Arthurs, Lestrange & Co.
Pittsburgh, Pennsylvania

March 8, 1968

Securities and Exchange Commission
Washington, D.C.

Subject: Release No. 8239

Gentlemen:

Invitations to comment on Release No. 8239 have been extended by the SEC. Also comments have been invited by the Commission upon the NYSE proposal, which has been included in Release No. 8239. The following observations are addressed in response to such invitation.

Beginning several years ago with the Wharton School study on the Mutual Fund Industry, there has continued to be developed numerous "studies" and voluminous statistical material by both the SEC and by various industry bodies such as the NYSE, IRA, ICI and NASD. This information has chiefly centered in the areas of "give-ups", volume discounts, reduction in the cost of acquisition of mutual fund shares, and general commission rate structure. To date, the cumulative effect of this material, whether prepared by the Commission or by Industry, has been to becloud, if indeed not totally obscure, the basic underlying question.

The entire scope of the SEC's proposed program rests upon two premises, namely, one, that the public investor is incapable of intelligent choice and self-determination and, secondly, that profitability either realized or potential is in itself a reason for regulation, based upon the assumption that it will lead to evil. The latter view may be found expressed in the SEC's own words, "A potential ... for harmful effects."

We do not propose here to recite along list of statistics. There are others, previously mentioned, who have already done so. We do, however, fervently wish to establish certain factual observations in the light of which we believe logic dictates that both the Commission and the NYSE reevaluate their proposals.

What is the practical effect of proposed Rule 10b-10? During the year 1967, adoption of Rule 10b-10 would have decreased distributable net income of our firm by approximately 35%. Obviously, we are a small New York Stock Exchange

member firm. However, the old analogy of the pebble in the lake is most applicable here.

Some of the immediate effects of passage of the proposed rule upon our firm would be:

(1) Our policy of providing for future growth by maintaining a continuous training program for new personnel would have to be reduced.

(2) Branch office plans would be cut back, if not entirely eliminated.

(3) The inventory positions which we now carry would be reduced by a percentage corresponding to the reduction of our income. Therefore, the liquidity which we supply to the marketplace through our position trading would decrease by approximately one million dollars. Of this amount, $700,000 would represent decreased liquidity for municipal bonds, on which many municipalities depend for the financing of their capital improvements, and $300,000 for corporate securities. Such a reduction must have far-reaching impact upon school, water, sewer, highway and other government and tax related programs. The relationship to employment, state and local fiscal policy and tax structure, money rates, commercial banking and savings institutions and the numerous other ramifications present a stark, shocking outlook.

(1).) Research activities would be reduced. That research directed toward, and necessary to, the intelligent handling of our clients' accounts would most likely not be disturbed. In fact the complexity of modern companies, expanded automation and communication, most likely will necessitate enlargement of this type of research. However, that area of research concerned with advice to and close cooperation with the management of younger companies will suffer. Again, the ramifications of curtailment of these activities by the regional investment firms is most far-reaching upon local and state economies. In support of this statement, we would draw attention to the following facts:

In recent years our firm has raised public funds for a number of local companies, including:

Bacharach Industrial Instrument Company

Computer Research, Inc.

Decorator Industries, Inc.

Jiffy Steak Company

Life Assurance Company of Pennsylvania

Roberts Lumber Company

Tyson Metal Products Company

Voss Engineering Company

William Penn Racing Association

The impact upon the regional economy, due directly to the growth of such companies, is evidenced by these typical examples.

On March 27, 1962 we offered for sale 60,000 shares of the common stock of Bacharach Industrial Instrument Company at $22.50 per share. Bacharach is now being operated as a subsidiary, maintaining its name. Bacharach Industrial Instrument Company is engaged in the development, manufacture and sale of chemical, electrical and mechanical instruments, precision products and special purpose tools. These products are used by service organizations in the diesel engine industry and in the heating, refrigeration, and air-conditioning market. The instruments are also used by gas utilities, oil refineries, chemical producers, base metal manufacturers, industrial laboratories, educational institutions, hospitals, and various Government departments, among others. The company's products are all the result of its own research and development and are marketed throughout the United States, Canada and twenty-eight foreign territories. The company currently employs about 250 people and is considered one of Pittsburgh's more important smaller industries. This company could not have become "public" had we not undertaken this underwriting. Larger houses had been approached, but had turned it down on the basis of size.

Our association with Jiffy Steak Company began in 1959.

In August 1962, Arthurs, Lestrange & Co., along with the Ohio Company, underwrote and offered 65,000 shares of the common stock of Jiffy Steak Company at $10.00 per share, proceeds of which went to the company for the purpose of expansion.

By 1964, employment had increased from approximately 40 people in 1959 to 194 people. The company was now the principal industry in Saltsburg, Penna. During that year, we further financed the growth of the company by issuing, along with the Ohio Company, $1,750,000, 6% Sinking Fund Debentures due 1979, most of which were sold to small and medium sized investors. No large underwriting firm showed any interest in this company until, in 1966, the prospect arose of the sale of roughly 130,000 shares of common stock as a secondary. At

this stage one of the largest national firms came into the picture. Because of their size and power, we, the regional firm, were placed in a secondary position. Within a few hours before the planned filing, the national firm withdrew, thus effectively killing the offering.

We are still investment bankers for Jiffy, which today employs over 700 people, including various subsidiaries and branch plants. It is still Saltsburg's largest industry and is steadily growing in size and importance.

Had either Bacharach Industrial Instrument Company or Jiffy Steak Company had to depend on large New York financial houses to become public companies and/or to provide funds for expansion, these things would never have happened. Arthurs, Lestrange & Co., a small regional house, accomplished what the larger firms refused to do. The efforts of the SEC to restrict the profitability of our industry to the point where we would be forced to go out of business would leave companies such as these with no place to go for their financing. Certainly, in the case of Jiffy Steak, Saltsburg, Pennsylvania has greatly benefited from the help we have given.

We, therefore, most strongly advance the following position:

(1) If proposed Rule 10b-10 is adopted, there is only one source to which the present "directed or give-up" business logically may be expected to flow and that is to the comparatively few large New York member firms of national scope sometimes spoken of as "wire house". We submit that the public interest is not well served, but is in fact damaged, by the passage, or even the proposal of a rule, the practical effect of which is to direct the concentration of business to a limited number of large New York based firms, thereby adversely affecting the solvency of many regional firms and as a direct consequence diminishing the liquidity of the general market for securities across the country.

(2) That the concentration of this business in the hands of a few would so change the composition of the investment industry as to necessitate serious anti-trust considerations.

(3) That the matter of volume discounts proposed by the NYSE at the urging of the SEC is not soundly conceived. An examination of only one application of this proposal raises many unanswered questions. What would be the effect of such discounts when applied to a commercial bank? Would not the bank solicit its customers to place their securities transactions through the bank and thereby benefit from a volume discount? Would the SEC now regulate the commercial bank as a broker or dealer? Would the bank find itself giving "advice" and, if so, would it be subject to the same qualifications and rules as a registered

representative? And, if not, why not? Not only are these questions unanswered, but the total lack of comment thereon indicates an unawareness of the problem.

We believe it is not the intent of Congress that the Commercial Banking System be placed in the securities business either directly or otherwise.

We, therefore, sincerely urge that both the Commission and the NYSE reevaluate the basic philosophy underlying their proposals. Also we urge that any action be deferred until the damaging effects to our industry and our Country inherent in these proposals is resolved.

We appreciate the opportunity to present our views.

Very truly yours,

Joseph P. Short
Executive Managing Partner