

Board Meeting

Topics discussed by Governors, District Chairmen at October meeting are briefed

The following is an abbreviated account of the meeting of the Board of Governors and Advisory Council Oct. 16 and 17. It is offered in the name of the Board to acquaint the membership with topics taken up during the meeting. Additional information on any topic may be obtained from a member's Governor or District Chairman.

*Wednesday, October 16
 Morning*

The meeting was called to order by Chairman Wm. K. Barclay, Jr., and the absence of Governors Clarke, Fish, Fusz, Nelson, Pizzini and Quail was noted, as well as the absence of District Chairman Eddleman. Reading of the minutes of the Board meeting of June 10-11 was dispensed with, due to their having previously been distributed.

The report of the Treasurer was read, and the Board approved vouchers covering expenditures in the interval since the June meeting.

In the absence of the Executive Director [who was taken ill just prior to the meeting] Chairman Barclay reviewed a number of administrative matters, informing the Board, in the course of his remarks, of meetings which he and the Executive Director had attended in immediately preceding weeks at Denver, Spokane, Seattle, Portland, San Francisco and Los Angeles. He reported developments having to do with so-called "free-riding" in the sale of new common stock issues and of meetings had with the SEC on the subject of circulation of "red-herrings" and other problems connected with dissemination of information on new issues of securities. He asked all Board members and District Chairmen to study carefully

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Assessment Income Exceeds Forecast

By Wm. K. BARCLAY, JR.
Chairman, Board of Governors

The Finance Committee met in June to consider estimates of basic factors upon which assessments of members would be set for the fiscal year beginning October 1.

Estimates with which the Committee worked this year proved to have been ultra-conservative in two major assessment factors:

(1) estimates of assessable personnel of members failed to take full cognizance of the effect upon employment in the business of the war's end (employment rose substantially during the year ended June 30, 1946—much more than forecast);

(2) underwritings of members in the year ended June 30 were far in excess of the sum forecast by preliminary estimates. The volume of offerings in the closing months of the period and the size of underwritings for which there were no interim statistics (those under \$300,000, for example) were such that final figures of underwritings could not have been anticipated.

Because of the growth in personnel and the expansion of underwritings beyond forecasts available to us (extent of membership growth was accurately projected) income of the Association would be considerably in excess of its budget for the present year. Therefore, the Board of Governors, at its meeting October 17, on the basis of recommendations made by the Finance Committee, voted to adjust members' underwritings assessments and to adjust members' assessments for personnel over five in number, to amounts, in each case, in keeping with what the Finance Committee

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"Red Herrings"

Association studying proposals made by SEC preparatory to practical solution

In an endeavor "to accomplish the broadest practical dissemination of information contained in a registration statement between the filing date and the effective date and at the same time to see to it that such dissemination is not used as an attempt to sell the securities during that period in violation of the Act", the Chairman of the SEC, James J. Caffrey has submitted proposals relating to use of "red herring" prospectuses and "summaries" to accomplish this purpose.

The problem of "red herring" use had been a subject of conferences between the NASD and the Commission and its staff for several months. An informal meeting of a committee of Governors was held with the SEC last June and in cooperation with the Commission another of members was subsequently held. In late-September, Mr. Caffrey announced that Commission proposals were being drafted and these were submitted for consideration of all in the securities business in mid-October.

Governors at their meeting October 16-17 received copies of the SEC proposals and the Association since that time has been gathering their comments and those of other spokesmen for members. In the meantime, plans have been made to meet and discuss the whole subject with the SEC and to submit covering statements.

Every effort is being made by all parties cooperating in this matter to arrive at a sound and practical solution to this vital problem, one in which all who participate in the original distribution of securities have a stake.

Board Meeting

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proposals just made by James J. Caffrey, Chairman of the SEC, looking toward corrective procedures in this field. All comment would be assembled, the Chairman said, preparatory to submitting the Association's views to the SEC. He stated that the proposals of the Commission to amend Sections 12, 13, 14 and 16, the primary purpose of which would be to extend registration requirements of the Act to many unregistered issuers, was under study by the Executive Office, which had also received numerous statements and reports from District Committees.

