

# N.A.S.D. NEWS

Published by the National Association of Securities Dealers, Inc.

Volume I

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Number 1

## ARM'S-LENGTH STUDY APPROVED BY BOARD AS DISCUSSION BASIS

**Does Not Bind Membership—Governors Meeting in Washington Told of PSI Investigation**

### Committee Heads Report on Activities

Your Board of Governors and Advisory Council (Chairman of the 14 District Committees) met in Washington, D. C., on April 29 and 30 to consider and take action on a number of highly important matters. Francis A. Bonner, Chairman of the Board, presided.

First, the Board unanimously approved, as a basis for further discussion with the Securities and Exchange Commission, the report of the special Arm's-Length Bargaining Committee, headed by Francis Kernan, Jr., of New York City, prepared in response to a request from the SEC for advice and suggestions as to how its arm's-length bargaining rule (U-12F-2) could be improved.

It was emphasized that this approval in no way bound the members of the Association to accept the report as this could not be done without a vote of the entire membership. The acceptance of the report merely gives the committee a signal to go ahead in their discussions with the SEC on the basis outlined in the report.

Also discussed was the investigation into the \$48,000,000 offering of Public Service of Indiana securities. It was explained that replies received

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## FILE COPIES OF NASD NEWS

Inasmuch as the NASD NEWS will, from time to time, contain discussions of problems which have arisen and are deemed of general interest to the membership and other matters to which you will undoubtedly want to refer, you may wish to keep a file of the NEWS. For this reason, we have had holes punched in the margin to facilitate placing it in a loose-leaf binder.

## TO ALL MEMBERS

Since the beginning of the National Association of Securities Dealers, Inc., we have felt the need of direct communication with our large membership, fast approaching 3,000 houses, representing a personnel of around 53,000. Therefore, we have decided to publish and distribute to all members the NASD NEWS, of which this is the first issue.

The NASD NEWS is designed to keep you fully informed of the affairs and functions of your Association. It will report the work and activities of your national officers and committees. It will cover events of interest in the 14 Districts. It will endeavor to give you significant happenings and decisions of the SEC. It will print, when they are deemed of sufficient interest, interpretations and decisions of both the SEC and the various committees of the Association.

A better idea of the fields your paper will cover may be had from an examination of these columns. In addition to general news, special departments are planned such as analyses of the handling of complaints by District Business Conduct Committees, questions of interest asked by members together with their answers, messages from your officers, summaries of speeches given by your officers and others when deemed of interest to the membership, and anything else thought appropriate or helpful.

In general, the NASD NEWS will be your newspaper and as such we shall welcome any criticisms or suggestions as to its betterment. It will be published from time to time whenever events warrant and will be distributed generally to the membership.

FRANCIS A. BONNER,  
Chairman,  
Board of Governors.

## DEALERS' PROBLEMS AIRED AT NUMEROUS MEETINGS

A double-barreled program involving a series of meetings with members of the Association and with other dealer groups has been actively car-

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## NASD PLANS PUBLISHING QUOTATIONS IN ALL LARGE FINANCIAL COMMUNITIES

**Service Already Inaugurated in Several Areas—District Groups to Handle Own Problems**

### Committee to Set National Policy

Of paramount importance to investment bankers and securities dealers is the availability of accurate and reliable quotations on over-the-counter securities. The National Association of Securities Dealers, in this connection, has undertaken a program looking toward the eventual publication in every important financial community in the country of quotations on which both the dealers and investing public can depend. This program has already born fruit in several areas

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## EDUCATIONAL EXPERIMENT UNDER WAY IN HOUSTON

Investment dealers in Houston, Texas, have initiated an experiment in educating their office personnel which appears to be working very well.

It seems that in Houston, the dealers, by and large, employ almost exclusively women cashiers, secretaries and similar office personnel and with the thought that such persons are the ones having to work closest with SEC rules, Regulation T, and NASD rules affecting brokers and dealers, they encouraged the formation of the Investment Securities Club of Houston, the membership of which is restricted to women in the investment business. They meet once a week for dinner, which is paid for by their employers, and at each meeting, one dealer is assigned the task of addressing them with respect to one particular rule or regulation. This is followed by a question period.

If SEC, Federal Reserve or NASD officials come to town, an effort is always made to get them to address the Club. The Houston dealers feel that the experiment to date has been highly beneficial to all concerned.

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## DEALERS' PROBLEMS

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ried on by national officers, members and representatives of the NASD for the past two months and will continue until every District has been reached and as many of the larger dealer groups as possible. The first purpose of these meetings is to inform as many investment bankers and securities dealers as possible of the workings, aims and purposes of the Association. The second is to discuss general problems with members and to aid them in every way possible in solving the problems of their Districts. Two specific items which have been gone into at all of the member meetings are quotations on over-the-counter securities and the unifying of trade practices, both within Districts and throughout the country.

