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# N.A.S.D. NEWS

"Some day we may reach a professional status in the investment banking business."—ROBT. W. BAIRD, NASD Chairman.

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Volume II

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Number 2

## NASD OPPOSES N. Y. CURB'S UNLISTED REQUEST ASSOCIATION ELECTION MACHINERY AT TOP SPEED OVER NATION

Election machinery of the National Association of Securities Dealers, Inc., has been going at top speed in the fourteen districts of the Association for the last several weeks. Seven vacancies on the Board of Governors and forty places on District Committees are to be filled by nominees that have been chosen by the nominating committees of the various districts. All elected candidates will take office January 16, 1942, at which time a Chairman and Vice-Chairmen for the ensuing year will be chosen.

For vacancies on the Board, the following have so far been named by the Districts whose representation on the Board was up for succession: James Coggshall, Jr., The First Boston Corporation and Clarence E. Unterberg, C. E. Unterberg & Co., New York; Hagood Clarke, Johnson, Lane, Space and Co., Inc., Atlanta; Albert Theis, Jr., Albert Theis & Sons, Inc., St. Louis; Joseph M. Scribner, Singer, Deane and Scribner, Pittsburgh.

Following are the retiring members of the Board: Donald C. Bromfield, Garrett-Bromfield and Co., Inc., Denver; Arthur S. Burgess, Biddle, Whelen and Co., Philadelphia; George W. Davis, Davis, Skaggs and Co., San Francisco; Frank Dunne, Dunne and Co., New York; Perry E. Hall, Morgan, Stanley and Co., Inc., New York; John R. Longmire, I. M. Simon and Co., St. Louis; Henry B. Tompkins, The Robinson-Humphrey Company, Atlanta. Mr. Davis has been a vice chairman.

### New Chicago Committee

The District Committee in number 8 (Illinois, Indiana, Iowa, Michigan, Wisconsin and Nebraska) has appointed the following local business conduct committee for Metropolitan Chicago: Howard F. Allen, Central Republic Company, chairman; A. S. Wiltberger, Blyth and Co., Inc.; Richard A. Kebbon, Stern, Wampler and Co., Inc.; Donald B. Nichols, Ryan-Nichols and Co., and Rue Link, Link Gorman and Co.

The fourteen Districts of the NASD are represented as follows on the Board: two from the California District, three from the Chicago area, five from the New York area and one each from the other eleven Districts. Members of the Board and of the District Committees are elected for three-year terms.

Following is a list of nominees for District Committee vacancies: (those

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### NASD OBJECTIVES

*To promote through cooperative effort the investment banking and securities business, to standardize its principles and practices, to promote therein high standards of commercial honor, and to encourage and promote among members observance of Federal and State securities laws;*

\* \* \*

*To provide a medium through which its membership may be enabled to confer, consult, and cooperate with governmental and other agencies in the solution of problems affecting investors, the public and the investment banking and securities business;*

\* \* \*

*To adopt, administer and enforce rules of fair practice and rules to prevent fraudulent and manipulative acts and practices, and in general to promote just and equitable principles of trade for the protection of investors;*

\* \* \*

*To promote self-discipline among members, and to investigate and adjust grievances between the public and members and between members.—Extracts from the Certificate of Incorporation.*

### Association Intervenes In Plea for Admission of Four Utility Bond Issues

#### "Overwhelming Majority" In Association Vially Concerned; More Complete Record Seen

The National Association of Securities Dealers has decided to oppose pending applications of the New York Curb Exchange to extend unlisted trading privileges to four issues of utility bonds. The Association has received permission of the Securities and Exchange Commission to intervene as a party in the proceedings before the SEC on the Curb applications.

Issues involved, currently traded in over-the-counter markets, are: Central Power and Light first mortgage, series A 3¾'s due Aug. 1, 1969; Kentucky Utilities Company first mortgage 4's due Jan. 1, 1970 and the sinking fund mortgage 4½'s of the same issuer due Feb. 1, 1955; West Texas Utilities Company first mortgage series A 3¾'s due May 1, 1969.

The Association, in its application for permission to intervene in the case, said that it proposed to represent the interests of the "overwhelming majority" of NASD members.

#### Vital Interest Noted

"This larger proportion of our membership," said the application, "is vitally interested, both from the point of view of the public interest as well as self-interest, in seeing that issues of securities such as the ones involved in these proceedings are admitted to unlisted trading privileges on the New York Curb Exchange, or any other national securities exchange, only where they strictly meet the statutory standards of eligibility for such trading privileges.

"The reasons for and nature of this interest are well known to the Commission. Experience has shown that in the great majority of cases of a similar nature, it has not been feasible in the past for members, in their individual capacities, to oppose such applications. The Association, therefore, has decided

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## Cash Customers of Bankrupt Brokers Now Held Able To Recover Securities

Philadelphia Circuit Court Issues First Interpretation of Chandler Act Provision

In the first test of a provision in the Chandler Act amendment to the Bankruptcy Act covering stock broker bankruptcies, the Circuit Court of Appeals in Philadelphia has ruled that cash customers' fully-paid securities may be claimed free and unencumbered from the bankrupt estate if the customer is not indebted to the broker.