A report of the National Uniform Practice Committee, having to do with amendments of the Code to cover the third-day delivery plan, was submitted and approved. A report of progress was submitted for the Quotations Committee. The report of the Committee on Research in the Capital and Securities Markets was submitted and approved [members of the Association were supplied copies of the report of the National Bureau of Economic Research on this subject].

A report of a special committee of members of the Board dealing with an application of an individual to become a "Registered Representative" of a member was submitted and approved. There ensued a discussion of a number of other pending applications involving individuals having statutory disabilities barring their admission to membership and to becoming "Registered Representatives," lacking approval of the Board and of the SEC. An application for membership of one such individual was denied and may become a subject for SEC action as a result. The Board arrived at its decisions in this case after a special investigation of the facts by a committee of the Board of Governors.

There ensued a discussion of pending federal legislative proposals, including the so-called Lobbying Act, the Administrative Procedures Act, and others, on which Association action may be taken when occasion arises.

Several communications from organizations with which NASD has worked cooperatively were read and accepted.

A request of a member for interpretation of the applicability of certain rules of the Association to a given set

of circumstances was presented and the covering answer approved.

Wednesday, October 16
Afternoon

Upon resuming, the Chairman called upon each District Chairman in turn to report on matters of interest to members in his District and affairs bearing on the Association. The fourteen District reports covered a great variety of subjects, including examination of members, mark-up practices, budget and finances of the Association, the value of member meetings in the Districts, distribution of the NASD NEWS, quotations, pending complaints against members, Regulation T and its observance by members, and enforcement of its provisions, and proposals to amend the Securities Acts.

Adjournment

Thursday, October 17

The Finance Committee submitted a report on the potential income of the Association during the current fiscal year, with recommendations of the Finance Committee that adjustments be made in certain assessment categories in view of the amount that would be realized in excess of the budget [see statement by Chairman Barclay on Page 1]. The recommendations of the Finance Committee were adopted.

The report of the National Business Conduct Committee dealing with three disciplinary actions was submitted and approved [one decision of the Board dismissed a complaint against a member, and the two other decisions are reported on elsewhere on this page].

The Board heard a report of the Public Relations Committee which told of preparations for publishing of a book about the Association by a private publisher; reprinting of a factual booklet describing the Association, which is now available for free distribution to members and, in quantities, at cost; of work with governmental and securities business organizations; press relations; efforts of District and national committees on the legislative front; a suggestion for regional meetings next year of members; formation of District public relations committees to foster programs to promote welfare of the membership; and expanded distribution of the NASD NEWS.

There ensued open discussion of numerous problems and impending activities.

Assessment Income

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originally intended to raise from these categories. The amount to be realized from underwritings was, by this decision, reduced 35 per cent and the amount to be realized from a member's personnel in excess of five, 20 per cent.

In fixing the bases of assessment each year, the Finance Committee seeks to realize 50 per cent of the budget from membership and personnel fees, and 50 per cent from underwritings. The adjustments mentioned will approximately accomplish that objective.

All members are being assessed this year the same membership fee—\$5.00—and with the adjustment in the personnel category mentioned above, all members will pay \$4.00 for each unit of personnel. Originally, members were assessed \$5.00 per unit for all personnel in excess of five.

Members to whom adjustments are due will receive a refund from the Executive Office in the event they have paid their assessment for the current fiscal year in full. Those to whom adjustments are due and who elected to pay one-half of their assessment when billed October 1, will receive an adjusted bill for the second half, April 1, 1947.

The Finance Committee advised the Board that it will reexamine the budget and expenditures for the current year and submit a special report at the January Governors' meeting.

MEMBERS FINED

Two members of the Association have been fined under decisions of a District Business Conduct Committee, subsequently affirmed by the Board of Governors, for paying concessions to a dealer who was not a member of NASD when transactions, which were causes for the complaints, took place.

In its decisions in one of the cases, the District Business Conduct Committee commented: "The rule with respect to non-member brokers and dealers is one of the fundamental keystones . . . It is specifically provided for under the Maloney Act . . . which states that the rules of a registered securities association may provide that no member thereof shall deal with any non-member broker or dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public."