

Mr. KEITH. This study goes on to point out that commercial banks are the largest net buyers. My question here is, and I got an answer yesterday and I just want to be reassured by you, that when a commercial bank buys, generally speaking, is it for the accounts for which they are trustee or is it occasionally the investment of a reserve or surplus?

Mr. COHEN. I would think generally speaking it is for the account of others, pension funds that they manage, for the account of commingled funds that they have created, common trust funds, or trusts in which they act as trustee, either solely or jointly.

In addition there may be some other activities of the banks in this area. Now this is one of the reasons why I answered your question by suggesting that a study would be helpful, because we would be able to improve our knowledge in this area. We would be able to improve our continuing understanding of the changing patterns that are going on in this field. Mr. Loomis would like to add a word.

Mr. LOOMIS. It is my understanding that the banking laws generally prevent commercial banks from dealing in ordinary corporate securities for their own account. They have to be acting here for others.

Mr. KEITH. One last question if I may, Mr. Chairman.

It points out where we talk about the number of block trades per month, the total volume from the New York Stock Exchange is reassuring in that it is only 5.5 percent.

My question is how broad a market do we really have when you think of the things that have triggered stock market recessions in years past. It may be to a large extent caused by a large movement in a narrow market.

Mr. COHEN. Well, there are a number of answers to that question, some of which I don't have. But let me try a few which may be personal reactions.

First of all, if we are speaking about mutual funds, and this is not necessarily true of pension funds, because of the redeemability feature, they want to be in a position to be as liquid as possible as quickly as possible, and it is required by law, except as there may be an emergency. This has generally limited the mutual funds to the largest companies with the largest number of shares outstanding.

Now if the company is large enough, for example, American Telephone & Telegraph, then perhaps the effect of an institution, or more than one institution, purchasing and selling the security may have a little effect on it. But if it is a smaller, albeit a large company, but a smaller one, and where the floating supply may be more limited, it seems to me quite reasonable to conclude that the activities of the funds may have a very, very important effect on the market action of that security, and we have sufficient information to support that as a matter of fact.

Indeed the speech which Chairman Moss introduced in the record refers to three cases, without identifying the companies, which perhaps illustrate the point that I have just made. Those three cases are just three of the cases which are part of our continuing study of this whole area, to which I referred in my letter to Chairman Moss in August, but you have made a point which I think is very significant.

These block sales have been increasing. As I indicated earlier, when I appeared here last, these are transactions effected off the exchange.