
N · A · S · D News Letter

JULY, 1947

International Bank for Reconstruction and Development

At a meeting of the Board of Governors and Advisory Council June 10-11, the following resolution was adopted:

RESOLVED, that the officers and staff of NASD are instructed to make available facilities of the Association and in all other ways to cooperate with, advise and assist the International Bank for Reconstruction and Development in the important undertakings of that institution; that all members of the NASD be advised of this action and be urged to interest themselves and their customers in the purposes of the Bank and securities issued by it.

This resolution, expressing the view of the Board, was the consequence of meetings and conferences with present officials of the "World Bank" on the part of officers of NASD and consultations of the NASD staff with bank officials on technical problems encountered by the latter in preparing for the security offerings to be made. The resolution was adopted after E. Fleetwood Dunstan, Director of Marketing for the Bank, delivered an informal talk on the Bank and its marketing program insofar as it has evolved.

The Bank, he said, will rely upon the established distributing machinery of the securities business for public sale of its securities. It is planned to request subscriptions from members of the NASD and other brokers and dealers. The initial offering of debentures is scheduled for mid-July, and the amount of the offering will be \$250,000,000. Participating distributors will be compensated in the form of a discount from the public offering price. The amount of the discount and other terms of the offering remain to be decided. [As this letter was being drafted, the Bank was finishing work on its registration statement so that members before receipt of this will have been apprized of many details of the offering.]

The Board believes that the membership should familiarize itself with the Bank's organization, functions and program. Members desiring to participate in the public distribution of the Bank's securities should communicate with: Mr. E. Fleetwood Dunstan, Director of Marketing, International Bank for Reconstruction and Development, 33 Liberty Street, New York 5, N. Y.

Amendment of the Securities Act

Chairman Herbert F. Boynton advised the meeting of the Committee and staff work that had been done cooperatively with other organizations and the SEC since last December on amendment of the Securities Act of 1933, particularly with respect to Section 5 problems. Just prior to this meeting of the Board, the SEC released staff recommendations for solution of this problem. In part, these reflected results of meetings and conferences of the business and the SEC over the past six months. The Board was advised that the recommendations contained in the staff proposal were to be the subject of further conferences. (One, with the staff of the Commission, was held June 18 followed by a meeting of the "working Committee" acting for the business.)

The Board approved a suggestion that the Chairman, the working Committee and the NASD staff continue to pursue the objective of a sound and workable solution to the problem involved, namely, dissemination of information on registered securities and a clearly defined status for underwriters and dealers participating in the public offering of such securities.

Interested organizations of the business are working together in this effort.

Finances

The Finance Committee submitted and the Board approved a report proposing that the budget for the next fiscal year (October 1 to September 30) be kept to the amount necessary to carry on the functions of the Association; that the membership fee for the year be \$50.00, personnel fee \$4.00 per unit, and underwriting assessment .003%—the amount thus to be raised to be approximately \$350,000, compared with a net of \$545,000 realized from assessment of the current fiscal year ending September 30, 1947.

Membership—"Registered Representatives"

The meeting was informed that membership on May 30 totalled 2,588 and that a small net gain was made each month this year. Since August 30, 1946, membership gained 19. The present membership of 2,588 compares with

the 1941 high of 2,975 and the 1944 low of 2,180 . . . Staff examiners and Secretaries during the first five months of the year, in keeping with the policy adopted by the Board in January, conducted examinations of 283 members and visited an additional 66 for the purpose of discussing operational matters . . . As of May 31, 25,490 personnel of members were registered with the Association as "Registered Representatives." The Executive Director reported that his office has processed an average of 500 "RR" applications a month over the past 18 months.

Applications for Membership

Special Committees of the Board reported on three applications for membership passed on by District Committees. In two cases the applicants had previously been expelled from membership. As to one of these, application was approved by the Board and denied as to the other. As to the third application, the Special Committee of the Board recommended denial on the grounds that the applicant was not qualified for membership, the Board approving this recommendation. Its action in all three cases is to be forwarded to the Securities and Exchange Commission. Each action is subject to appeal or review by the SEC. The Board also was advised of the circumstances surrounding an applicant for registration as a "Registered Representative" who had been a member and was expelled. A hearing before the SEC on this application is to be held after which the Commission will render a decision admitting or rejecting the application. NASD will be represented by Counsel at these proceedings and, if the Executive Committee so decides, will file a brief on the issues involved.