"We conclude therefore," the Court said in summing up the case "that where, prior to a stock broker's bankruptcy, a customer purchases securities through the broker for cash or its equivalent in the ordinary course of business and the broker receives, pursuant to the purchase for the customer's account, stock certificates in the name of the purchaser which remain in their identical form in the broker's possession until the date of bankruptcy, the customer, if he is not indebted to the broker, may thereafter claim the stock as his own, free and unencumbered."

### McMillan, Rapp Case

McMillan, Rapp and Company is the bankrupt estate. At the time of bankruptcy, the company had on hand securities purchased for four customers. In the case of three of these, the stock certificates in their respective names were in separate envelopes in a safety deposit box. In the case of the fourth customer, "his purchase of the stock to which he lays claim was begun on margin but, prior to the bankruptcy, he had paid his debit balance in full and had demanded the certificates for his stock which were transferred to his name but were not delivered by the bankrupt which retained possession thereof."

The question, the Court said, was whether the stock received by the stock broker for the respective accounts of the cash customers pursuant to purchase remained "in its identical form in the stock broker's possession until the date of bankruptcy." The court found that the case was covered by the section of the Act making it applicable to "securities . . . received by a stock broker . . . for the account of a cash customer . . . pursuant to purchase."

The transfer of the certificates out of street name into the names of the purchasers was but a step in the purchase pursuant to which the stock

## Uncontrolled Salesmen

### PRINCIPAL, AGENCY MISTAKES

### INVOLVED IN \$300 FINE

"We have had trouble with our salesmen and I agree they do not all know the difference between principal and agent. They have not had enough schooling to be able to classify the point. They can talk a better sale than write it and some of the letters that have gone out have been incorrect. We are trying to do everything possible to eliminate the writing of letters by salesmen and they are read and signed by officials of the company. Formerly all letters written by salesmen were gone over by . . . who is no longer with us and we do not think he went over them thoroughly and carefully. We are trying now to eliminate the writing and signing of letters by salesmen."

The above statement was made by an official of a member organization at a recent hearing in which his company was respondent in a complaint before a District Business Conduct Committee. The comment was forthcoming at the conclusion of the hearing during which evidence was presented of excessive profits, confusion by salesmen of the capacity in which the company acted for clients and the circulation and use by salesmen and the firm of improper quotations.

### Imposes \$300 Fine

The District Business Conduct Committee imposed a fine of \$300 on the member for violation of rules 1, 4 and 5 of Article 111 of the Rules of Fair Practice. The DBCC further imposed upon the member a censure of its practices and future examination of its business by the Committee "after the lapse of a reasonable length of time."

Basis for the complaint was an examination of books of the member for the period January to June, 1941. Profits on bond transactions with customers on which the firm, in individual transactions, realized from 6 to 16 per cent were disclosed in the examination; an instance of a 28 per cent profit on a switch in a customer's holdings; examples of profits in stock transactions ranging to 20 per cent and in land trust certificates from 6 to 14 per cent. Another basis for the complaint was

broker ultimately received the certificates in the purchasers' names for their accounts, the court said.

the sale by the firm of various issues of registered bonds without proper distinction being made of this fact. Cases were cited where registered bonds were sold to customers at prices commanded by coupon bonds. Improper quotations were also alleged.

During the course of the hearing it was brought out that the firm had a fixed policy of acting as principal on all sales. However, letters from customers were exhibited to show that the company's clients were under the impression that the member acted as their agent in a number of the transactions under review. A spokesman for the member made the defense that his company could not be responsible for language used by customers in transmitting checks in payment for securities bought, but the committee's ruling gave no weight to this contention.

### Agency, Principal Comment

Members of the committee commented that in certain illustrations presented at the hearing the company had employed improper language in confirming transactions. One such example may be cited. A salesman of the member firm wrote to a customer with respect to a trade: "we could probably get you around 35 or 36." Confirmation of the transaction showed a price of 36½ was paid. Said a DBCC member: "I think you made a mistake in the wording of your letter. It should have been—'we will pay you' so much. Your wording is confusing to the customer—he would think you were acting as agent. In a conversation you should have said that you were not selling for the customer but are purchasing for yourself." The committee member further pointed out that the firm could not change its relationship by the language of its confirmation. "You must change," he said, "by a definite statement of how you are dealing."

With respect to margins of profit realized on certain transactions in securities sold by the company to customers, the member based its defense of such profits, in part, upon published spreads for the securities. The DBCC in its decision did not take cognizance of this defense as a mitigating circumstance of sufficient weight to alter its conclusion that the member had violated rule 4 of article 111 of the Rules of Fair Practice.

