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The Brookings Institution

Washington 6, D. C.

725 JACKSON PLACE, N. W.

June 30, 1955

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Division of Corporate Finance
Securities and Exchange Commission
Room 205, 425 Second St., N. W.
Washington 25, D. C.

Gentlemen:

Attention: Mr. Woodside and Mr. Cohen

Since conferring with you Wednesday morning, I have examined the figures for shareholdings of non-reporting companies whose stocks were traded over the counter compiled in connection with the study on share ownership published three years ago. Though these figures are now more than three years old, the changes in number of owners have probably been relatively small.

After looking at these figures, I can see no reason to change my view that 300 share owners would represent a reasonably satisfactory line of demarcation. The choice would seem to lie between this figure and 250. Final determination of the figure you may wish to support might be based on your investigation of activity in over-the-counter issues. The materials in Irwin Friend's study and discussions with him might be of considerable value in arriving at your decision. In any case, at the moment I would regard 250 shareholdings as somewhat more defensible than a figure higher than 300. The figures for the number of corporations that would be included if the line were drawn at 500 and 300 mentioned by Mr. Clifton lead me to believe that 500 would be too high.

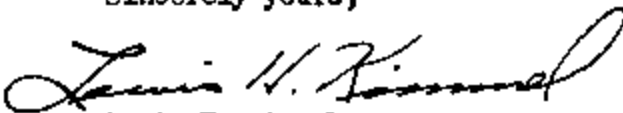
One reason why 250 shareholdings might be preferable to 300 is that a larger number of banks would be included. Examination of the list of 50 banks mentioned at page 134 of Share Ownership in the United States indicates that a substantially larger number of banks would be included if the line of demarcation were placed at 250 shareholdings rather than at 300. I find that 9 of these banks reported 500 or more share owners, 15 reported 300 or more, and 21 had 250 or more. This sample of 50 banks was regarded as representative of only 2,000 non-reporting banks, as explained on page 134 of the Share Ownership study. If you should decide to support a figure of 250 shareholdings, perhaps somewhere between 10 and 15 per cent of all commercial banks would be covered.

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Without looking into the matter, I am inclined to believe that there may be sufficient investor interest in over-the-counter issues with 250 to 300 shareholdings to justify giving the former figure serious consideration. In leaning towards the 300 figure, I am perhaps influenced by two factors. First, assuming that the proposed legislation is desirable, favorable action might be more readily obtained if no more than 2,000 companies were affected by the legislation. Second, if the figure were placed at 250 shareholdings and a larger number of corporations were affected, the administrative task would be increased proportionately. This of course is not a scientific approach. But from a practical standpoint it might be desirable to weigh these considerations against any conclusions you may reach with respect to activity in the securities of companies with shareholdings in the range of 250 to 300.

For the reasons mentioned yesterday, I am convinced that assets are an inadequate measure for the purpose of the proposed legislation. I am also fully convinced that holders of debt obligations should not be taken into account in determining the line of demarcation between covered and excluded companies. It seems regrettable that reported assets continue to be regarded as a suitable common denominator. In addition to the deficiencies mentioned yesterday, the assumption that assets of commercial banks and other financial institutions are comparable to those of manufacturing corporations and public utilities is without justification.

Sincerely yours,


Lewis H. Kimmel

*Rec. Div. of Corp Finance
7/1/55*