

Examinations

Secretaries and Examiners call on several hundred members as part of program adopted by Board

A complete report on examination work of the Association in 1947 was submitted to the Board of Governors at its recent meeting.

It showed that a total of 673 members were interviewed and examined during the year. Coverage by districts, it was shown, ranged from 100% down to 0. As a result of the discussion had at the Board meeting on the results of last year's program, examinations of members, in districts where none have been conducted, were forecast and accelerated coverage was foreseen in other areas.

The examination report commented as follows on the program:

"The examinations disclosed, on the whole, a satisfactory observance of the Rules, although repeated violations of them on the part of a few members, coupled with moderate action on the part of the District Committee, evidence a need for more positive action in both examination and enforcement procedure in certain areas. Violations of books and records requirements, Regulation T and other technical infractions continue to be found and, although not serious in themselves, nevertheless can breed troublesome situations.

"As to mark-up practices, the vast majority of the members examined have adhered to the Association's policy. Available figures extracted from the individual district reports reveal, in most cases, that over 90% of re-

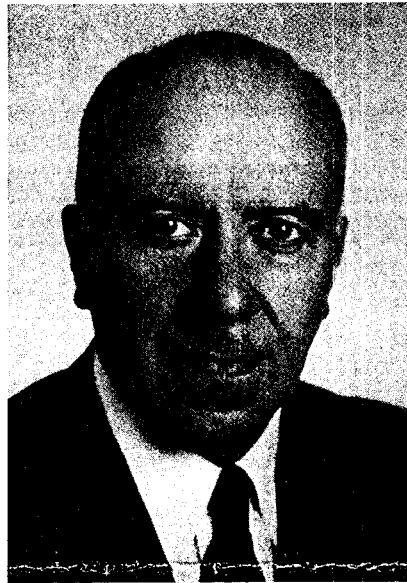
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"Guarantees"

The National Uniform Practice Committee and the Executive Office have been actively engaged in developing means whereby members of NASD could guarantee signatures required in

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NASD'S CHAIRMAN



L. RAYMOND BILLETT
Partner, Kebbon, McCormick & Co.,
Chicago.

(For news of other elections, see page 2)

The new Chairman of the Board of Governors is L. Raymond Billett of the Chicago investment banking firm of Kebbon, McCormick & Co. Mr. Billett was a vice chairman in 1947, and succeeds Herbert F. Boynton, of H. F. Boynton & Co., New York, to the chairmanship. This is Mr. Billett's third and last year as one of the three Governors of District No. 8. He served on the District Committee, one year of his term as Chairman of the Committee. He served as Chairman of the National Business Conduct Committee of the Board prior to his election as Vice Chairman.

In his remarks to the Board upon election, Mr. Billett said: "I have no ambitions to be a czar of the NASD, or anything of that sort. I have a very profound feeling that the Association should be run by the Board of Governors. I would like to remind

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Finances

Economy keynotes Board's discussion of expenses; 36% cut in total assessment income this year shown

Economy was the keynote of discussion on finances of the Association had at the meeting of the Board of Governors, January 12-13.

With a budget for the fiscal year October 1 to September 30 of \$419,000, the report of the Chairman of the Finance Committee pointed out that \$350,000 of this sum would be realized from assessments (a reduction of 36%) and the balance taken from surplus. The budget of \$419,000, unless unforeseen expenses have to be met as the year progresses, is expected to be shaded downward by actual experience.

Expense items lending themselves to further cuts, it was pointed out, were materially reduced during the fiscal year ended September 30 last. Continued careful control over these and all other items of expense was promised.

The surplus of the Association—\$606,004, as of September 30 last—was discussed by the Board.

A question was raised as to the proper sum which the Association

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Periodically NASD sends members and their employees a NEWS or bulletin. . . .

These try to keep all informed of what NASD is doing and trying to do—in the interests of the public and the securities business. . . .

Still the question is heard: "What does NASD do?"

Why not find out what is done? This issue tries to tell some of the story. . . .

Read it and tell others to do so. . . . The Editor.

Education

Committee reports on work done to encourage school courses, publicity

Activities of the Association in fostering educational programs and plans for promoting wider public knowledge of the securities business were the subject of a report to the Board of Governors last month by William K. Barclay, Jr., Chairman of a committee concerned with public and member relations.

Mr. Barclay's report dwelt on the work of the so-called Joint Committee supported by NASD, the IBA, the Association of Stock Exchange Firms, and the two New York exchanges.

The Committee, he said, has devoted itself to the dual purpose of obtaining accurate and more widespread educational courses on the securities business in schools, colleges and universities, and to the study of projects which would assist in increasing public appreciation of the economic contribution of the investment banking and securities business to the general economy. In the past year the Committee, co-operatively with New York University, established a Clearance and Placement Center in New York City to serve brokers and dealers along the Atlantic seaboard. The Center interviews prospective trainees as well as applicants for positions in the securities business. As a result of questionnaires on job openings sent to members of NASD in the Eastern portion of the United States last year, the Center supplied personnel for jobs from Boston to Washington, D. C. In all, 110 persons were placed through the facilities of the Center.