## Quotations Committee Decides In Favor of National Uniform System of Assigning Spreads

Each Issue Will Be Considered Individually Under New Program

After a thorough discussion of current plans and methods of quoting securities in various parts of the country, the National Quotations Committee has decided that it is in the public interest and the best interests of the industry that a uniform system be adopted.

In a letter of instructions to District Quotations Committees, the National committee, of which Frank Weeden, San Francisco, is chairman, outlines eight general principles governing compilation of quotations to be used by newspapers.

Each quoted security shall be separately considered by the District Quotations Committee or appropriate subcommittee thereof, the National Committee letter says. The spread assigned to each security is to be based on the committee's knowledge of local market conditions with respect to such security, its activity, type, size of issue, price and other pertinent attributes.

### Bid Price Method

"In computing the published bid price of a security," the letter continues, "two or more of the best actual bids shall be taken into consideration. The bid price to be published shall not be less than the actual bids by more than the equivalent of a nominal selling commission.

"The published asked price shall be determined by adding to the price determined, pursuant to the above, the spread which has previously been assigned to the security by the Quotations Committee. This published asked price shall indicate a reasonable margin above the published bid price so as to afford retail dealers, exercising reasonable intelligence and skill in the purchase of such security, a fair and justifiable profit on the sale thereof."

The National Committee's instructions provide that any member may, after showing evidence that he has a "substantial, definite and continuing interest in the security in question," petition for a change in the spread assigned to a security.

## Investor Army

# CHAIRMAN SEES FUTURE PROBLEM BEING CREATED BY DEFENSE

The National Association of Securities Dealers is a mirror in which the investment business is taking its own measure. Self-examination hasn't been too satisfying an experience and the business is proceeding to correct some of the things it has seen in the mirror.

Thus did Chairman Robert W. Baird introduce his remarks on the subject of the Association's work at the recent convention of the National Association of Securities Commissioners. Membership of the latter is made up of State Securities Commissioners and other State officials engaged in the administration of securities laws.

"The securities dealer," Mr. Baird said, "is going to get away from that false sportsmanship that he always had of defending anybody in the securities business. We have already realized the paradoxical position we have been in of defending our members without any control of who came into the business or what they did after they got in; and we are beginning to find that we have been unwittingly defending indefensible practices and unwittingly protecting some of our membership who are not entitled to protection. We realize very fully that as we broaden our experience with these examinations we may need some additional rules of fair practice to cover situations that are not in our present rules."

### New Investor Army

Mr. Baird related such a need to a future problem which many in the securities business realize is beginning to take form. The Chairman's discussion on this score follows:

"I don't know how much time we have to accomplish our objectives and make our position secure. We all realize that the public's participation in the investment market is continuing to widen. The defense bond program alone is going to make a new army of investors. We all realize also that present conditions make the investor's problems most difficult. We realize too that no rule of our Association, or your state securities law, or even the SEC can prevent the fool and his money from being parted.

*"But when losses come again, somebody is going to be blamed again and we hope that our investment fraternity will be found to have discharged faithfully its responsibility in this matter.*

"Meanwhile—and this may sound idealistic—the time may come when we can arrive at a more professional status and we can give more of our attention to setting up standards as to who should be in the investment business."

Mr. Baird's address developed the history of attempts to devise a means for self-regulation of the securities business which culminated in the establishment of NASD. Major by-products of the self-regulatory effort have come into being, he said. "The principal by-product, which I don't believe the founding fathers of this Association ever thought of, is that for the first time in history the securities dealer begins to see what he looks like and it hasn't been altogether a pleasing sight."

### Outlines Future Problem

Chairman Baird also outlined what he saw to be the natural consequence of this experience.

"As I see the spirit in our organization, every endeavor will be made to preempt as much of the field of regulation as we can adequately cover," he said. "If I may presume to suggest to you in your Association work what we are beginning to find out in our Association, I hope you will not endeavor to protect and defend security laws and security commissions that are inadequate, obsolete and ineffective or are being run on a political basis; because all the resolutions that you care to pass at such a meeting as this, in which you point with pride or view with alarm, won't be of much help to those commissions which are innocuous or ineffective. I don't think you can fool the SEC and, as we move along in our own work, you won't fool the securities dealer; which means that if your Commissioner is doing constructive work and eliminating red tape and bureaucracy, you will have the whole-hearted support of our membership.

"It seems to me your Association can be of particular help to its membership by stirring up those Commissioners who are lagging in their work. You must remember that as our membership becomes more experienced in self-regulation, it will be equally critical of state regulation that is not effective and is merely red tape."

## Dealer Takes Issue With Rea; Cites Merits of Over-the-Counter Markets

Small Public Interest in Numerous Curb Securities Illustrated by Trading Data

Following are extracts from letters received by the NASD from members in various parts of the country commenting on the speech of George P. Rea, president of the New York Curb Exchange. Extracts from Mr. Rea's speech appear in an adjoining column.

