

City Securities Corporation
Indianapolis, Indiana

March 29, 1968

Mr. Richard B. Walbert, President
National Association of Securities Dealers, Inc.
888 17th Street, N.W.
Washington, D.C. 20006

Dear Mr. Walbert:

The City Securities Corporation feels compelled to comment on SEC Release Number 8239, proposed Rule 10b-10, and certain proposals of the New York Stock Exchange.

By way of introduction, our firm has served the investing public of the State of Indiana since 1924, and our predecessor firm from 1906. We provide a complete investment banking service to our clientele, underwriting Indiana municipal bonds and local and national corporate securities, offering selected mutual fund shares, maintaining over-the-counter primary markets in many corporate issues, and by executing orders in listed securities either on the Midwest Stock Exchange (of which we are a member) or other exchanges through reciprocal arrangements. From our central location in Indianapolis, we sincerely believe we effectively service the investing public of Indiana, and that we aid the entire investment community through our underwriting and market-making activities. We must stress the importance to the public of our underwriting and OTC market activities, particularly as it relates to local and regional issues. We believe this economic function is most effectively provided by local firms such as ours, yet this function must be related to the total concept of investment banking. In this context we are alarmed at the implications inherent in the proposed Rule 10b-10 and the related NYSE proposals.

Fundamentally, we believe in the principle of reciprocity and endorse as ethically correct give-up commission directed by investment companies to broker-dealers who have sold investment company shares to their clientele. This practice serves a definite economic function in that investment companies who do not maintain a captive sales force are in a position partially to offset the selling broker-dealers' cost of maintaining a sales force. We recognize proposed Rule 10b-10 does not prevent an investment company from directing orders to various broker-dealers as a reward for sales efforts or for services rendered; however, as a practical measure, fragmentation of orders could have serious implications concerning volatility and liquidity of markets. Proposed Rule 10b-10 appears to encourage

exchange membership by investment company affiliates, a practice which may accelerate an existing trend toward an institutionalized market place and to which we are opposed.

We suggest very careful study of the NYSE proposals by members of the NASD. The commission rate structure determined by the NYSE and approved by the SEC in effect becomes the standard for the entire industry and, consequently, a volume discount will have a serious economic impact, particularly as it relates to the local or regional broker-dealer.

We support continuation of the practice of customer directed give-ups on their own transactions and have no objections to a limitation on the percentage amount which may be given up, provided the limitation established will not give one exchange an advantage over other exchanges.

Our firm is able to provide a complete investment banking service to our clientele mainly as a result of certain reciprocal arrangements with a co-member of the Midwest Stock Exchange who is also a member of the NYSE and other exchanges. By use of this arrangement, we are able to execute orders on the NYSE for our clientele at competitive commission rates, yet are able to retain approximately 50 percent of the commission charged the customer as compensation for our services. Reciprocal arrangements such as ours are quite common and when viewed in total, significantly increase the breadth and liquidity of the market. Steps to prohibit such reciprocal arrangements are not in the best interests of the industry nor would they benefit the general public.

Although we welcome the proposal to allow a discount in the minimum commission schedule for non-NYSE member brokers, both domestic and foreign, we suggest that such a discount not be allowed at the expense of weakening the other exchanges nor that it be allowed non-NYSE member brokers who fail to meet and accept the regulatory standards of the other exchanges as well as the NYSE.

We accept the proposal of the NYSE to limit exchange membership and broker-dealer allowances to bona fide broker-dealers to the extent that it prohibit membership privileges to investment company or institutional affiliates. We do suggest the NYSE revise certain membership requirements for corporate members whereby it be acceptable to have shareholders are corporate officers and directors not actively or principally engaged in the member broker-dealer's general securities business.

In conclusion, we oppose the adoption of Rule 10b-10, and acceptance of the NYSE proposals to prohibit reciprocal practices and the allowance of volume discounts. We accept with reservations the proposals to allow commission

discounts to non-NYSE member broker-dealers and limitation of NYSE membership. We support continuation of customer directed give-ups.

Adoption of Rule 10b-10 and the NYSE proposals would have serious and far-reaching effects on our industry. We suggest suspension of further discussion of Rule 10b-10 and the NYSE proposals until such time as representatives of the entire industry, the several exchanges, the SEC and the NASD meet together as a group under the aegis of the SEC. We must again stress the importance of the local or regional broker-dealer to the investment community and to the general public. If Rule 10b-10 and the NYSE proposals are adopted, it is the local or regional dealer who will suffer most, who will be driven to merger with larger national firms or denying merger will be unable to afford his clientele a complete service on a competitive basis.

Yours very truly,

City Securities Corporation

By: Don W. Goelzer
Vice President

CC: Mr. Orval L. DuBois, Secretary
Securities and Exchange Commission

Mr. Herbert S. Sheidy, Secretary, District 8
National Association of Securities Dealers, Inc.