Mr. Barclay reported that a large part of the Committee's time in 1947 was devoted to hearing and studying proposals for all sorts of promotional campaigns of an educational and publicity nature for the securities business. The Committee, he said, is guided by a desire to consider projects which may have merit. To date, no sound and practical project of this nature has been presented.

Meanwhile, the Committee has been in communication with 26 universities, several of which have established training courses, while others have inquired for and are using literature and booklets of a current nature as supplementary reading for students.

Officers, New Governors Take Office

Billett named successor to Boynton; others chosen: Ryons, Kirchofer, Vice-Chairmen; Cromwell, Treasurer; Fulton, Executive Director

L. Raymond Billett, Kebbon, McCormick & Co., Chicago, was elected Chairman of the Board of Governors at a meeting of the Board in New Orleans January 12-13. Other officers for 1948 are:

Vice Chairmen

JOSEPH L. RYONS	Pacific Company of California	Los Angeles
ROBERT C. KIRCHOFER	Kirchofer & Arnold, Inc.	Raleigh

Treasurer

W. REX CROMWELL	Dallas Rupe & Son	Dallas
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Executive Director

WALLACE H. FULTON		Washington
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Mr. Billett succeeds Herbert F. Boynton, of H. F. Boynton & Co., Inc., as Chairman. Mr. Boynton continues as a Governor until January 15, 1949.

Other past Chairmen of the Association follow:

WILLIAM K. BARCLAY, JR.	Stein Bros. & Boyce	Philadelphia
RALPH E. PHILLIPS	Dean Witter & Co.	Los Angeles
RALPH CHAPMAN	Farwell, Chapman & Co.	Chicago
HENRY G. RITER, 3rd	Riter & Co.	New York
H. H. DEWAR	Dewar, Robertson & Pancoast	San Antonio
ROBERT W. BAIRD	The Wisconsin Company	Milwaukee
FRANCIS A. BONNER	Blair, Bonner & Company	Chicago

Seven new Governors have been elected to the Board by members in six areas. The seven new Governors, and their predecessors follow:

District No. 2 (California and Nevada)

Eaton Taylor		J. Robert Shuman
Dean Witter & Co.	succeeding	Shuman, Agnew & Co.
San Francisco		San Francisco

District No. 3 (Arizona, Colorado, New Mexico, Utah and Wyoming)

John J. Sullivan		Burdick Simons
Bosworth, Sullivan & Company	succeeding	Sidlo, Simons, Roberts & Co.
Denver		Denver

District No. 7 (Arkansas, Eastern Missouri and Western Kentucky)

John D. McCutcheon		Firmin D. Fusz, Jr.
John D. McCutcheon & Co.	succeeding	Fusz-Schmelzle & Co.
St. Louis		St. Louis

District No. 9 (Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina and Tennessee)

Clement A. Evans		John B. Shober
Clement A. Evans & Company, Inc.	succeeding	Woolfolk, Huggins & Shober
Atlanta		New Orleans

District No. 12 (Delaware and Pennsylvania)

S. Davidson Herron		William K. Barclay, Jr.
The First Boston Corporation	succeeding	Stein Bros. & Boyce
Pittsburgh		Philadelphia

District No. 13 (Connecticut, New Jersey and New York)

Francis Kernan		Irving D. Fish
White Weld & Co.	succeeding	Smith, Barney & Co.
New York		New York
Philip L. Carret		B. Winthrop Pizzini
Carret, Gammons & Co.	succeeding	B. W. Pizzini & Co., Inc.
New York		New York

Executive Director's Report to Board

Covers administrative activities in 1947—meetings of members, securities acts work, when-issued problems

Following are extracts from the report of Wallace H. Fulton, Executive Director, to the meeting of the Board of Governors, January 12 at New Orleans, La. (Other sections of the report are covered elsewhere in this issue.)

Member Meetings

During the past year the Chairman [Herbert F. Boynton] and I attended member meetings in Richmond, St. Louis, Hartford, Minneapolis, Milwaukee, Detroit and Chicago, and I also attended meetings of this kind in Seattle, Portland, San Francisco, Los Angeles, Miami and Greensboro. In addition to member meetings, the Chairman and I attended, as representatives of the Association, the convention of the National Security Traders Association and the Central States Group and Texas Group IBA meetings. I attended and was one of the speakers at the convention of the National Association of Securities Administrators. Early in the year I delivered lectures at New York University, Western Reserve University in Cleveland, and in Chicago to IBA training classes, speaking on the over-the-counter market and NASD.

