George D. B. Bonbright & Co.
Rochester, NY

February 29, 1968

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

Dear Mr. DuBois:

This letter is in response to your request for comments on the proposed Rule 10b-10 under the Securities Exchange Act of 1934.

The partners of George D. B. Bonbright & Co. would like to go on record as in opposition to the adoption of Rule 10b-10 and give strong support of the New York Stock Exchange proposals as a package.

We oppose Rule 10b-10 for the following reasons:

1. As long as the commission cost is the same to all individual customers, including investment companies, and we agree it must be, we see no reason why such investment companies cannot direct commissions charged them upon execution of transactions to whom or through whom they please.

2. Under this proposed rule, the "lead broker" concept, which is very efficient, would probably be defeated. The investment companies, under this rule, would tend to spread their total order to many, many brokers and this would reduce the efficiencies of their funds to the detriment of their shareholders.

3. We believe that the basic reasoning for Rule 10b-10 is two-fold; (a) that the investment company could retain more money for the benefit of their shareholders and (b) why pay a broker commission, via "give-up", if he has done nothing to "earn" this commission. In regard to (a), the NYSE has suggested a volume discount and therefore the fund will retain more for its shareholders. As to (b) may we point out to you the following:

1. It is firms such as ours who sell the investment company shares. We, in effect, create the business at the outset.

2. In addition to the commission we receive for this, which we split with the registered representative, we spend a great deal of time training our men in the knowledge of knowing and handling investment funds. We provide a service

department to handle and up-date all our clients systematic plans, and to answer basic questions of our clients who invested in funds. Our costs in reaching the people throughout New York State are high. We are a regional firm serving upstate New York and our sales come, not from big investors, but from thousands of people in the small towns and byways. The large national firms do not cover these areas and if it were not for firms such as ours, these people would not even have a chance to "Own a share of American Industry." We can, without reservation, assure you that these people we reach outside of the big cities are the backbone of the investment fund industry. They are investors who not only hold their investments but continually build with them for education and retirement.

3. If Rule 10b-10 were passed, we as a regional firm would have to re-evaluate our plans for increased service, additional branches, greater research, and diversification into other areas such as establishing a bond department, a special department for Keogh and profit-sharing plans, larger underwriting participation, and faster service through improvement in our present IBM 360 system.

To give you an idea why we would have to re-evaluate our plans, we now present the importance of "give-ups" and our mutual fund sales to our firm's overall profit picture.

Our total dollar volume of investment fund sales in 1967 was $8.4 million. Gross commission on this business was $466,256 or 18% of the total gross commissions of the firm. The "give-up" business we received amounted to approximately $189,468 or 7% of our total gross commissions. From these figures you can see our gross commissions generated by investment company sales amounted to 25% of our total gross commission. Of this $655,724, the registered representative received approximately $233,580, leaving the firm $422,544 to cover expenses and make a profit. Our total 1967 income from all sources approximated $3.34 million which resulted in a net profit before taxes of $502,843. When we relate the $189,468 received from "give-ups" to our net profit of $502,843, we are speaking of 37% of our net income. Any factor which has the power to influence 37% of our net income will, if removed, have dramatic cut-backs in all services provided for the rural investor.

Considering these statistics, what happens to a regional firm such as ours if Rule 10b-10 is adopted? (1) We immediately lose $189,458 in "give-ups." (2) Our investment fund business would be affected in that this reciprocal business helps us defray the cost of maintaining branches in small communities such as Olean and Batavia. With the loss of the "give-up" business, it is questionable if we could afford to reach the people in these small towns and rural districts who, without us, would not have access to the market place. As stated earlier, the major firms do not cover these areas. Our long range plans include more small branches.

These plans would have to be cancelled as would plans for expansion of our existing services in those areas. (3) According to a New York Stock Exchange survey, it was found that some 25% of member firms lose money on listed business. With this fact in mind, and the loss of "give-ups" plus some investment trust sales, we would have to reconsider our expansion in areas mentioned before such as Research, data processing, training, and new departments. (4) If our profitability were affected to the degree we feel it would with the passage of 10b-10, the possibility of attracting capital into our business is reduced to a great extent. This, in turn, reduces our effectiveness in maintaining trading markets in local securities and makes it very difficult, if not impossible, to underwrite new companies who contribute to the backbone of our free enterprise system.

In summarization, "give-ups" are not paid to us just because we sell the funds. These "give-ups" defray the costs of reaching the people in the small towns and rural districts of-New York State. We agree that a volume discount is desirable. If Rule 10b-10 is adopted, we feel the efficiency and importance of a very integral segment of our industry, namely, the Regional Firm, would be seriously jeopardized. In turn, such action would be to the detriment of the public whom it is your business to protect.

In conclusion, we believe the New York Stock Exchange proposals will clear any abuses in our industry and keep all well-conceived and managed firms serving the public to the best of their ability.

Very truly yours,

GEORGE D. B. BONBRIGHT & CO.

By: John H. Kitchen, Jr.
Partner