In pursuance of this program, Francis A. Bonner, Chairman of the Board of Governors of the Association, has attended numerous District Committee meetings and plans to continue these meetings with a hope of visiting all Districts. He has addressed dealer groups recently in such cities as Chicago, St. Louis, Kansas City, Omaha, Minneapolis, New York, Columbus, Dallas, San Antonio, Houston, Philadelphia, Louisville, Memphis, New Orleans and Atlanta. He plans further trips this month. He has also addressed such dealer groups as the Central States Group of the IBA, the Nebraska Investment Bankers Association, the Twin City Bond Club, the New York Securities Dealers Association, the Texas Group of the IBA and the Philadelphia Bond Club. Wallace H. Fulton, Executive Director of the Association, has accompanied Mr. Bonner on many of these trips.

Nevel Ford, Vice Chairman of the

## ARM'S-LENGTH REPORT

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to a questionnaire sent out concerning this offering were being examined by accountants in the New York office. The accountants will report to the Executive Committee of the Association which will examine the report carefully for any evidence of violation of the Association's Rules of Fair Practice. If any such evidence is found, it will be turned over to the District Business Conduct Committee in the District in which the offense occurred for action. The questionnaires will be returned to the members who answered them when the investigation is completed.

The national Business Conduct Committee met during the Governors' session and perfected machinery for hearing appeals of decisions in trade practice complaints by the Board and for calling up cases for review, when thought necessary, when no appeal has been made. The Code of Procedure of the Association provides for appeal from District Business Conduct Committee decisions in cases involving violations of the Rules of Fair Practice to the Board and from the Board to the SEC and from the Commission to the Federal Courts.

The national Business Conduct Committee, as an agent of the Board, holds the original hearings on all appeals or reviews, but any decisions in such cases must be submitted to the Governors for action. Clifford S. Ash-

Association, has met with District Committee No. 14 at Boston and spoke recently before the Philadelphia Association of Securities Salesmen as well as at Pittsburgh at a meeting of the Bond Club there.

George Davis, Vice Chairman, and Harvey Roney, a member of the Board of Governors, met with District Committee No. 2 in Los Angeles last month to discuss the affairs of the Association. George S. Stevenson, Treasurer of the NASD, addressed the New York Group of the IBA on the aims and purposes of the Association. Many other meetings have been held within the various Districts by District Committee members and others and more are planned.

When this program reaches its completion, it is hoped that every member and as many non-members as possible will be acquainted with the Association, why it was formed and what it does.

man of Minneapolis is chairman of the committee.

Joseph T. Johnson of Milwaukee, chairman of the national Uniform Practice Committee, reported that his group, while endeavoring to act as rapidly as possible in evolving a national policy and technique on uniform business practices, was giving the local Uniform Practice Committees an opportunity to experiment before making recommendations to the Board. These recommendations will form the basis on which national policy concerning uniform practices will be based.

Chairman Frank Weeden of San Francisco reported that the national Quotations Committee was following a similar procedure. A more detailed story concerning the progress the Association is making in solving the problem of quotations on over-the-counter securities will be found elsewhere in this issue of the NASD NEWS.

Henry L. Rosenfeld, Jr., of New York City reported that the national Technical Committee, of which he is chairman, had been working with the SEC for at least six months on the Commission's proposed hypothecation of securities rules, during which time a number of drafts have been considered and reported to the Commission.

Chairman Y. E. Booker of Washington, D. C., of the Education Committee said that his group had decided that its most important job was to keep members informed as to the workings of and all events and happenings concerning the Association and other matters of interest and that educating the public as to the Association was its second, although no less important, work. Toward the end of keeping members informed, he recommended the publication of the NASD NEWS, which recommendations was approved by the Governors.

Reports of the activities of the 14 District Committees were read and submitted to the Board. The problems of each of these Districts and possible solutions of them were discussed.

Also attending the meeting were Wallace H. Fulton, Executive Director, and Joseph C. Hostetler and Murray Hanson of Counsel for the Association. Chairman Bonner reported 100 per cent attendance by the Governors and that all the Districts were represented with one exception.

## QUESTIONS AND ANSWERS

The Association from time to time receives a great many questions having to do with its By-Laws, Rules of Fair Practice, Code of Procedure and also with respect to certain provisions of the Securities Act, the Exchange Act and the Commission's Rules and Regulations under those Acts. Many of these inquiries have to do with problems of very limited interest to the membership as a whole but others are of general interest and considerable importance to all members. It is our intention, therefore, in this column regularly to run a series of such questions and answers which seem to us of general concern.

**QUESTION:** Should members, on joining the Association, amend their broker-dealer registration with the Securities and Exchange Commission to show membership in the National Association of Securities Dealers, Inc.?

