

April 16, 1964

Mr. Orval L. DuBois, Secretary  
Securities and Exchange Commission  
Washington, D. C. 20549

Dear Mr. DuBois:

We appreciate the opportunity to comment on the proposed revision of Rule 14a-3.

We believe the adoption of this rule at the present time and in its present form would be both untimely and ill-advised for the following reasons:

1. The need for the rule is denied for all practical purposes by the original Commission's release No. 7172. Only one case was cited which was adequately handled without the rule. And, to quote the release, "The proposed amendment is directed at the practice of these few issuers."
2. The annual report and proxy season for 1963 is practically over. Thus, the emphasis on the need for prompt adoption of this rule seems misplaced (as it will be of little significance in any event until the late Fall of the year.)
3. Although the new proposed rule is an improvement over the original draft in a number of important respects, it is still basically too vague to serve as either a guide to company compliance or as a basis of regulation by the Commission. We find a very wide variation in its interpretation among the accounting profession that will be called upon to advise its clients on compliance. There have been suggestions that the rule itself may be misleading. This would certainly be true if it would have any impact on more than the "few issuers" referred to in the previous release.
4. The inference could easily be drawn that this represents a departure from the Commission's traditional approach of cooperating with the public accounting profession in the development of appropriate reporting practices. If this be so, the experience of other state and federal agencies and the SEC's own experience in this area should be more than an adequate warning of almost inevitable failure.

We make the foregoing comment and strongly oppose the proposed rule in spite of the fact that:

1. We agree in principle with the premise that financial statements in annual reports to shareholders should be on substantially the same basis as those filed with the Commission.
2. We recognize the need for improvement of financial reporting in a number of areas.
3. The staff of the Commission under the direction of Messrs. Barr and Orbach have earned a well-deserved reputation for fair and competent administration of their responsibilities in this area.

Should the Commission be willing to stay its action on this rule, the Exchange would be willing to assemble a committee of interested parties, including representatives of the American Institute of CPA's, company financial officers, etc., to consult with the Commission staff in finding an appropriate solution to whatever problems may exist. In this connection, we feel we should point out that the Exchange requires proxy solicitation in many instances where it is not required by law or any rule of the Commission. This is one of the important factors that result in the wide applicability of the Commission's proxy rules.

Sincerely yours,

G. Keith Funston  
President

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