Mr. Rea in his speech extolling the virtues of exchanges, in effect recommends that all securities should be dealt in on exchanges. By implication, the over-the-counter market is pictured as a thriving, unorganized system working outside of the pale of any regulations and benefiting from discrepancies between stringent regulations imposed upon exchange trading and its own freedom from similar restrictions. Mr. Rea does not touch on the many elements which enter into the desirability of exchange versus over-the-counter trading in individual securities. These considerations are as pertinent and as valid today as they have been for many years past, quite apart from any discrepancy in regulation between the two types of market.

### Exchanges Later Development

The over-the-counter market is the oldest kind of market for dealing in anything of value, whether securities or commodities. The exchanges are a latter-day development. There can be no question of the necessity for exchanges as the capitalist system has developed in the last century. However, the application of exchange trading technique to those classes of securities which are not suitable for exchange trading is contrary to the public interest. The theory of the exchange market, as we know it in this country, is that of an auction market, i.e., at a focal point buyers and sellers come together through their representatives and the buying and selling orders are matched up at a fixed rate of commission.

With the successful functioning of this theory, there can be no argument. However, the technique of an exchange cannot be successfully applied to securities having the following characteristics:

1. Lack of speculative interest;
2. Small capitalization;
3. Limited distribution;

## Mr. Rea on Exchanges Vs. Over-the-Counter Markets

Following are extracts from the speech of George P. Rea, president, New York Curb Exchange, at the annual convention of the National Association of Securities Commissioners, Oct. 8, 1941.

And now we turn to you gentlemen for support—support in our efforts to provide protection for security owners in the fullest measure. . . .

When there is a market place characterized by the very highest ethics, the fullest publicity, the most complete disclosure of all essential facts concerning a security transaction—a market place to which you may come for information and assistance—a market place regulated by the Federal government, why do you not insure for your citizens the protections afforded by that market? . . .

There are two principal methods employed to accomplish this [enabling sellers and buyers of securities to complete transactions] which in the interest of brevity I may characterize as the brokerage method and the dealer method. . . .

On the Exchange, the former, the brokerage method, alone prevails in so far as the customer is concerned. Over-the-counter trading—or finding a buyer yourself—is the dealer method. . . .

He [the dealer] ostensibly deals at arms length. He has no responsibility other than that of paying for securities purchased and he may not induce a sale by fraud but there his responsibility ends. He is under no duty to disclose any information or adverse interest which he may have. He may in truth insure all angles of a profitable transaction before making any commitment. . . .

. . . . urge your respective legislatures to make as a condition of your approval of an issue its listing, when

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4. High price;
5. Desirability for portfolios of institutions, such as insurance companies which often wish to negotiate on a sizeable block at one price.

Damage to the public arises when exchange technique is applied to the restricted-volume type of security. An essential part of the over-the-counter market in this type of security is the process of merchandising, intensive ef-

fort by way of circulars, telephone calls, newspaper advertising, etc., to bring together buyer and seller who otherwise would not get in touch with each other. This principle is recognized in the Securities Exchange Act of 1934 which provides that when application is made for admission of a security to "unlisted trading privileges," it must be shown that there is adequate distribution and public trading within the vicinity of the exchange. In fact, some stocks have been removed from "unlisted trading privileges" because of the lack of these characteristics.

### Listing Does Not Make Market

Many illustrations could be cited to show that listing in itself does not create a market for a security. In recent years there have been many securities which, after full listing, had a much poorer market on the exchange than they had previously enjoyed over-the-counter. This was due to the fact that these securities lacked speculative interest, notwithstanding that they measured up to the conventional requirements in regard to size and distribution.

There can be little doubt that the 147 equity securities on the Curb in which 1940 trading averaged about 3 shares per day are seriously unsuited for auction trading. So small a degree of public interest in a security necessarily calls for the merchandising effort of the over-the-counter dealer in order to bring together the best available bid and offer.

As to Mr. Rea's statement that he seeks to extend competition between the markets and that securities not listed enjoy a dealer monopoly, one needs only point to the SEC's decision in the matter of the American District Telegraph Co. (N. J.) 7% convertible preferred where the stock was removed from "unlisted trading privileges": [said the SEC] "In effect, therefore, the market in this stock on the New York Curb Exchange appears, on the record therein, to be primarily a private dealer's market, maintained by the specialist in competition with the private markets made by the over-the-counter dealers. It is clear that this kind of market activity is not 'public trading activity' within the meaning of section 12(f). Implicit in the general tenor and specific standards of section 12(f) is the conception of an exchange as primarily a public auction market. When account is taken of this fact, it must be recognized that the data set forth above indicate insufficient public

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## Economic Justification Decides Which Function Prevails, Dealer Says Answering Rea

**Security Does Not Deserve Listing Unless Wide Public Interest in Issue Exists**

Sooner or later, the economic justification for economic activity must be proved by actual functions, says "P. S. G.," a Mid-western dealer in a letter to NASD on Mr. Rea's speech. In other words, if one way of doing a business works out better than another, it is bound to prevail. The transportation field is an example. In this particular field there is regulation which may tend to accelerate or slow down the trend from one type of transportation to another, but even with regulation the trends do exist and must sooner or later prevail.

