

For Release Tuesday, May 28, 1968

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Securities Exchange Act of 1934
Release No. 8324

The Securities and Exchange Commission announced that it has issued an order for the institution of an investigation and a public investigatory hearing, pursuant to Section 21(a) of the Securities Exchange Act of 1934 to consider whether any changes should be made in the rules, policies, practices and procedures of registered national securities exchanges respecting commission rate structure.

Information developed by the Commission has led it to conclude that present commission rate structure rules, practices and policies do not, in fact, provide for fixed minimum commission charges on many exchange transactions. As an interim measure the Commission has written a letter to the New York Stock Exchange, pursuant to the provisions of Section 19(b) of the Securities Exchange Act of 1934, specifically requesting it to adopt a revised commission rate schedule which would, among other things, provide for reduced rates for that portion of an order involving round lots in excess of 400 shares or, alternatively, to eliminate requirements for minimum rates of commission for all orders in excess of \$50,000. That letter also requests the New York Stock Exchange to implement appropriate reductions in the current intra-member rate for non-executing firms or to eliminate requirements for minimum intra-member charges to such non-executing firms. Letters also have been written to the other registered national securities exchanges suggesting that they consider adopting appropriate interim changes in their rules, practices and policies relating to commission rate structure. These proposed interim changes also will provide a focus for the evidence to be introduced in the public hearing to be held pursuant to Section 21(a).

The Order, a copy of which is attached to this Release, directs that public hearings will be held in Washington, D.C., commencing on July 1, 1968. It describes in general the matters which will be the subject of the investigation and public hearing. The Commission, in a subsequent release, will describe the procedures to be followed with respect to the hearings.

The investigatory hearing is intended to assist the Commission in the discharge of its responsibility under Section 19(b) of the Exchange Act and other provisions of the securities laws. It is not a substitute for, and its pendency will not preclude, more specific procedures to consider or require specific changes in exchange

rules and practices either at the instance of the Commission or at the instance of the exchanges on matters set forth in the attached Order.

OFFICE OF THE CHAIRMAN

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

May 28, 1968

Mr. Robert W. Haack
President
New York Stock Exchange
Eleven Wall Street
New York, New York 10005

Dear Mr. Haack:

As you are aware, the commission rate structure of national securities exchanges has been the subject of extensive and continuing study by the Commission. It has become apparent in the course of that study that the present minimum rate structure has led to the development of practices designed to avoid the purported restrictions against the negotiation and the reduction of commission rates. We believe it is now generally recognized that changes in the present commission rate structure are required to benefit the investing public.

The Commission will hold public hearings under Section 21 (a) of the Securities Exchange Act of 1934 commencing July 1, 1968, on the question of the commission rate structure of national securities exchanges. A copy of the order for public hearings is enclosed. One subject of those hearings will be whether, in view of present practices, a minimum exchange commission rate structure is necessary, and if so to what extent, in order to achieve the objectives of the Securities Exchange Act of 1934.

The Commission hereby makes written request pursuant to Section 19(b) of the Securities Exchange Act that your Exchange effect on its own behalf changes, to become effective on or before September 15, 1968, in its rules, policies and practices in respect of its commission rate by modifying Article XV, Section 2(a)(1) and appropriate other sections of the exchange constitution and rules either (a) in accordance with the revised minimum commission rates as set forth in Attachment A, or alternatively, (b) by eliminating, with respect to orders in excess of \$50,000, requirements for minimum rates of commission. You should

also implement appropriate reductions in the current intra-member rate for non-executing firms or eliminate requirements for minimum intra-member charges to such non-executing firms.

We wish to emphasize that this request is intended as an interim step and that the Commission has reached no definitive conclusion on whether the particular rates described in Exhibit A would reflect the optimum form of rate structure for your exchange or that any schedule of specified rates would provide a complete answer to the problems raised in Release No. 8239 and the comments thereon. Additional measures with respect to other matters, including give-ups are under continuing consideration and will be examined in the course of the hearing commencing July 1, 1968.

The request that your exchange take the foregoing steps is made in the context of the Commission's responsibilities to consider the national policies embodied both in the securities laws and in the antitrust laws. It is based upon the deficiencies in the present exchange rate structure which fails to provide appropriate discounts but permits give-ups directed by institutional managers, with consequent departures from the purported minimum rate structure on an arbitrary and discriminatory basis.