**ANSWER:** Yes.

**REASON:** Item 16 of SEC Form 3-M (Application for Registration of Broker or Dealer Transacting Business on Over-the-Counter markets) asks "Is registrant a member of any associations of brokers, dealers or investment bankers? If so, furnish names of such associations:". In addition, SEC Rule X-15B-2 in substance requires every registered broker and dealer to keep his original application for registration, at all times accurate and up to date by the filing of supplementary statements (on SEC Form 6-M) to correct inaccuracies and supply information with respect to changes which render no longer accurate information previously filed.

### NOTE

It will be seen from the above that it is necessary for all members, who have not already done so, to amend their broker-dealer registration with the SEC to reflect their present membership in the National Association of Securities Dealers, Inc. It is suggested that at the same time, members should check all items of their registration statement with the SEC to make certain that the answer to each item is currently accurate.

**QUESTION:** May a member use the name of the Association on its letterheads or advertising material?

**ANSWER:** No.

**REASON:** Article VIII, Section 2 of

## QUOTATIONS

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in which the publication of quotes has been inaugurated. A national Quotations Committee has been appointed and local Quotations Committees named in each of the 14 Districts of the Association.

The committee for District No. 13 (New York, New Jersey and Connecticut) has been compiling and disseminating quotations for a long time. Bids and offers on some 650 over-the-counter securities are furnished the metropolitan newspapers daily and also are given to the wire services (Associated Press, United Press and International News Service) which send them all over the country. There is a particular demand for quotations from this District on insurance company, investment company and bank stocks.

The committee for District No. 2 (California and Nevada) has been supplying quotations to newspapers in San Francisco, Los Angeles, Oakland and other important cities in the area for quite some time. Within the last three weeks, the work of the committee for District No. 12 (Pennsylvania and Delaware) has resulted in the daily publication of quotations in Pittsburgh and this service will be extended to other cities in the District soon.

The committee for District No. 6 (Texas) has brought its work to a point where it is expected to start supplying daily quotations to the newspapers in the various cities in Texas within the next 30 days. Plans have been laid for the publication of quotations by the committee for District No. 8 (Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin) in the very near future. The other com-

mittees are all actively at work and results can be expected soon.

Investors find this work valuable in that it gives them a reliable indication of how their securities fare from day to day and within what range they may reasonably expect to be able to purchase or sell the quoted securities. It is also helpful to dealers in providing a ready reference as to the trading range of securities in which they are not actually making a market.

The publication of quotations is made possible only through the cooperation of securities dealers and investment bankers who furnish the actual bids and offers to the committees which are compiling and disseminating the quotes. These committees carefully scan each bid and offer to make sure that it is not out of line with general prices and average out the bids and offers and spreads in accordance with a predetermined formula. The resulting quotations are nominal, but do represent a range within which an investor can reasonably expect to do business.

The national Quotations Committee will endeavor to coordinate the work of the local committees after they have had sufficient time to experiment and learn their problems and possible solutions to them. The findings of these committees are expected to prove valuable in evolving a national policy and technique. It is hoped that, as these quotations become more widely published, they will prove a long step toward restoring the col-

Anyone wishing to do so may send questions for this column to the Washington office of the Association. If they are deemed of general interest, and if we are able to do so, they will be answered in this column.

## ALLOTMENT OF NASD NEWS

We have decided to allot copies of the NASD NEWS to members on basis of personnel. For this purpose, the following schedule has been set up:

Personnel	Copies Entitled to
1 to 3	1
4 to 6	3
7 to 10	5
11 to 15	7
16 to 25	10
26 to 35	13
36 to 50	16
51 to 75	19
76 to 100	22
101 to 125	25
Over 125	25

Any additional copies you may wish will be sent you on request at a nominal charge. Only one copy of the first issue of the NEWS is being sent to each member, unless more are specifically requested.

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## HOW COMMITTEES ARE HANDLING TYPICAL VIOLATIONS OF RULES

### Action of District Business Conduct Groups in Three Different Types of Cases Described

#### 28 Informal Complaints To Date

When Congress conferred upon the securities business the right to regulate itself, under certain governmental supervision, it did something which is unique in the history of business-governmental relations. Certain restrictions were imposed and certain types of rules were made mandatory, but by and large, national securities associations were given a pretty free hand in keeping the activities of their members within the general code of fair dealing outlined.

There has not as yet been time for a full trial of the experiment, insofar as the NASD is concerned. However, in the first six months of the Association's existence enough has been accomplished to provide at least an indication of how well the Association has assumed its duty of self-regulation.

Up to the present writing, District Business Conduct Committees have handled seven complaints lodged formally against members—that is, in strict accordance with the rules set out in the Code of Procedure of the Association. In the same period, however, they have handled 28 complaints or disputes on an informal basis.

The following are typical examples of several kinds of complaints which have come before the Association to date and have been adjudicated or settled. This column will be a regular feature of the NASD NEWS.

