NASD News

PUBLISHED BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Back the Attack—
Try ~~Buy~~ More Than Before

Volume IV | Philadelphia, Pa., May, 1944 | Number 4

Competitive Bidding Advocated by Department of Justice; PSI Argument Heard

Competitive bidding for all securities issues, with the successful bidder engaging in a form of competitive bidding himself in order to allot participations to other dealers, is proposed by the Department of Justice as a substitute for the traditional method of underwriting securities which has been employed in the United States for 30 years or more.

This proposition was presented by the Government anti-trust enforcement agency to the Securities and Exchange Commission when the latter heard final argument last month on its review of disciplinary action taken by NASD against members for violating underwriting and selling group agreements in an offering of Public Service of Indiana bonds in December 1939.

Obviously, the decision of the SEC on the question of the disciplinary action taken by the Association and the disposition it makes of the attack on the underwriting agreement can have far-reaching consequences for the securities business as a whole as well as for underwriters and dealers, issuers, and public investors as well as the national economy. The NASD, in defending its disciplinary actions and the traditional investment banking system, addressed an appeal to the SEC that it not undermine either by an adverse decision. The NASD believes that the underwriting system employed in the United States is a method that rallies on a national basis intensive and salutary distribution efforts both of large underwriters and small distributors and dealers to the end that new issues of corporate securities obtain that widespread and well-digested distribution which the issuer of securities desires. This system would be completely destroyed were the SEC to find, as the Department of Justice and SEC Counsel have demanded, that agreements among underwriters and selling group agreements are in restraint of trade within the meaning of the Sherman Act. Destruction of the system would, NASD believes, bring back the practice of special prices to selected lists of buyers, with small distributors, particularly in the smaller centers, becoming brokers only in the distribution of new issues. Further, the NASD believes that, if the present system is thrown into the discard, certain types of underwritings that have been undertaken in the past could not even be attempted; and that for such to be attempted under any system, some reasonable agreement for price maintenance over a reasonable length of time to permit success of the distribution would be essential.

The United States, the NASD pointed out, is a continent

(*Continued on page 4*)

Securities Business Organizing for Fifth War Loan Drive's $6 Billion Individual Sales

The slogan for the Fifth War Loan Drive opening June 12, "Back the Attack—Buy More Than Before," has a double meaning for the securities business. Not only will the business put it to use in its contacts with investors, but the effort on the part of securities people to make the coming drive a success will be under a "Try More Than Before" slogan.

The goal is higher and to reach it will mean harder work, improved organization and no interference. As this is being written, the thought in most everyone's mind is the scheduled invasion of the European continent by Allied forces. Obviously, the forthcoming drive promises crucial developments bearing on the duration of the war. No drive of the past has occurred when so much was at stake nor have preparations for any drive of the past been made in an atmosphere so electric with successful prosecution of the Allied effort.

Over-all goal—$16 billion!

Individual sales—$6 billion!

"Since January 1, 1944, the direct costs of the war have

(*Continued on page 5, column 1*)

Views on Advertising NASD Membership Sought

A Committee of the Board of Governors has been considering the question of permitting members of NASD to publicize the fact of their membership in advertisements, on letterheads, confirmations, etc. This Committee will make a report on the subject at the next meeting of the Board, June 5-6. At present such advertising is prohibited.

In order that it may have as complete a cross-section of members' views as possible, the Committee is asking that members express their approval or disapproval of this proposal by writing either to the Executive Office or to James Coggeshall, Jr., 100 Broadway, New York City. Mr. Coggeshall is Chairman of the Committee that has been inquiring into the matter.

Members who wish to register their vote on this question should do so promptly and in the manner suggested. The Executive Office address is 1616 Walnut Street, Philadelphia 3, Pa.

NASD Loses Court Fight on Curb Applications

The U. S. Circuit Court of Appeals at Philadelphia last month ruled against the NASD on a petition filed by the Association to have set aside an order of the SEC granting the New York Curb Exchange authority to extend unlisted trading privileges to issues of public utility bonds. The Court upheld the SEC action in this first test of such an order. Initially, the contest involved an issue of Central Power and Light and an issue of Kentucky Utility Company bonds. The former issue was redeemed before the case came to trial.

The primary question involved in SEC rulings on exchange applications for unlisted trading privileges is the "vicinity" of the exchange. In granting unlisted trading privileges in the bond issues mentioned, the Commission decided that the vicinity of the Curb, insofar as these issues went, embraced Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania and Ohio. The NASD had contended for a much more restricted definition: either limited to New York City alone, to an area within one hour's commuting distance of New York City or to a territory enclosed by lines midway between New York City and Philadelphia and New York City and Boston, Philadelphia and Boston being those cities nearest to New York in which there are securities exchanges extending unlisted trading privileges.

