Simpson, Emery & Company
Pittsburgh, Pennsylvania

March 12, 1968

Hon. Manuel F. Cohen
Securities and Exchange Commission
Washington, D.C. 20549

Dear Commissioner Cohen:

I am availing myself of your request contained in Release 34-8239 of January 26, 1968 to comment on the Commission's proposed Rule 10-B-10. I believe this is the first time I have formally commented on any proposed rule changes.

To briefly summarize my experience, I have spent my entire lifetime in the investment banking industry. I was first connected with a national investment banking firm from 1927 through 1953, in various managerial and sales capacities in several parts of our country.

I formed Simpson, Emery & Company, Inc. a small regional firm serving Pittsburgh and the Western Pennsylvania area in 1954. We have fifteen active employees and no branch offices. Capital employed in the business as of 12-31-67 amounted to $456,000. Commission and salaries paid last year were $125,391. Our product mix in terms of percentage of gross commissions earned, which have averaged in recent years approximately $200,000 annually is as follows:

1. Listed Gross Commissions: 43%

2. Over the Counter Commissions: 15%

3. Underwriting and Selling group profits (including municipals): 22%

4. Mutual Fund Gross Profit: 12%

5. Dividend Interest and other income: 8%

I might add that we have shown a small profit after taxes in each and every year of cur existence, which has been carried to surplus. No dividends have been paid on the outstanding common stock since incorporation. Our largest source of income percentage wise is from listed business.

As you can see from the above figures we would be vitally affected by an institutional volume discount or any consequential changes in the existing give-up system and procedures. Well over half of our listed business is institutional, so the proposed volume discount would affect our profitability in this area to a very considerable degree, without some compensating offset.

We have been members of the Pittsburgh Stock Exchange since 1954, and are associate members of the Philadelphia, Baltimore, Washington Stock Exchange. We have as our floor man, a New York member, a broker's broker, through whom a large part of our New York and American Stock Exchange business is siphoned. Also a Pittsburgh connection of many years standing, with a New York Stock Exchange firm, who render us service on quotes, execution of orders, etc.

Give-up commissions to us for our New York Stock Exchange and American Stock Exchange business averages between 40% to 60% of the gross commissions we give up to the New York Stock Exchange member firms, and is an extremely important income item to our firm. In the event that this type of reciprocity on give-ups is outlawed, considering the substantial part of our gross commissions this type of revenue represents, we, as a firm, would have to do one of three things:

1. Merge with a large member firm and become a local branch.

2 . Join the New York and American Stock Exchange and try to successfully continue the business.

In the matter of mutual fund give-ups, this segment of our business is small by comparison with our other activities; it would, nevertheless, if eliminated, place an extra burden on the firm to find some other avenues of revenue to fill the gap of the lost income from this source.

It seems to me that in both the volume discount area and the give-up area, you are or will be tampering with a very delicate mechanism of the investment business which should not be finalized without a complete and comprehensive economic study of its impact on the industry as a whole.

From where I sit, the greatest consequence of the proposed changes, if instituted, would effectively put out of business many of the smaller regional firms, most of whom I still fervently believe perform a very valuable, worthwhile, and necessary service to their communities, the individuals and institutions that comprise these areas.

I am not against changes per se. In my experience I've seen the gamut ran from the laissez-faire days of the late 20s to the highly regulated business of the 60s but somehow in between have managed to survive and prosper despite these many changes, most of which I personally approve of. However, I respectfully suggest that there can be such a thing as over-regulation, particularly where it could upset the mechanism of trading in the market place, as I feel the proposed changes outlined may very well do, to say nothing of the effect on the survival probabilities of so many of the respected though small regional firms, as we presently know them.

I trust you and your associates will see fit to give full consideration to the economic aspects of your eventual decision in this matter, not only as it affects the larger firms, but on every component within the industry, irrespective of size.

Respectfully submitted,

W. G. Simpson,
President