As I see it, the place of the Exchanges is in providing an auction market where orders can be matched in securities in which there has already been developed a wide public interest. The place of the over-the-counter dealers is in distribution of new securities or of new blocks of outstanding securities of companies which already have investor interest, and of providing redistribution of securities where the public interest is not wide enough to provide an auction market automatically. This type of business justifies a higher profit than the nominal commission on the Exchanges which, in itself, is an admission that the broker on an Exchange merely performs a routine function of considerably less difficulty than the function of the over-the-counter dealer.

### No Substantial Effort

The Stock Exchange commission assumes that a buyer or a seller can be found at one spot and that if no buyer or seller is found nothing more will be done about it until he shows up. No solicitation or substantial effort is involved. The corollary of this is that a security does not deserve listing unless there has been created a wide public interest in it so that there will be constant bids and offerings available which can be channeled to one spot.

The effort to secure additional listings of many securities in which this wide public interest does not exist takes the Exchanges into a market in which they are not equipped to function to the proper interest of the holders of the securities. In fact, during the last few years, the lack of volume (which is a reason for wanting additional listings) is actually proof that many securities which are listed do not have suffi-

## Mr. Rea On Exchanges Vs. Over-the-Counter Markets

*(Continued from Page 4, Column 2)*

*suitable, on a national securities exchange. . . .*

*Securities which are not listed enjoy a monopoly—a dealer monopoly. While securities which are listed can be traded either on the Exchange or over-the-counter. . . .*

*What I am really suggesting is to extend this field of competition by listing on exchanges securities which qualify in size and capitalization and to let the investor himself decide which market best suits his individual needs. . . .*

*And for the protection of the public, the business of dealing in stocks and bonds must be centered on the exchanges. . . .*

*I am thinking in terms of the welfare of every school teacher who has saved some of her salary, every machinist who works for a great corporation, every man with an idea that will build a fuller life for the people if he can find the capital with which to develop it. These are the ones we must have in mind. . . .*

*You will recall our last great depression. Many banks and insurance companies held real estate mortgages—good ones, too. The fault was not with the mortgages. The fault was that they could not be sold and cash could not be realized—they were not liquid. . . .*

*Let us not have such a thing happen to securities. Put your weight along with ours to encourage the listing of securities on exchanges and to insure this liquidity of exchange markets. . . .*

ciently active inquiries on both sides of the market to justify listings and may have better markets, or at least larger markets off the board than on.

### After Market Offerings

The prevalence of after-the-market offerings of blocks of listed stocks proves that the type of distribution afforded by the over-the-counter dealers can produce results which offerings on the board cannot do.

It seems to me it is a question of determining from the characteristics of a particular security whether the investor is better off on the Exchange or off. This is a question of opinion, and of expert opinion, but I have no doubt that the effort is being made to secure trading privileges on the Exchanges for many securities whose proper location is the over-the-counter market.

## Dealer Takes Issue With Rea

*(Continued from Page 4, Column 3)*

trading activity to justify the continuance of unlisted trading in this stock on the New York Curb Exchange."

If the dealer, who brought the action for removal of American District Telegraph preferred from the Curb, on his own initiative and at his own expense, had not done so, the "private dealer's market" would have continued on this exchange.

The woes of the New York Curb stem from the excess facilities which are geared up for the speculative volume of the nineteen twenties. These excess facilities cannot be sustained profitably by bringing to the trading floor of the exchange additional securities which do not lend themselves to auction trading. The New York Curb Exchange is unwilling to meet this problem in the way it has been met in other fields—contraction. It is not willing to contract sufficiently so as to attune its facilities to an investment market without speculation.

Very truly yours,

M. W.

## Dealers Make Markets

GENTLEMEN:

It is public interest, public knowledge and public ownership that induces a good market, and not the mere fact of listing. Listing, in itself, creates no market at all. It is the activity of trade and the efforts of dealers to buy and sell for the benefit of their clients that causes a market, not the mere fact that a file of statistics has been delivered to the Exchange. There are "listed" stocks about which very little information is available and yet an active market exists. There are many others, also "listed," where complete data is on file, which are inactive, and where there is a very poor market, indeed.

New York, Philadelphia and Boston bank stocks are not listed nor are insurance company stocks, and yet a very active market exists, often at spreads which are considerably closer than applies for many "listed" stocks.