In its decision, the Court said: "We can conceive, of course, of circumstances in which a most widespread distribution of a security might not aid an exchange in establishing a vicinity in respect to an application for extending unlisted trading privileges to that security. For example, there might be a very extensive distribution of a given security in an area in which the Curb had neither members nor facilities. Such an area could not be considered to be in the vicinity of the Curb. On the other hand if Curb facilities are present in a given locality, the extent of the distribution and nature of the holdings of a certain security in that locality must be deemed to be relevant in determining vicinity. . . . The Commission must consider the circumstances attendant upon each application made to it and decide it on the particular facts inhering in each case. . . . Congress intended to cause the Commission to approve the extension of unlisted trading privileges to a security when the applicant exchange can demonstrate its ability to support an adequate market in that security. . . ."

As to the Kentucky Utility bonds, the Court expressed the view that the Commission could have included in the vicinity of the Curb a wider area than it did and on this score went on to say: "They are public utility bonds of the kind which the ordinary purchaser expects to be able to buy or sell on a national exchange."

Examination Program Under Way, 600 Members Get Schedules

This year's examination of NASD members got under way last month with the mailing of transaction schedules to over 600 members. At intervals during the next several months, the schedules will be mailed to other members until all have been covered.

The examination program this year will be conducted along the same lines as that carried out in 1943, the forms used being identical to those employed last year. The only important difference between the 1943 and the 1944 program is that the Board of Governors this year is extending the examination program to branch offices of members.

The examination calls for a report by the member of the last fifty consecutive sales to customers and related purchases from or sales for such customers had during a given 6-month period. The schedule forms are accompanied by a letter of instructions and a guide which clearly set forth the facts to be elicited and the manner of their being recorded on the forms.

Schedules are mailed from the Executive Office to the member as his name is reached on the mailing schedule. Each member has been given a key number by the staff of the Executive Office, and this number is the only identification which appears on the forms sent to members. When completed, the schedules are returned by the member to the Executive Office for the necessary computing work. They are then sent to the District Committee having jurisdiction, and again the only identifying mark appearing on the questionnaire is the key number. In general, when District Committees decide that a questionnaire requires further inquiry or investigation on their part, the name of the member is disclosed to the Committee.

District Chairmen, at a meeting March 1, reviewed results of last year's examination program and unanimously agreed that the same form and methods should be employed this year.

Seems Longer Ago . . .

It isn't known at the moment with what ceremony the occasion will be marked, but the Editors of the NEWS are reminded that the Securities and Exchange Act will be ten years old on June 6, 1944.

Dillman Joins Chicago Paper

The IBA announces that David Dillman, Educational Director since 1936, resigned to become Managing Editor of the *Chicago Journal of Commerce*. He succeeds William L. Ayers. Mr. Dillman became a member of the staff of the *Journal of Commerce* in 1924, upon his graduation from Northwestern University, becoming Financial Editor and Assistant Editor. He left the paper in 1932, and was later Staff Economist of *Business Week Magazine*, which position he left to join the IBA.

NASD DISCIPLINARY POWER, RIGHT TO EXAMINE MEMBERS UPHELD BY SEC

Holding that the NASD has the power to discipline members for charging prices bearing no reasonable relation to prevailing market prices and to require members to make periodic reports with respect to their trade practices, the Securities and Exchange Commission in a recent order affirmed a fine of $250 imposed upon an NASD member, but found that the subsequent expulsion of the same member for refusing to respond to a questionnaire was "excessive and oppressive" and cancelled this penalty.

The case grew out of a complaint filed by a District Business Conduct Committee in August, 1941. The basis for the complaint was an examination which showed the member, in a series of transactions, sold securities to customers at mark-ups ranging up to 25.7 per cent. The average mark-up on the transactions was 13 per cent. Two other minor causes for the complaint were ruled out by the SEC. The Business Conduct Committee found the member violated the Rules of Fair Practice of the Association on these transactions and fined him $250. [It was this action which the Commission upheld.] Some time after the member had appealed this decision to the Board of Governors, the District Business Conduct Committee sent to him a questionnaire which was being employed in lieu of personal examination of members' books. The member refused to answer the questionnaire with the result that another complaint was filed against him and the decision on that complaint was expulsion from the Association. This decision was also appealed to the Board. [The SEC reversed the NASD on this expulsion.] The Board of Governors ordered a hearing on the District decisions be held by the National Business Conduct Committee at which the member appeared with counsel and at the end of which the member agreed that he had received a fair trial on the merits of the disputes. The Board reviewed the whole matter and in its decision upheld the District action on both counts. The Board decisions were then appealed by the member to the Commission, the first such appeal to be heard by the SEC. Its findings, therefore, are of major importance to the Association and its members.