Sincerely,

Manuel F. Cohen
Chairman

Enclosures

ATTACHMENT A

Commissions to Men-Members on Stocks, Rights and Warrants

On stocks selling at \$1.00 per share and above the commission on each order shall be not less than the rates hereinafter specified:

(i) On each unit of trading up to and including four units of trading the commission shall be --

2% of first \$400 of money involved plus
1% on next \$2,000 of money involved plus
1/2% on money involved above \$2,400

plus \$2.00.

(ii) On all units of trading above four units the commission shall be 1/2% of money involved plus \$2.00 per unit of trading.

(iii) On odd lots (less than a unit of trading) same rates as that under (i) above, less \$1.00.

(iv) Notwithstanding the foregoing:

a) when the amount involved in a transaction is less than \$100, the commission shall be as mutually agreed;

b) the minimum commission charge in any event shall not be less than \$6 per order.

In respect of stocks selling at \$1.00 and above, an order shall be deemed to include all round lot or odd lot purchases or sales for one account, of a single security, executed on one business day, provided, however, that where an order for five or more units of trading is executed on one business day, all round lot purchases or sales of that security for that account executed in the next nine business days shall be deemed part of that order.

UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

May 28, 1968

In the Matter of
COMMISSION RATE STRUCTURE
OF
REGISTERED NATIONAL SECURITIES EXCHANGES

ORDER DIRECTING PUBLIC INVESTIGATION AND DESIGNATING
OFFICERS TO TAKE TESTIMONY

I.

The Commission, on January 26, 1968, published Securities Exchange Act Release No. 8239 announcing that it had under consideration a proposal to adopt Rule 10b-10 under that Act and that the New York Stock Exchange had

submitted for Commission comment and reaction the outline of a proposal for certain revisions of its commission rate structure.

The responses to Release No. 8239 and other information made available to the Commission indicate that the practices, procedures and exchange rules relating to exchange commission rate structures involve a number of matters such as (i) commission rate levels for exchange members (intra-member rates) and for non-members, (ii) the services for which such commission rates pay and the costs allocated thereto, (iii) give-ups and reciprocal practices among different categories of members and non-members, (iv) membership by financial institutions, (v) economic access to exchange markets by non-member broker-dealers, (vi) competition among exchanges and among exchanges and other markets, and (vii) the necessity for restrictions on access of exchange members to the third market.

II.

The Commission deems it necessary and proper to aid in the enforcement of the provisions of the Securities Exchange Act of 1934 and other Acts administered by the Commission and to determine the reasonableness of the commission rate structure of national securities exchanges, that an investigation be made of practices, procedures and rules of registered national securities exchanges for the purposes of protecting investors and for insuring fair dealing in securities traded upon such exchanges and fair administration of such exchanges.

III.

IT IS ORDERED, pursuant to the provisions of Section 21(a) of the Exchange Act, that an investigation be made of the matters referred to in Section I hereof to aid both in the enforcement of the provisions of the Securities Exchange Act and in the prescribing of rules and regulations pursuant to Sections 10(b), 15(c)(7), 17(a), 19(b) and other pertinent provisions of the Exchange Act and other Acts administered by the Commission; and

IT IS FURTHER ORDERED, pursuant to the provisions of Section 22 of the Exchange Act, that a public hearing shall be held as part of this investigation, that the public hearing shall be conducted before the Commission, any member or members thereof, or Roger S. Foster who is hereby named as hearing officer and empowered to administer oaths and affirmations and perform all other duties in connection therewith as prescribed by law, at the hearing which shall commence at 500 North Capitol Street, Washington, D.C., on July 1, 1968; and

IT IS FURTHER ORDERED, pursuant to the provisions of Section 21(b) of the Exchange Act, that for the purpose of such investigation and public hearing held

as part of it Irving M. Pollack and Eugene H. Rotberg and each of them, is hereby designated an officer of this Commission and shall conduct the investigation and perform all other duties in connection therewith as prescribed by law.

By the Commission.

Orval L. DuBois
Secretary