Regulation T

The Board was advised of difficulties of complying with requirements of this regulation of the Federal Reserve Board having to do with extensions of time for payment in cash accounts. Studies of member problems of compliance were made by NASD. The Executive Director reported results of these and of conferences had with the Federal Reserve Board relating to the difficulties disclosed. A discussion was had by the Board of ways of making the regulation workable, so as to relieve members of the danger of technical and unintentional violations, due to practical problems growing out of customer habits. It was decided that the work being done by the Executive Office with the Federal Reserve Board should be continued with a view toward obtaining such amendment of the regulation as would promote its effectiveness while at the same time sacrifice nothing insofar as the objective sought by Congress is concerned.

Uniform Practice

This national committee is entrusted on behalf of the Board with administration of the Uniform Practice Code governing dealings between members. This Code provides both the principles and the mechanics under which their mutual affairs are conducted and contracts settled.

The Committee has had in charge the many technical problems concerning, for example, when-issued contracts, and of late has successfully undertaken to obtain relief for members in New York on method of payment of transfer taxes. Efforts are under way to obtain similar relief in respect to Federal transfer and documentary taxes. In general, what is sought is a means of payment by a *return* instead of by purchasing and affixing of stamps to bills of sale. Although the Committee is encouraged to hope that this more satisfactory arrangement may be acceptable to the Federal government, it is recognized that early success cannot be expected.

Dividend and interest rulings are an almost hourly routine with the Committee, and regularly it is called upon to issue informative memoranda as well as interpretations bearing on differences or disputes among members.

Another matter of considerable concern to the Committee is the question of guarantees of assignments by NASD members. Very limited acceptance of guarantees by NASD members prevails among transfer agents at present. It is recognized that to secure widespread acceptance of such guarantees is a major and perhaps long-term project. However, the work is being undertaken with the hope of gradual progress in this direction.

Problems arising from the re-introduction of foreign securities into the American markets are another phase of the task of the National Uniform Practice Committee. Uniformity in the handling of such securities has developed out of recommendations made by the Committee. The Committee has lately engaged the advisory assistance of a group of members who have had long experience in the field of foreign securities transactions. Their objective is to remove obstacles to safe and practical trading in such securities.

One of the most difficult but at the same time most interesting problems with which the National Uniform Practice Committee has contended in recent months was provoked by Republic Act No. 62, passed by the Government of the Philippines, under which Philippine securities were to be required to be validated, and this before June 30, 1947. Conflicting reports as to the number of companies involved, the manner in which such companies were proceeding to comply with the Act, confusing reports as to the beginning date after which securities would *not* have to be validated, to say nothing of rumors and reports of amendments of the provisions of the Act—

all confronted the Committee almost from day to day. The Committee succeeded in establishing liaison with the Philippine Securities and Exchange Commission and although at the time of this early-June meeting of the Board the Committee still was unable to dissipate all of the confusion, it nevertheless did anticipate that its sources of information would be improved, and perhaps desirable modifications in the administrative and statutory procedure of validating securities affected could be perfected before the rights of American owners of such securities became endangered. [On July 1 the Association was informed by cable from Manila that a general extension for presentation of proofs of ownership had been granted to December 31, 1947.

Quotations

The national committee in charge of quotations sponsored by the Association presented a comprehensive review and analysis of the present status of this major undertaking, including current plans for improving and strengthening quotations and the system under which they are distributed to newspapers and press services, as well as an enlightened program for obtaining wider recognition of the value of and public interest in over-the-counter quotations.

As an example, the Committee proposes to solicit cooperation of issuers of securities traded in the over-the-counter market and quoted in newspapers and periodicals in a program designed to further both the number of quotations published and the number of localities in which they will appear. The Committee advised the Board, meanwhile, that more quotations are appearing today than ever before.

Member Relations

For the past several years, a Committee made up of present and former Governors has served the Board, in an advisory capacity, on matters having to do with relations of the Association with its members. This Committee has served as the channel through which member views, criticisms and suggestions are brought before the Board.

Among other matters presented by the Committee for discussion of the Board was the question of sponsorship of an advertising program in the interests of the over-the-counter market, NASD members, and the securities business at large. While the Committee reported, and the Board concurred, that the time was perhaps not propitious and the cost of such a program probably prohibitive under prevailing conditions, the Committee nevertheless will continue to study the subject; meanwhile obtaining advice from District Committees as to sentiment among members.

The Committee recommended and the Board approved a proposal to supply to new members and to make available to present members a set of forms (confirmations, records, etc.) through the proper use of which members could be ensured of compliance with rules of the Association and the SEC as well.