While finding that the member had committed the acts with which he had been charged in the complaint involving mark-up practices and that he should have answered the subsequent questionnaire, the Commission took the Association sharply to task for the manner in which the complaint proceedings were handled.

"Business conduct committees," said the SEC in its opinion, "sitting in a quasi-judicial capacity, are in the difficult and vulnerable position of businessmen trying a competitor. Under such circumstances, they are bound to observe the highest standards of fair procedure. In so doing, they must not in any way discourage or abridge a respondent's exercise of any right which their rules afford or which simple justice demands, including the right to counsel. They should take every reasonable step necessary to insure that their deliberations are not affected by the personal prejudices of any of the participants in the proceedings. In cases of this type, their decisions ought to be supported, not merely by peremptory conclusions, but by articulated findings and a reasoned consideration of the relevant facts of the case.

"The hearing . . . was deficient in these respects; it was injudiciously handled; it violated Gleason's fundamental rights. . . . But although we do not find it necessary to remand the [mark-up] case because of Gleason's claim of prejudice on the part of the District Business Conduct Committee, the problem is one of grave internal concern to the NASD. Unless District Business Conduct Committees maintain high standards of justice and fair play, the whole NASD program may fall into disrepute."

In passing on the action of the member in refusing to answer the questionnaire, the Commission said:

"In our opinion, a business conduct committee, . . . does have the power to compel NASD members in its jurisdiction to make periodic reports with respect to their trade practices. Even though [the member] believed the Committee to be prejudiced, he should have supplied the data upon its request. His remedy against any misuse of the data by the Committee lay in an appeal from their actions. At the time he received the questionnaire, [the member] was appealing a charge of unfair pricing which had been brought by the same Committee; he felt that in trying him on this charge, the Committee had treated him unfairly and improperly; one of his defenses on this older charge, which he was fearful of prejudicing, was that the Committee did not have the power to investigate him, absent a complaint; the questionnaire method of obtaining information was a novel one in his District. Under the circumstances [the member] may honestly, though mistakenly, have believed that his Committee was not entitled to get the information from him which was called for by the questionnaire. Therefore, [the member's] refusal to answer would not appear to have been in wilful disregard of his duties as a member."

Elsewhere in its opinion, the SEC said: ". . . no matter what theory of the rule [Article III, Section 4] is adopted we think it clear that the NASD has ample power under it to discipline a member for charging prices bearing no reasonable relation to prevailing market prices." Further, discussing the evidence that the member's transactions were of the "non-position" or "riskless" type, the Commission observed: . . ."the dealer's purchase price for a security, which is contemporaneous with the sale price to the customer, may be presumed to be an adequate reflection of the prevailing market, and accordingly, the spread between purchase and sale price, not only measures profit but tends to measure, as well, the mark-up over market price." On both measuring bases, the SEC found the District Business Conduct Committee had reasonably interpreted the rules in disciplining the member for charging prices "in this type of trading" resulting in profits up to 25.7 per cent.

Since the member's defense for his mark-ups rested in part upon the claim that his pricing practices were guided by published quotations and that he did not sell above the newspaper quotation, the SEC reviewed at some length the

(*Continued on page 5, column 2*)

COMPETITIVE BIDDING ADVOCATED BY DEPT. OF JUSTICE

(*Continued from page 1, column 1*)

within the boundaries of which there prevail many types of investors, large, medium and small, with varying demands and interests. There exists a body of dealers numerically large enough to reach all. There are in the United States, too, more numerous financial centers, highly independent banks and insurance companies of all sizes, as contrasted with highly centralized and relatively fewer financial centers and institutions in England whose system of underwriting was referred to by the Department in oral argument before the SEC. The fact that in the American market there are differences as between the various sections of the country of three and sometimes four hours is a peculiarity of this market but one of major importance in any consideration of the system best suited to serve the economy efficiently.