### About School Teachers

It can readily be asked: who cares more conscientiously for the 'school teacher who has saved her salary': her local dealer of integrity who has helped her for years, or the absent broker? Who will try to get her the fairest price

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## Securities Dealers Discuss Proposed Amendments To Securities Exchange Act

**Frank Dunne, N. Y. Sec. Dealers Head Argues for Over-Counter Markets**

Plans for opposing proposals to expand the number of securities available for exchange trading were discussed recently at a meeting sponsored by the New York Security Dealers Association. Among amendments to the Securities Exchange Act of 1934, upon which hearings are now being held by the House Interstate and Foreign Commerce Committee, are recommendations that the so-called proxy and common control sections be revised so as to make the provisions of those sections applicable to many companies not now covered. The majority of the securities of such companies are traded in over-the-counter markets.

The real purpose of these recommendations "is to increase the volume of trading on the exchange by making practically all over-the-counter issues available for application for unlisted trading," Frank Dunne, president of the NYSDA, said at the meeting. Continuing, Mr. Dunne said:

"The suggestions to have these sections apply to corporations with total assets of \$3,000,000 and 300 stockholders have been made apparently without consideration of the public interest. Everyone experienced in security markets knows if such a small yardstick is used for application for unlisted trading privileges in issues, under Section 12 of the Act, that such issues, almost without exception, do not lend themselves to auction trading. It is questionable whether the admission of such securities to exchange trading will increase the volume on the exchanges appreciably, but it will definitely result in hurt to the public because of inferior exchange markets in the issues and lack of dealer interest necessary to merchandise the securities and maintain their over-the-counter markets now serving the public."

Edward E. Chase, president of the Maine Securities Co. of Portland, told the meeting that a committee of Maine securities dealers proposed an additional form of amendment of the proxy section. The Maine dealers' proposal would prohibit the granting of unlisted trading privileges to issues not already fully listed on an exchange. The right of the issuer would be preserved in this way, Mr. Chase maintained.

## Association Election Machinery

(Continued from Page 1)

named in the left-hand column are the nominees, those in the right-hand column the retiring Committee members)

### District #1

(Ida., Ore., Wash., Nev.)

Waldo Hemphill  
Waldo Hemphill, Inc.  
Seattle

Edmund F. Maxwell  
Blyth & Co., Inc.  
Seattle

### District #3

(Ariz., Colo., N. Mex., U., Wyo.)

Arthur H. Bosworth  
Bosworth, Chanute, Loughridge and Co.  
Denver

Gerald L. Schlessman  
Brown, Schlessman, Owen and Co.  
Denver

Malcolm F. Roberts  
Sidlo, Simons, Roberts and Company  
Denver

William R. Owen  
O'Donnell-Owen and Company  
Denver

Paul E. Youmans  
Sullivan and Company  
Denver

William F. Nicholson  
Harris, Upham and Company  
Denver

### District #4

(Minn., Mont., N. D., S. D.)

Dewey F. Gruenhagen  
Thrall West Company  
Minneapolis

James MacRae  
Blyth and Company, Inc.  
Minneapolis

William Mannheimer  
Mannheimer-Caldwell, Inc.  
St. Paul

G. M. Phillips  
Caldwell Phillips Co.  
St. Paul

Joseph L. Seybold  
Kalman and Company  
Minneapolis

Robert J. Stallman  
Wells-Dickey Company  
Minneapolis

### District #5

(Kansas, West Mo., Okla.)

George K. Baum  
Baum, Bernheimer Company  
Kansas City

Frederick H. MacDonald, Chrm.  
Callender, Burke & MacDonald  
Kansas City

Harry A. Beecroft  
Beecroft, Cole & Company  
Topeka

J. B. Snyder  
Estes, Snyder & Co., Inc.  
Topeka

### District #6

(Texas)

Jack P. Brown  
Dallas Union Trust Company  
Dallas

Thomas Beckett  
Beckett, Gilbert and Co.  
Dallas

J. L. Mosle  
Mosle and Moreland  
Galveston

Milton R. Underwood  
M. R. Underwood and Co.  
Houston

### District #7

(Ark., East Mo., Ky.)

Firmin D. Fusz, Jr.  
Fusz-Schmelze & Co.  
St. Louis

Walter W. Ainsworth  
Metropolitan St. Louis Company  
St. Louis

John D. McCutcheon  
John D. McCutcheon and Co., Inc.  
St. Louis

Albert Theis, Jr., Chrmn.  
Albert Theis & Sons, Inc.  
St. Louis

A. B. Tilghman  
A. G. Edwards & Sons  
St. Louis

Charles H. Stix  
Stix & Co.  
St. Louis

### District #8

(Ill., Ind., Ia., Mich., Nebr., Wisc.)

