

R. C. O'Donnell & Company  
Detroit, Michigan

February 20, 1968

Securities and Exchange Commission  
Washington, D.C.

Gentlemen:

We wish to refer to your Release No. 8239 of January 26, 1968.

We are a relatively small local firm established in 1934 and are members of the Detroit Stock Exchange conducting our business on a strictly cash basis. In the course of conducting this business; we have a number of objectives. One, to conduct our business in such a manner as to be above all criticism. Two, to suggest or advise our clients in such a manner as to insure them the best possible service at the best possible price. To this end, we feel we have been successful.

Some years ago, the SEC encouraged in every way it could, the regional exchanges to build and improve, and to that end, many securities listed on the New York and American Stock Exchange were admitted to unlisted trading privileges. This has been of some value to the local exchange, but it now appears the New York Stock Exchange would like to see regional exchanges put out of business. Some years ago, the local exchange granted to the members of the NASD, the privilege of obtaining a discount of 40 per cent of the commissions, and we feel this practice has been sound and of real value to NASD members.

As a member of the local exchange, we have not participated in so called "Cross Sales" by Mutual Funds and any additional compensation we have received on a give-up basis has been negligible. We have never sold a Mutual Fund on a basis of receiving additional compensation from that fund. They have been sold by us only on a basis of what we feel is best for the client and how it would suit their particular purpose. When the volume on the New York Stock Exchange was running 4 to 4.5 million shares per day, the New York Stock Exchange members in Detroit were begging to receive business from local nonmembers. New York Stock Exchange members know, dealing with a nonmember broker such as ourselves is one of the most profitable and easiest account on their books. Many items can be cleared with one check and while we have received reciprocal business for executions on the local exchange, we actually clear the items and pay the floor trader his percentage and these orders when executed are primarily odd lots.

On Page 4 of your release, you state the volume of transactions on regional exchanges in 1966 was 10.3 billion, representing 8.4 per cent of all stock exchange volume in that year. The New York Stock Exchange dollar volume declined 2.5 per cent from 82.6 per cent in 1961 to 80.1 per cent in 1966. You further state the dollar volume on the American Stock Exchange accounted for the balance. Now, inasmuch as most New York Stock Exchange mergers are likewise members of the American Stock Exchange, it would appear New York Stock Exchange members actually did 91.6 per cent of the dollar volume of all the exchanges in the country. Just how much more do they want?

In the letter to the SEC from the New York Stock Exchange, they proposed to allow a discount for nonmember brokers providing they are considered bona fide broker dealers. We have the feeling if this discount is proposed by the New York Stock Exchange, it will be so nominal in size as to discourage rather than encourage trading on the New York Exchange. Were they to recommend a split of 50 per cent to bona fide broker dealers, we are confident it would have the effect of upgrading the type of securities sold by nonmembers and therefore, have a beneficial effect on all concerned.

We do not feel it is within the province of the New York Stock Exchange to rule and regulate all other exchanges in the country, and we feel that asking the SEC to further their ends is just not realistic or sound. It is just another step in the attempt to force the small dealer to either accept their demands or perhaps be forced out of business.

We thank you for the opportunity of being able to express our opinion to your Commission

Sincerely yours,

R. C. O'Donnell & Company

By: R. C. O'Donnell

P.S. It would be interesting to know what percentage of New York Stock Exchange business is generated from nonmember firms. In January, this firm gave approximately ten thousand in commissions to a New York member.