

MEMO ROUTING SLIP | **SECURITIES AND EXCHANGE COMMISSION**

TO: CHAUDRY <small>(Office)</small>	Room No.	Initials	Date
1. CONSIDERED <small>(Name)</small>			
2. Dyson D. Woodard			
3. Hugh F. Green			
4. Henry H. Judge			
5. Francis N. Winter			

FOR:	Approval	File	Signature	Necessary Action	Note and return	Note and pass on
Recommendation	Per conversation	See me	Call me	Your comment	Your information	Your concurrence

Prepare reply for signature of: _____ Answer or acknowledge before: _____

SUBJECT:

Remarks:

Attached is a communication received from the Pacific Coast Stock Exchange which was distributed to institutional investors on the West Coast. The way he particularly interested in the material on page 1 - "The Problem" and the suggested solution. The comments of the Pacific Coast Stock Exchange seem to re-emphasize our position that the give-ups create difficulties and unnecessary paperwork.



FROM: Irving M. Pollak **DATE:** 8/2/60

*Budge
Give-ups*

PACIFIC COAST STOCK EXCHANGE

618 So. Spring St.
LOS ANGELES 14

OFFICE OF THE PRESIDENT
San Francisco
July 26, 1966

301 PINE STREET
SAN FRANCISCO 4

RECEIVED

JUL 28 1966

SECURITIES & EXCHANGE
COMMISSION

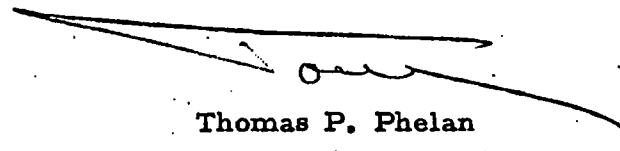
Mr. Eugene Rotberg
Assistant Director
Division of Trading and Markets
Securities and Exchange Commission
Washington, D. C. 20549

Dear Gene:

After our brief discussion yesterday on a few of the areas covered in your letter on commissions, give-ups, etc., it struck me that there was much further discussion that could be had on the area of clearing and settlement of institutional trades, whether handled by one broker or on an executing give-up basis for clearing.

Enclosed is a copy of a summary I recently prepared and issued to the banks in San Francisco and Los Angeles which may be of interest to you and will give you a little clearer picture of the problems involved.

Sincerely,



Thomas P. Phelan

encls.

PACIFIC COAST STOCK EXCHANGE

618 SO. SPRING STREET
LOS ANGELES 90014

301 PINE STREET
SAN FRANCISCO 94104

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LET'S KEEP BUSINESS IN THE WEST

SECURITIES & EXCHANGE
COMMISSION

A CHALLENGE TO

THE CALIFORNIA FINANCIAL COMMUNITY

The recent development of institutional trading on the Pacific Coast Stock Exchange calls for an efficient means for the financing and settlement of such trades in California.

I. DEVELOPMENTS IN INSTITUTIONAL TRADING

Currently one-third of the outstanding stock of all companies listed on the New York Stock Exchange are held by institutions (mutual funds, pension funds, trust accounts, etc.) From all indications this trend will continue to grow with emphasis on mutual funds as this vehicle now offers one the greatest profit sales incentives in the securities business.

California now has become the most populous state in the union. It has also become the number one state in the number of stockholders as of the latest Stockholder Census, and for a number of years has been the number one state in the purchase of mutual funds.

As a result, Pacific Coast Stock Exchange, on which is traded the majority of the nationally known stocks held by institutions as well as mutual funds, is witnessing more and more institutional trading for the following reasons:

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1. To reciprocate to California brokerage firms selling fund shares.
2. To avoid conflict with orders in other markets.
3. To avoid the New York State Transfer Tax.

II. THE PROBLEM

Historically, securities owned by institutions are held by a custodian which is usually the trust department of a bank. Normally the trust department of a bank acting in a fiduciary capacity will deliver securities when they receive payment or pay for securities when it receives the securities.

There does not appear to be an effective working arrangement between the trust departments of a bank acting as custodian and the commercial departments of banks financing brokerage operations to effect settlement of this type of transaction through normal exchange clearing channels. As a consequence, the custodian banks in the settlement of these transactions select a correspondent bank agreeable to both custodians as the settlement or clearing agent for the transaction. Custom has dictated that such correspondent bank be one in New York.

To complicate the problem, on an institutional block trade numerous brokers' names are "given up" as the clearing broker in order that they share in the commission earnings of the trade. The problem then expands into the following:

Institution "A" sells to Institution "B" 50,000 shares of stock at \$50 a share on Pacific Coast Stock Exchange -- value of transaction, \$2,500,000. Institution "A" directs their executing broker to "give up"

the names of five other brokers as selling "clearing" brokers.

Institution "B" directs their execution broker to "give up" names of five different brokers as buying "clearing" brokers.

An impasse is created because the custodian for the selling institution will not release stock to selling clearing brokers and conversely custodian "B" for buying institution will not release funds to buying clearing brokers for normal clearing operations, as in the purchase and sale for customers in the average 100 to 1,000 share transaction through the clearing facility of the Exchange. This results in special handling of the settlements of these trades, ultimately using a New York bank correspondent with the attendant extra work, plus interest charges, etc., with the Pacific Coast Stock Exchange brokers and California banks paying the New York banks for the service and often involving a controversy over the New York State Tax.

III. THE SOLUTION

With a degree of cooperation and effort on the part of the trust departments and commercial departments of our California banks, and the Clearing Corporation of the Pacific Coast Stock Exchange, a clearing facility could be created in which all parties to a block trade can be amply protected for the settlement of such trades and the securities and money could flow to, rather than away from the California financial community.

IV. HOW TO PROCEED

Create a coordinating committee made up of representatives of California banks in a position to dictate policy over their trust and commercial departments,

PACIFIC COAST STOCK EXCHANGE

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with representatives of the brokerage community and the Clearing Department of the Exchange to develop a clearing facility that could be used for the financing and settlement of such trades. This could have the effect of

1. Providing an incentive for California banks to become the custodian or co-custodian of the funds whose securities are generally sold in California.
2. Creating transfer facilities in California for the stock of companies not presently transferred outside of New York to avoid the New York State Transfer Tax.
3. Utilizing the California banks as correspondents of custodians for settlement of trades in California rather than New York.
4. Providing for a flow of money into the State of California and the utilization of California banks for transfer and settlement services of block trades.

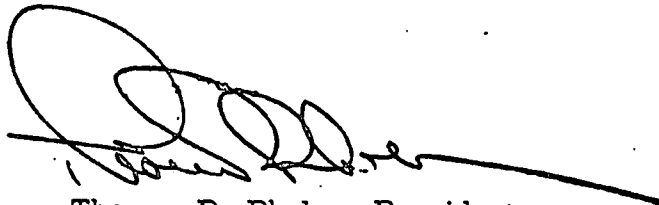
V. CONCLUSION

The Pacific Coast Stock Exchange through its Stock Clearing Corporation with attendant facilities, has established a unique settlement system reputed to be one of the most sophisticated in the country.

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It is bonded for twenty million dollars and acts as pledge holder for a number of banks lending to member firms. It might be considered as the entity in which banks might become participants to facilitate the settlement of such trades.

We should appreciate the opportunity of working with the California banks in this worthwhile endeavor in the interest of the Pacific Coast financial community.

A handwritten signature in black ink, appearing to read 'Thomas P. Phelan', with a long horizontal line extending to the right.

Thomas P. Phelan, President