At the hearing before the SEC, Counsel for the NASD, in addition to arguing the practical merits of the traditional American system of securities underwriting, denied that the arrangements under which such underwritings occur was in any way a violation of the anti-trust law; and, further, that the SEC had no authority under the Securities Acts to interpret the Sherman Act. Counsel for the Trading and Exchange Division of the SEC contended that the agreement among underwriters operated in restraint of trade, and argued that the Association, by enforcing agreements under its rules, was implementing a method of doing business that, the Commission should find, was affirmatively in violation of anti-trust laws.

The "PSI case" has been so long in arriving at this point preliminary to a decision by the SEC, and the eleventh-hour appearance of the Department of Justice has so dimmed the basic questions involved in the proceedings, that a summary of the facts would seem to be in order. They are:

In December 1939, a syndicate of underwriters was formed for public offering of $38,000,000 Public Service Company of Indiana First Mortgage 4's. Halsey Stuart & Co., Inc., was the syndicate manager. The bonds were offered to the public at 102. The underwriters' concession was 2 points and that of selling group members 1 point. Sixty-seven underwriters and 396 selling group members joined in the offering. Immediately upon the issue's being offered, violations of price maintenance provisions of the agreements occurred, and these became numerous as the offering proceeded. NASD investigated, found that some 90 members had violated the price maintenance provision, and eventually 74 of these members were disciplined—71 with fines and 3 with censures. These disciplinary decisions were approved on review by the Board of Governors in July 1941.

NASD disciplined members found to have violated their underwriting and selling group agreements under Article III, Section 1, of the Rules of Fair Practice which reads: "A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade."

District Committees which initiated the complaints against members and the Board of Governors which passed on the disciplinary actions of District Business Conduct Committees all based their decisions upon the grounds that a failure on the part of a member to observe a contract voluntarily entered into as part of a joint venture with other members was a departure from high standards of commercial honor and just and equitable principles of trade.

Fines imposed by the Association for the violations were promptly paid by disciplined members without protest. There is no question before the Commission as to the facts of the violations, nor is there any issue over the penalties imposed being oppressive. The attacks on the action of NASD in these disciplinary decisions are based, in the first place, upon the interpretation of the rule quoted above upon which the propriety and legality of the decisions rest, and, secondly, upon the agreement among underwriters and the selling group agreement—undergoing their first attack on anti-trust grounds.

In October 1941, the SEC called the decisions up for review. Hearings were held before a Trial Examiner during 1942, and, after briefs had been filed by Counsel for the Commission and the NASD, the case was set down for oral argument before the Commission itself on September 30, 1943. When that date arrived, a quorum of Commissioners was not available, and argument was postponed for several weeks. In the interval, Counsel for NASD was taken ill.

In December 1943, the Department of Justice, without, so far as is known, prior notice to the SEC or to NASD, notified the Commission of its desire to intervene. This request was granted, but Counsel for the Association objected, and the Commission received briefs on the question of intervention, finally affirming its original decision granting the Department intervention.

Those are the events precedent to oral argument before the Commission on April 12, 1944.

Without intending to minimize the character and scope of evidence introduced and of the arguments presented by Counsel for the Trading and Exchange Division of the SEC, intervention of the Department of Justice and the nature of its attack is the dominant point of interest as opposed to the Association. The Department, in its brief as intervenor and in its arguments before the Commission, contended that the method of underwriting and distributing new issues of securities involves price-fixing, and that, as such, the whole of the method is illegal, per se. In addition, the Department attacks the authority of the Association to enforce agreements among underwriters and also attacks the foundation upon which the legality of NASD rests—the Maloney Act Amendment to the Securities Exchange Act of 1934. The Department labelled the business a "dangerous instrumentality," and charged that underwriters and dealers in securities are "throwing a monkey wrench into the economic machinery. It is they who are creating an artificial market and upsetting the natural course of events."

Representatives of the Department ridiculed the contention that the system of underwriting of securities which has satisfactorily served the Nation's industries for over 30 years has been a constructive force in promoting the economic development of the country and scoffed at NASD's further contention that any capriciously inspired overthrow of that system would not only be destructive to the business but disruptive of the economic system. The Department said it was willing to speculate on the eventualities of the demise of the traditional underwriting system and, in the course of such

(*Continued on next page*)

(*Continued from page 4*)

speculation, advocated competitive bidding for all issues of corporate securities, following up this proposal with the proposition that, when an issue of securities had been awarded, the successful bidder or bidders could then turn to all dealers in securities and receive bids for participations. Such a system, the Department spokesman indicated, would be a "free and open market."

