevent this inconsistency. However, it cannot change the analysis which lead to the decision of the staff preparing the Mutual Fund Report. We may end up with a mess.