Educational Program

The Board heard a report on the activities of the Joint Committee on Education, sponsored by five organizations of brokers and dealers, of which NASD is one. This Committee has undertaken to survey the immediate job opportunities in the securities business, the future interest of firms in on-the-job training programs and other methods of developing trained personnel in all branches of the investment banking and securities business. The Joint Committee has only recently been formed and is still exploring the avenues that may be open to it for serving a practical current and long-term need of the securities business. Full support of its constructive, broad endeavors on the part of NASD was assured.

The District Make-Up of NASD

With a view toward ascertaining if the original and existing alignment of the Association under fourteen District Committees constituted the most efficient and economical system of administration, the Chairman of the Board of Governors last January appointed a Special Committee of former Governors to investigate this proposition.

At present NASD is divided into fourteen Districts which were originally created along what was at the time presumed to be sound business relationship lines. The result is that the Association has a few very large and a few small Districts geographically; some large Districts numerically and some very small Districts. The objective of tying together areas and communities having harmonious and logical trade interests does not always seem to have been realized under the existing set-up.

The Committee reported to the Board that it had studied at least a half dozen changes in District geographical lines but was not prepared to make any recommendations, though satisfied that the possible advantages of increased administrative efficiency, sounder member relations and possible economies warranted further inquiry and consideration by the Committee. In this view the Board concurred, instructing the Committee to continue its exploratory investigation and to advise the Board of its progress based upon such views as District Committees contributed.

"IT-3828"

In December, 1946, the Treasury Department released an opinion of the Internal Revenue Bureau dealing with the application of the capital gains tax to dealers in securities under particular circumstances. One portion of the

opinion stated, in effect, that capital gains in securities which were the same or of a type similar to securities in which dealers normally traded or made markets, would be classed as *ordinary income* for tax purposes irrespective of how long the securities were held. The Association, in conjunction with other interested groups, conferred with the officials of the Internal Revenue Bureau to obtain a clarification of this ruling.

Briefs were filed with the Bureau of Internal Revenue. Recent discussions with representatives of the Bureau reveal that the Bureau may, in the near future, issue a statement in connection with this ruling, clarifying the application thereof. Under the initial release it would not have been possible for dealers to carry securities for investment and take advantage of the capital gains tax if they were at the same time trading in such securities or securities of a similar type.

California Filings

Under arrangements made several years ago with the California Department of Securities, advertising exhibits which had to be approved in connection with new offerings were filed subject to price and other omitted data being supplied in the form of amendments prior to the actual publication of the offerings. Due to the death of the Department official in charge of such filings, a misunderstanding developed as to the manner in which requirements regarding advertisements were to be interpreted, with the result that a full advertisement, including price, was required to be filed for the full time specified in the regulation, with the additional requirement that the filing be made by counsel for the issuer. In competitive sales particularly, this change in the filing requirement presented serious problems for underwriters and issuers.

A representative of NASD presented the matter to the Corporation Commissioner for California who, after inquiry, reinstated the previous procedure whereby prospectus and advertisement filings were permitted without price—with price and other omitted data to be supplied either by the issuer, its counsel, or a representative of the syndicate in California via telegraph or telephone.

The meeting of the Board of Governors and Advisory Council at which the above and numerous other matters were taken up was attended by the following:

Board of Governors

William K. Barclay, Jr.	Philadelphia	Wilbur G. Hoye	New Haven
L. Raymond Billett	Chicago	Robert C. Kirchofer	Raleigh
Herbert F. Boynton	New York	Walter E. Kistner	Chicago
T. Jerrold Bryce	New York	G. M. Phillips	St. Paul
W. Rex Cromwell	Dallas	B. Winthrop Pizzini	New York
Russell I. Cunningham	Cleveland	Joseph L. Ryons	Los Angeles
Irving D. Fish	New York	John B. Shober	New Orleans
Firmin D. Fusz, Jr.	St. Louis	J. Robert Shuman	San Francisco
Waldo Hemphill	Seattle	Burdick Simons	Denver
Harlan Herrick	Wichita	Max J. Stringer	Detroit

Advisory Council

Frederic J. Blanchett	Seattle	Carl A. Meyer	Topeka
Stanley Dickover	San Francisco	Berwyn T. Moore	Louisville
S. Davidson Herron	Pittsburgh	I. D. Owen	Minneapolis
Francis Kernan	New York	Jesse A. Sanders, Jr.	Dallas
James H. Lemon	Washington	Albert W. Tweedy	Boston
William Groom Leftwich	Memphis	Oscar H. Wibbing	St. Louis

Others

Harold C. Patterson, Chairman, National Uniform Practice Committee	Washington	Ralph E. Phillips, Chairman, Committee on Re-Districting	Los Angeles
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Executive Office

Wallace H. Fulton	Executive Director	James P. Conway	Assistant to Executive Director
John W. Lindsey	Office Counsel		