

Clark, Dodge & Co.  
New York, NY

March 29, 1968

Mr. Orval L. DuBois, Secretary  
Securities and Exchange Commission  
500 North Capitol Street  
Washington, D.C. 20549

Dear Mr. DuBois:

This in reply to the S.E.C. Release No. 8239 inviting comment on the proposed Rule 10b-10 and the New York Stock Exchange proposals regarding the commission structure.

10b-10 would favor mutual funds above other customers and on that basis, if no other, it is unreasonable. An extension to other managers of pooled funds would not alter this situation.

Rather than adding a lengthy document to the pile the S.E.C. probably has received already, we would like to restrict our remarks to areas that we feel particularly well informed on because of the relatively unique position our firm occupies in the securities business.

This unique position, equaled by very few other member firms, is based on the combination of the following:

- 1) High dependence on commission income, regularly over 75% of gross;
- 2) Large institutional business, based on research and not fund sales or private placements;
- 3) Distributor of give up checks as prime broker and recipient of give up checks for research;
- 4) Clearing agent for fifteen regional firms, many of which have substantial fund sales and which receive income from funds as direct commission business, indirect commission business (orders given to our firm for their account) and as give up checks.

If our firm were to pay out give up checks on a substantial amount of our institutional business, and not receive any give up checks back in, it probably

would be unable to maintain the heavy expenditures necessary to provide these many managers with the quality research that they need.

The intricacies of clearing arrangements between a New York clearing firm and non-clearing member firms have been developed over many years. The emphasis has been on simplicity and economy. Duplication of effort is not compatible with satisfactory operations. Paragraph (1) (6) of the proposed rule could have disastrous effect on these delicate business relationships that have proven very efficient. We hesitate to believe the Commission has any reason or desire to disturb this area. Chaos would result, with the industry being faced to make such radical adjustments that the individual owner of securities, as well as the managers of pooled money and the non-clearing firms, would suffer from a most substantial breakdown of service.

Rule 10b-10 would mitigate heavily against regional non-clearing firms. As a clearing broker, we are most impressed by the quality of persons connected with many regional firms. Generally speaking, the managements of most regional firms attract a very high quality citizen, because of the ownership aspect. This means better community responsibility by the industry and better service for the investing public. Surely the Commission would not want to downgrade the services offered to the investing public.

Our firm endorses the suggestions of the New York Stock Exchange. We believe the entire commission structure should be re-examined in the light of changing conditions.

The investing public can be served well only by highly qualified securities people. The industry must be profitable to attract the quality of personnel necessary to serve the public well. The Commission should not judge profitability by 1967, the most profitable year ever. Just two months after the industry was unfortunately forced to reduce its service to the public by shortening trading hours, volume declined close to 50% overall. The Commission would be well advised to investigate the level of profit of the industry in February and March of 1968 when attempting to gauge the effects that altering the commission structure would have on the maintenance of a healthy securities industry to serve the investing public.

Sincerely,

Andrew F. Peck  
Executive Vice President