#### Case No. 1:

A formal complaint was lodged against a firm charging violations of Article III, Sections 1, 2 and 4 of the Rules of Fair Practice.

Specifically, the firm was charged with recommending the sale of certain securities and the replacing of them with others entirely unsuitable for the complainant's portfolio. The complainant was a 75-year old widow. She also charged that she followed these recommendations and sold her securities to the firm and bought others at prices which were grossly unfair in the light of the prevailing market in these issues.

The firm filed an answer explaining and justifying the transactions and denying the charges of impropriety and unfairness in the deal.

Both sides presented their case at a hearing before the District Business Conduct Committee. In view of the allegations of over-charging, the prices actually paid by or to the firm were compared with prices paid that day in recorded transactions or with prices quoted by the National Quotation Bureau. Also gone into, although testimony on this point was conflicting, were the statements made by the firm as to the effect of the investment program

outlined on the safety of the principal of the complainant and the amount of her income.

The committee found that the firm's recommendations had been improper and the prices unfair. The committee's decision set out a schedule of certain sales to the complainant that were to be rescinded and of certain others on which adjustments in price should be made. The firm was also censured for taking excessive profits. The rescissions and adjustments ordered have been fully carried out.

#### CASE No. 2:

An informal complaint was filed against a member firm by another member firm accusing the former of failing to deliver a dividend on a stock bought from that firm although it had been requested three times to remit the amount due.

The complaint was referred to the District Business Conduct Committee concerned and two members of that group called on the firm against which the complaint had been made. The latter admitted that the dividend was due, but said that they had been unable to collect it from the person from whom they had bought the stock. The cashier of this firm had also failed to notify the complaining firm of the efforts being made to collect the dividend. Apparently the person from whom the stock was bought was an invalid and there had been some difficulty in explaining the matter. The dividend was forwarded to the complaining firm as soon as it was collected and the case was closed.

#### CASE No. 3:

Early in March of this year, the Association received a communication from the Securities and Exchange Commission to the effect that certain members of the Association had persistently neglected to comply with the provisions of SEC Rule X-17A-2, which has to do with reports which are required to be filed with the Commission in connection with certain stabilizing activities. The communication stated further that "in view of the many letters addressed to these firms—of an explanatory and finally, of an admonitory nature—the inference seems almost irresistible that such failure to comply has been grossly negligent, if not, in some instances, actually willful." Nevertheless, the Commission felt that it would perhaps be advisable first to enlist the assistance of the Association in seeking to straighten out this situation rather than to resort immediately to formal administrative or legal proceedings and it, therefore, stated that if the Association wished to look into the matter, it would furnish the names of the firms involved and the details of each individual case.

The Association felt that this was a type of situation where it might be helpful to both its members and to the Commission, so it obtained the names of the firms involved, got in touch with each one immediately, and quickly straightened out the whole matter to everyone's satisfaction. In most instances it was found that the partners

## EDUCATION GROUP HEAD ASKS AID FROM MEMBERS

### Solicits Help in Problem of Familiarizing Public With NASD Aims

The job of the Education Committee is to try to educate the public as to various phases of the securities business and, particularly, to endeavor to bring about more wide-spread appreciation of the National Association of Securities Dealers, its workings, aims and purposes.

We realize that this is a big order and cannot be accomplished over night. In fact, we feel that it cannot be accomplished at all unless we have the active assistance of the people engaged in the business. We, therefore, earnestly solicit your help. Obviously, if we are to educate the public, we must first familiarize ourselves with the many new rules and regulations which surround the daily conduct of our business.

We hope to make the NASD NEWS a real force in accomplishing this purpose. We will try to present briefly, and in simple language, current news affecting our business and, also, detailed discussion of various phases of the new laws under which we must operate.

We ask you to read this issue and the issues that will follow. We will try to make it worth your while. Above all, we ask you to give some thought to methods of improving the NASD NEWS and give us the benefit of your suggestions.

Y. E. BOOKER,  
Chairman,  
Education Committee.

## QUOTATIONS

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lateral value of over-the-counter securities.

It is recognized that the published quotations must provide every possible protection for investors and at the same time not interfere with the retail distribution of securities. In quoting these securities, it is also recognized that dealers are entitled to a just and reasonable profit, taking into account such factors as merchandising and other services.

or executives of the firms involved were wholly ignorant of the situation and that the fault lay in the lack of appreciation by certain employees, who had been entrusted with the preparation and filing of such reports, of the necessity for prompt and strict compliance with this Rule. In other instances the fault lay in a failure to have on hand a supply of the necessary forms.\*

\*Any member desiring to keep on hand an adequate supply of the forms to be used in connection with Rule X-17A-2 may secure same by writing to the Securities and Exchange Commission, Washington, D. C.