It was the position of Counsel for the Association that the disciplinary action was taken for violation of contractual, fiduciary and moral obligations voluntarily assumed by the members, and that the failure to adhere to such obligations is contrary to high standards of commercial honor and just and equitable principles of trade required by "Rule 1." Counsel for the Association further contended that the provision of the Maloney Act prohibiting Commission approval of an Association rule which would fix minimum prices or concessions, does not relate to a rule, already approved by the Commission, which does not fix minimum prices and concessions but which requires high standards of commercial honor and just and equitable principles of trade. The judicial authorities for many years have established that the failure to observe contractual, fiduciary and moral obligations is inconsistent with high standards of commercial honor and just and equitable principles of trade. Therefore, Association Counsel argued, the disciplinary action of the Association must be affirmed unless it is otherwise unlawful.

Association Counsel argued that the disciplinary action and the underwriting and selling group agreements themselves were not unlawful under the anti-trust laws for several alternative reasons. In the first place, in response to Commissioner Healey's expressed interest in the question of joint adventure, Association Counsel contended that the members of the underwriting and selling groups in the PSI distribution were engaged in a joint adventure to secure a bona fide and legitimate business result, namely, the distribution of the PSI bonds. Since this joint adventure did not, and could not, control market prices for securities generally, it was no more in violation of the anti-trust laws than if a large corporation had undertaken to distribute the bonds. The joint enterprise had no monopoly in the securities business any more than the United States Steel Corporation, controlling 50 per cent of the steel business, violated the Sherman Anti-Trust Laws.

In the second place, Counsel for the Association argued that such agreements are not unlawful when they are ancillary and incidental to a valid commercial transaction and were not entered into for the primary purpose of controlling market prices or had not a necessary result of controlling or affecting market prices. It was conceded that the underwriting and selling group agreements in the PSI bonds did not, and could not, have any effect upon market prices for securities generally.

War Loan

(*Continued from page 1, column 2*)

exceeded $23 billion," said Secretary Morgenthau on April 3, announcing plans for the Fifth Drive. "With the critical phases of the war still ahead of us, certainly no decline in expenditures is now in prospect. For this reason, the $16 billion—all of which is to be raised from investors other than commercial banks—is urgently needed."

Major emphasis of the Fifth Drive will be on the quota of $6 billion for individual sales. To emphasize this phase of the Drive, during the first two weeks—June 12 to 26—only sales to individuals will be reported by the Treasury although subscriptions from non-banking investors will be received. An all-out selling campaign to non-banking sources other than individuals will be launched June 26.

Los Angeles Dealers Making Post-War Manpower Study

A post-war plan for the securities business of Los Angeles and vicinity is being studied with two ultimate purposes: (1) Jobs for demobilized men and (2) infusion of new young blood into the business. When drafted, the solution adopted for Southern California will be submitted to the securities business as a whole for possible national application and expansion.

At the conclusion of the Fourth War Loan drive in early March, representatives of the Los Angeles Post-War Planning Committee began their work, initially through a "Census Committee" headed by Donald Royce of Blyth & Co., Inc., which set out to explain objectives and learn the number of men each organization in the business might expect to absorb after the war. In addition to Mr. Royce and his Committee, the following were named to undertake the initial work:

RECRUITING COMMITTEE to study the most appropriate means of attracting suitable demobilized men. Darrell J. Bogardus of Bogardus, Frost & Banning was appointed chairman.

EDUCATIONAL COMMITTEE to outline an educational course for such recruits. Ralph E. Phillips, Dean Witter & Co., was appointed chairman.

NATIONAL SPONSORSHIP COMMITTEE to draft the L. A. plan for presentation to the Investment Bankers Association of America for national application and expansion. Carey S. Hill of Hill, Richards & Co., was delegated to carry out this object.

"This is a job of long-range planning," the Organizing Committee said. A "down-to-earth" solution was declared to be the motivating force of the Committee's work. The Committee, in addition to the above-named chairmen, includes the following:

RUDOLPH J. EICHLER, Bateman, Eichler & Co.
MCCLARTY HARBISON, Harbison & Gregory.
CARL MERRILL
FRANCIS MOULTON, R. H. Moulton & Co.
ROBERT H. PARSONS, Pacific Co. of Calif.
A. W. SHEPHERD, Lester & Co.

Disciplinary Power

(*Continued from page 3*)

subject of over-the-counter quotations, the methods of compiling them and explanations which accompany them.

Members desiring to study this decision may obtain copies from SEC offices. Inquire for "Securities and Exchange Act of 1934. Release No. 3550."