Augustus Knight  
Knight, Dickinson and Co.  
Chicago

John W. Clarke  
John W. Clarke, Incorporated  
Chicago

L. Raymond Billett  
Stern, Wampler and Co., Inc.  
Chicago

Ralph W. Longstaff  
Rogers and Tracy, Inc.  
Chicago

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## Chicago NASD Members Reviewed By District Committee Via Questionnaire

**Purpose Is To  
Obtain Financial Data;  
Wider Use Seen**

All members of the Association in the city of Chicago last week received a questionnaire from the District Committee. The questionnaire's primary purpose is to obtain data on the financial condition of members in that city but inquiry also is made into various other matters relating to conduct of members' business.

Distribution of the questionnaire in Chicago followed immediately upon completion of the questionnaire review of members in Indianapolis. Thus District number 8 has undertaken to analyze condition of members in two of its largest centers. It is expected that the District will take further steps in this direction as time goes on.

Charles B. Crouse, chairman of the District Committee, in a letter to Chicago members accompanying the questionnaire form said: "Every intelligent investment dealer knows that the securities business has been harmed by the failure of the business itself to correct unsound financial practices or conditions. It is readily apparent that one of the most constructive things which your Association can do is to remedy this situation." Stock Exchange members in Chicago are required, under the program pursued, to supply the Association with a copy of Exchange questionnaire reports with a balance sheet dated no later than August 31. The NASD questionnaire was as of October 31.

## Reports Being Completed On Denver Mass Examination

Examiners of the Association's Washington staff and field organizations are completing their reports on the mass examination last month of fifty-three members in District #3 (Arizona, Colorado, New Mexico, Utah and Wyoming). Two examiners from Washington, two field secretaries and one field examiner spent two weeks in Denver and the remainder of the District reviewing books, records and accounts of members at the invitation of the District Committee. Their final report to the Committee is expected to be ready shortly.

The mass examination of District #3 members followed a similar examination of members in District #4.

(Continued from Page 6)

C. William Raffensperger  
Raffensperger, Hughes and Co., Inc.  
Indianapolis

Bennett S. Martin  
The First Trust Co. of Lincoln  
Lincoln, Neb.

Porter King  
King, Mohr and Company  
Mobile

Macrery B. Wheeler  
Wheeler & Woolfolk, Incorporated  
New Orleans

Jo Gibson, Jr.  
Webster & Gibson  
Nashville

Henry J. Blackford  
A. M. Law & Company  
Spartanburg, S. C.

Arthur S. Sedley  
The Bankers Bond Co.  
Louisville

George T. Lennon  
George T. Lennon and Company  
Columbus

Neil Ransick  
Charles A. Hinsch and Company, Inc.  
Cincinnati

Roderick A. Gillis  
Russell and Co.  
Cleveland

Harold C. Patterson  
Auchincloss, Parker and Redpath  
Washington, D. C.

Harry R. Piet, Jr.  
John D. Howard and Co.  
Baltimore

David S. Soliday  
Hopper, Soliday and Co.  
Philadelphia

William K. Barclay, Jr.  
Barclay, Moore and Co.  
Philadelphia

S. Davidson Herron  
Mellon Securities Corporation  
Pittsburgh

Irving D. Fish  
Smith, Barney & Co.  
New York

Robert C. Common  
Victor, Common & Company  
Buffalo

E. J. Wuensch  
Indianapolis Bond and Share Corp.  
Indianapolis

A. C. Potter  
Burns, Potter and Company  
Omaha, Neb.

### District #9

(Ala., Fla., Ga., La., Miss., S. C., Tenn.)

Rucker Agee  
Ward, Sterne, Agee & Leach  
Birmingham

Geo. H. Nusloch, Vice Chrmn.  
Nusloch, Beaudean & Smith  
New Orleans

Francis D. Schas  
Bullington-Schas & Co.  
Memphis

W. W. Pate  
McAlister, Smith & Pate, Inc.  
Greenville, S. C.

### District #10

(Ohio and Louisville, Lexington, Ky.)

Fred L. Almstedt  
Almstedt Bros.  
Louisville

Ewing T. Boles  
BancOhio Securities Company  
Columbus

Harry R. Niehoff  
Weil, Roth and Irving Company  
Cincinnati

Corwin L. Liston  
Ledogar-Horner and Company  
Cleveland

### District #11

(District of Col., Md., Va., N. C., W. Va.)

Y. E. Booker  
Y. E. Booker and Co.  
Washington, D. C.

Herbert W. Schaefer  
Herbert W. Schaefer and Co.  
Baltimore

### District #12

(Delaware, Pennsylvania)

Holstein De Haven Fox  
A. C. Wood, Jr. and Co.  
Philadelphia

Philip D. Laird  
Laird and Company  
Wilmington

Milton G. Hulme  
Glover and MacGregor, Inc.  
Pittsburgh

### District #13

(Conn., N. J., N. Y.)

