

Cazenove & Co.
London, England

27th March 1968

The Secretary
Securities and Exchange Commission
Washington, D.C.
USA

Dear Sir:

We have received your Release no. 8239 of 26th January 1968 by virtue of our participation in Cazenove Incorporated (your file no. 8/13650), but you do invite comments from "all interested persons. " We therefore feel it proper for Cazenove & Co., London, to submit the comments which follow:

Give-ups on large orders

The rule in London permits commission to be shared between any London members whether at the instigation of the originator or for some other reason. This sharing of commission is not permitted outside the membership of London and corresponds therefore with the rule in New York.

In the matter of requiring that the remuneration on a large order be shared between brokers, we have regarded direction by the originator of business as justifiable when he requests us to give-up on the grounds that a large order is better handled by a single broker than by a number of brokers simultaneously, or even successively. The market execution is liable to be better when the entire order is handled by a single firm.

It would of course be open to the originator of the order alternatively to spread his business between a number of brokers, but if he can achieve a spread of commission between them without having to spread the handling of the business between them, we think he is able to succeed in producing the same result in a better manner. In practice, when the originator has placed the handling of his business in a number of different hands in succession, and we have been among those who have had to handle the latter end of a large order, we have found ourselves at a disadvantage compared with those who had to handle the earlier parts of the order. We doubt if we need to amplify the obvious difficulties.

Customer-directed give-ups

You refer to give-ups as being instigated by a desire to compensate those who sell mutual fund stock. We have very little knowledge of this practice, though something of the sort occurs in our "unit trust" industry.

You refer also, but briefly, to the motive for give-ups which springs from the receipt by the originator of the business of ideas and investment research. We feel it is entirely proper that those who provide ideas and research should be brought into the execution of the business which follows.

It is our experience in London that institutional investment managers may well travel in the United States, visit firms of American brokers, and receive from them investment advice. On their return to London they may give instructions to a London firm to deal in securities and to nominate the American firm through whom an order is to be executed.

Taking this line of reasoning one stage further, suppose that a London investment manager had received helpful advice on the same security from two separate United States firms, and wished that both should share the commission on his business. We would support the view that such sharing was justified and should be permissible. The present method of a give-up by the executing broker to the other at the direction of the originating investment manager would make it possible and at the same time keep the execution of the order in a single hand.

As we have said, this practice appears justified and should be allowed to continue.

Discount to non-member brokers

The New York Stock Exchange proposal that both domestic and foreign non-member brokers should be entitled to a discount on the business which they introduce to the Exchange appeals to us. We have for many years in London given a discount, or to describe it more properly, a return of commission, to members of the Association of New York Stock Exchange member firms having representation in the United Kingdom.

It would therefore seem right to us that a corresponding arrangement by New York in favour of London brokers would be correct. It should be understood, however, that the recipient of any discount is not entitled to pass on that advantage to his customer or client.

We do not feel it proper for us to comment on those remaining matters referred to in your Release which are of domestic concern in the United States.

Yours faithfully,

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