

J. J. B. Hilliard, W. L. Lyons & Co.
Louisville, Kentucky

March 7, 1968

Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Attention: Secretary

Gentlemen:

This letter is in reply to your invitation for comments on proposed Rule 10b-10. J. J. B. Hilliard, W. L. Lyons & Co. is a typical regional firm serving the Kentucky and Southern Indiana area of our country. We are members of the New York Stock Exchange, American Stock Exchange, Midwest Stock Exchange and have three branch offices in Southern Indiana and seven in Kentucky. We are proud of our heritage in that one predecessor of the present firm began business in 1854 and another in 1872. We have continuously been in the investment business since 1854.

We have strong objections to your proposed Commission Rule 10b-10 for the three reasons that, one, it would seriously damage the profitability of regional firms such as ourselves, two, it would undermine the basic philosophy of a minimum commission rate structure, and three, it would put the New York Stock Exchange at a competitive disadvantage to other Exchanges.

This firm receives a substantial amount of "give-up" commission at the direction of various mutual funds. This give-up is in payment of various services we might perform for the mutual funds including sales of their shares. With our head office located in Louisville and doing business on the New York Stock Exchange through a New York correspondent and on the Midwest Stock Exchange through a floor broker, it would not be expected that an institutional investor would look upon us as a lead broker and therefore favor us with executions when that business might be more expeditiously handled by a broker close to the seat of the Exchange. Therefore, it seems to us that should Rule 10b-10 be enacted, we would of necessity, have to put our own members on the floor of Exchanges to which we belong. We do not believe that this is in our best interest as it would be expensive. However, it might be necessary in order to avoid the loss of compensation from various mutual funds.

The first paragraph of your statement under "Proposed Commission Rule 10b-10" on page eight of your release notwithstanding, since the Rule apparently would require a negotiation of commissions on institutional orders, we view this as a back door attack on the minimum commission rate structure philosophy. This philosophy has been an important part of all Exchange operations for many years. If the Securities and Exchange Commission thinks that it should be abandoned, the Securities and Exchange Commission owes it to the security industry to make a frontal attack rather than the devious approach suggested in Rule 10b-10.

Since Rule 10b-10 apparently requires a negotiation of commissions and a payment of any commission split to parties that are not eligible to receive such a split under current rules of the New York Stock Exchange, Rule 10b-10 would, in our view, drive business from the New York Stock Exchange to other Exchanges. The Securities and Exchange Commission should not have to be reminded of the value and benefit of the New York Stock Exchange as a central market place. Although we are members of the Midwest Stock Exchange, we have long noted that on New York Stock Exchange holidays when the Midwest is open (such as Election Day), the "market" on the Midwest Stock Exchange is practically non-existent. The New York Stock Exchange is the primary market and great damage will be done to the investing public as such if the New York Stock Exchange as a primary market is undermined and weakened. We agree wholeheartedly with the feeling expressed by the New York Stock Exchange that the Securities and Exchange Commission should be going in another route and should be attempting to eliminate as Exchanges, those parasitic organizations that have no valid function except to feed off of the primary Exchange.

We trust that the Securities and Exchange Commission in its continuing function of strengthening the securities industry both for the investor and for the securities firm, will reconsider Rule 10b-10 particularly in light of the suggestions recently made by the New York Stock Exchange, and attempt to provide rules and regulations that the securities industry can live with.

Yours sincerely,

Henning Hilliard