Frederick M. Warburg, Vice Chrmn.  
Kuhn, Loeb & Co.  
New York

Frank C. Trubee, Jr.  
Trubee, Collins and Co.  
Buffalo

(Turn to Page 8, Column 2)

## Dealer Takes Issue with Rea

(Continued from Page 5)

for her little list when she wants to use her savings to buy a home? The answers are obvious.

There are many more inferences in Mr. Rea's address. Let me quote—"you will recall our last great depression. Many banks and insurance companies held real estate mortgages—good ones, too. The fault was not with the mortgages. The fault was that they could not be sold and cash could not be realized—they were not liquid."

Are we guilelessly to construe this to mean that banks and insurance companies could sell their bonds and get their money out of them in those days? Did we not hear of State Insurance Commissioners, appraising bonds at "fair" value, but not at quoted market? They were liquid, indeed, at 30 cents on the dollar! So were the farm mortgages at that ratio. They could be realized, many of them, at considerably less than that. Anything is liquid—at a price. Mr. Rea has failed to distinguish between liquidity and price stability.

Yours truly,  
J. B. S.

## Threat to Dealers

DEAR SIR:

I cannot emphasize too strongly that should Mr. Rea's recommendations prevail, the end of the small dealer would be in sight. Mr. Rea confidently states that the admission of stocks to unlisted trading not only would create better markets but give the customer added protection against the much criticized dealer.

On this point I am sure he is misinformed. In ——— alone, local securities valued at more than one billion dollars at present market values are traded actively. Several of these had had unlisted trading privileges on the Curb Exchange for many years but it is a matter of record that those particular stocks not only have much poorer markets on the Curb Exchange than over-the-counter but that over-the-counter trading in those particular securities is much less effective in comparison to other locals which are not listed. To illustrate my point, in slightly different words, investment buyers in ——— apparently show less disposition to purchase local securities which have unlisted privileges than those which are purely traded over-the-counter. This would tend to explode one of Mr. Rea's theories.

Very truly yours,  
R. S. M.

## Significant SEC Opinion

The Securities and Exchange Commission recently made public an opinion of its General Counsel, Chester T. Lane, which set forth hypothetical cases wherein a broker [dealer] raised the market price of a security in the course of accumulating a long position in that security. The opinion reviewed the circumstances under which the broker [dealer] might resell the security and in the one instance act in violation of anti-manipulation provisions of the Securities and Exchange Act and in the other act so as to avoid such violation.

"The opinion deals with the case of a broker [dealer] who accumulates a block of securities for the purpose of later resale," the SEC release says. (The official release is entitled: "Securities Exchange Act of 1934, Release No. 3056"). "In such a situation," Mr. Lane points out, "the broker's purchases may frequently raise the market price of the security. If the broker begins to sell the security at a time when the market still reflects the effects of his activity, the natural inference would be that he had raised the market price for purposes of manipulation. However, where the broker refrains from selling for a sufficient length of time after his purchases so that the market price of the security no longer represents a price for which he is responsible, his failure to take advantage of the market price resulting from his buying would tend to show that he had not caused the rise in market prices for manipulative purpose."

Frank Dunne  
Dunne & Co.  
New York

Charles F. Hazelwood  
E. H. Rollins & Sons, Incorporated  
New York

Roger B. Ray  
Portland, Me.

Thomas A. West  
Perrin, West & Winslow, Inc.  
Boston

## Association Intervenes

(Continued from Page 1)

that it should endeavor to represent the interests of such majority of its members, in a representative capacity, so that the Commission may have a more complete record before it upon which to make required finding than there has been made in some similar cases in the past. To the best of our knowledge and belief, neither the individual nor the collective interests of this portion of our membership will be represented, as such, in these proceedings unless this application is granted."

### Bases For Approval

Section 12 (f) of the Securities Exchange Act, under which the Curb seeks to obtain unlisted trading privileges on the above-mentioned issues provides that no such application shall be approved "unless the applicant exchange shall establish to the satisfaction of the Commission that there exists in the vicinity of such exchange sufficient widespread public distribution of such security and sufficient public trading activity therein to render the extension of unlisted trading privileges on such exchange thereto necessary or appropriate in the public interest or for the protection of investors." The Commission's authority is also subject to the restriction that "No application . . . shall be approved unless the Commission finds that the continuation or extension of unlisted trading privileges . . . is necessary or appropriate in the public interest or for the protection of investors."

## Four Fined In October

Four fines and five penalties of censure were imposed upon members by District Business Conduct Committees during October. The largest fine imposed by a DBCC last month was for \$500.

(Continued from Page 7)

Clarence E. Unterberg  
C. E. Unterberg & Co.  
New York

William J. Minsch  
Minsch, Monell & Co., Inc.  
New York

District #14  
(Me., Mass., N. H., R. I., Vt.)

Donald O. Smith  
Smith, White & Stanley, Inc.  
Waterville, Me.

B. Earle Appleton  
Pearson, Erhard & Co., Inc.  
Boston