RESPONSIBILITY OF DEALER FOR ACTS OF SALESMEN DEFINED IN SEC OPINION

Calling attention to the fact that the Securities Exchange Act empowers it to revoke the registration of a broker-dealer if any person controlled by the broker-dealer has violated the Act, the SEC, in a recent decision, suspended a member of the NASD for thirty days, when it found that an employee of the member had engaged in fraudulent transactions with a customer. The SEC, in its opinion, stated flatly that the Act imposes an "especial" responsibility upon officers and directors of firms such as that of the member suspended to supervise salesmen and other employees.

"Where a broker-dealer firm has a substantial number of employees, where considerable authority is delegated and where subordinates have power to exercise wide discretion, the protection of investors can obviously not be achieved if the firm is permitted to shield itself from the consequences of a subordinate's undetected violations by pleading the very conditions which made the violations possible," the SEC said in its opinion. "It cannot, therefore, be allowed to point to the officers' ignorance of the actual violations to insulate itself from the consequences of such actions. With responsibility imposed by statute upon the firm and with business prudence, in addition, requiring the exercise of supervision, 'wide-eyed disavowals' of fraud committed by a subordinate can all too readily lead to a firm's enjoying the fruits of wrongful conduct while avoiding the statutory consequences when such conduct is discovered.

"The laxity of respondent's control over its salesmen, therefore, far from being a reason for relieving it of responsibility and [salesman's] fraudulent conduct, makes the respondent shoulder it."

Alleged secret profits and the transforming of an agency relationship to a principal one were the basis for the SEC proceeding against this member. The proceeding was instituted to determine whether the firm's registration with the SEC should be revoked and whether or not it should be expelled or suspended from NASD. The Commission, finding it not necessary or appropriate to revoke registration of the firm, discontinued proceedings to that end but ordered the suspension of NASD membership for a thirty-day period. The fact that the firm inaugurated new office procedure as a result of facts developed in the proceeding and the fact that but one salesman out of many was responsible for the alleged fraud were cited by the Commission as extenuating circumstances weighed by it in arriving at its decision.

The following are extracts from the opinion of the SEC revoking registration of United Securities Corporation, Miami, Fla., and expelling it from membership in NASD:

"We have frequently held, and the only Circuit Court of Appeals to consider the point has unanimously affirmed our holding that a securities dealer, in cases of this character, impliedly represents to all his customers that he will deal with them honestly and fairly and in accordance with the established standards of the business; and that vital representation is rendered false and works a fraud or deceit upon the customers when the dealer charges prices not reasonably related to the prevailing market prices without disclosing that fact. . . .

"We emphasize again here that the fundamental principle underlying these cases is that any person, regardless of his knowledge of the market or his access to market information, is entitled to rely on the implied representation, made by a registered dealer in securities, that customers will be treated fairly. . . ."

The Board of Governors of NASD, conscious of the danger inherent in any situation where activities and transactions of salesmen are not carefully supervised and scrutinized, proposed to the membership in 1941 adoption of a rule under which such safeguards would become necessary office procedure of members. The rule, as approved by a vote of the membership at the time, is known as Section 27 of Article III of the Rules of Fair Practice and reads as follows:

"(a) Any member who employs any salesman shall supervise the sales methods of such salesman and his correspondence in relation to offers of securities for sale to investors; and any sale made by any such salesman to any investor shall be approved by a partner, duly accredited executive, or branch office manager of such member. Such approval shall be evidenced by a written endorsement made upon a copy of a memorandum of such sale and each such memorandum so endorsed shall be made a part of the permanent records of such member.

"(b) Any member who employs any salesman shall require that all orders taken by such salesman for the purchase of or subscription to any security shall be subject to acceptance and confirmation by such member."

Board of Governors to Meet June 5-6

A meeting of the Board of Governors will be held June 5-6 at the Westchester Country Club, Rye, N. Y. This is the regular spring meeting of the Governors. The fourteen Chairmen of District Committees are entitled to attend the meeting and participate in the deliberations of the session. Wallace H. Fulton, Executive Director, will present an administrative report and Chairmen of the various National Committees of the Association also will present reports of their activities. District Chairmen will be expected to bring to the meeting information on problems and activities of particular interest to their respective Districts and all members are welcome to submit to their District Chairman or Board representative any suggestion for consideration at this meeting.

As is customary, members of the Association will receive a report on matters taken up at the meeting and decisions made. This report will be a feature of the next issue of the NEWS.