

February 24, 1975

Dear Mr. Simpson:

On behalf of the President, I would like to respond to your letter of February 3, 1975. The Administration supports the efforts of the SEC to eliminate fixed brokerage commission rates. We believe that competitive rates will benefit our capital markets and lead to a stronger securities industry and a more efficient securities market. We do not feel that the nation's stock markets will be endangered by this reform as you indicate.

There is no doubt, however, that competitive rates will require significant adjustments on the part of the securities industry and investors. Proposed legislation, S. 249, gives the SEC more than adequate authority to deal with any contingency that might arise after the introduction of competitive rates. The Administration will, moreover, closely observe events and be prepared to take necessary remedial steps.

In regard to the research function that brokers perform, the Administration has testified before the Congress that the provision of S. 249 which describes the fiduciaries' legal authority to pay for research with commission dollars after the introduction of competitive rates should be strengthened and clarified. Accordingly, draft language has been furnished to assure the fiduciaries' ability to pay for research with commission dollars, under competitive rates, without violating their fiduciary obligations under Federal or state law.

In conclusion, the Administration is seeking not to destroy the capitalistic system but strengthen it by assuring that competition is the guiding mechanism. We believe that the establishment of a national market as envisioned by S. 249, will increase the efficiency and liquidity of our securities market.

Sincerely,

F. Lynn May
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Domestic Council

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