Regulation T

At its June meeting, the Board signified a desire to have Regulation T amended so as to make compliance easier for most of the membership. In accordance with the Board's wishes a letter and supporting memorandum were submitted to the Board of Governors of the Federal Reserve System recommending that the time within which payment of cash accounts must be made, as provided for under the Regulation, be changed from seven calendar to seven full business days. On the basis of our studies of time extension applications filed by members, it appeared that if such a change were made, many applications for extension of time would not be necessary and possible violations due to neglect or other causes would be considerably lessened. In accordance with its practice, the recommendation was submitted by the Federal Reserve Board to the 12 Federal Reserve Banks and to the SEC. At a meeting with representa-



WALLACE H. FULTON, elected Executive Director for 10th Year

tives of the Federal Reserve Board on Tuesday, January 6, I was told of some opposition on the part of certain of the Federal Reserve Banks to our suggested amendment to Regulation T. Further conferences with the Federal Reserve will be had and we are assured of their interest in our proposals.

During 1947, the District Committees of the Association processed applications for extensions of time under the provisions of Regulation T as follows: (Denver), 256; (K. C.), 423; (Chicago), 416; (South), 376; (Ohio), 113; (Wash.-Balt.), 511; (Pa.), 416; (N. Y.), 1,015; (N. E.), 48; total, 3,574.

Securities Act Amendments

You are all familiar with the work done last year cooperatively with the SEC toward negotiating amendments of the Securities Act of 1933, Section 5 in particular. The Chairman guided this effort, assisted by the Special Committee and provided effective leadership at critical times in the discussions as these developed. Although it appeared even last Fall that this work might be fruitful, the problems which were presented, notably that surrounding competitive bidding, became more and more troublesome, and there was also the impending suit of the Department of Justice. Finally, it seemed advisable to suspend the conference work, subject to further developments. A resumption of the discussion is now in prospect for the immediate future.

"Unlisted" Trading

The Board has previously instructed the Executive Director and Counsel to examine every application filed by any exchange pursuant to Section 12(f)(3) of the Securities Exchange Act to determine whether it would be desirable for the Association, acting on behalf of the members, to intervene and oppose any such applications by any exchange. On September 27, 1947, the Association received notice that the New York Curb Exchange had filed with the Commission an application pursuant to Section 12(f)(3) of the Exchange Act, for the extension of unlisted trading privileges to the 3% sinking fund debentures of 1977 of the Cities Service Company. That notice gave all interested parties 30 days to state their interest and request a hearing. The Executive Office requested an extension of 30 days to afford an opportunity to study the file and to determine whether the Association should intervene or should request a hearing with respect to this matter. It was ascertained upon examination of the file that the debentures totaled in aggregate amount \$115,000,000, and represented an exchange offer to the holders of the prior 6% preferred stock. The file disclosed that within the claimed vicinity of the New York Curb Exchange—New England, New York, New Jersey, Ohio and Pennsylvania—there were distributed, in principle amount, 66 million of the debentures. It was further disclosed that the trading volume on the New York Curb Exchange in 45 days subsequent to commencement of trading on a "when issued" basis, averaged 158 bonds per day. This matter was discussed with representatives of firms in New York and with members of the executive committee. It was thereafter concluded, that the Association and its members had (1) little interest in the trading of these debentures, and (2) little likelihood of success in opposing the application. Therefore, a letter was addressed to the Commission on November 10, 1947, advising the Commission that the Association had determined not to request the Commission to set the matter down for hearing.

Group Insurance

The subject of group insurance has periodically but informally been mentioned at Board meetings at various times over the years. Several months ago, at the suggestion of the Chair-

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man, the Executive Office discussed with insurance companies the possibility of arranging for a group insurance program for members of the Association and their employees. An introductory memorandum on group insurance was included in your advance kit, as well as a booklet describing the fundamentals of this type of coverage as prepared for the Association of Stock Exchange Firms. It is our information that NASD members would find the cost of group insurance for them and their employees more than ordinarily attractive because so large a majority of our members are relatively small organizations and therefore not able to obtain group coverage on their own initiative. If the Board is in favor of sponsoring group insurance among members of the Association, we can proceed to explore the subject further with the insurance companies. As soon as a suitable plan can be developed members will be advised. [Board approval to proceed was given.] Based upon experience of other organizations, this work, it appears, could be carried on without expense to the Association.

The Association of Stock Exchange Firms is also exploring with New York banks the possibility of developing a retirement plan on a group basis to which members of that Association could subscribe. If that Association finds that a sound and beneficial program can be evolved for its membership, we will, of course, keep this Board fully informed.

Membership

Membership at December 31, 1947 amounted to 2,648, against 2,580 on December 31, 1946, the net gain being 68. As of January 2, 26 new applications for membership were pending, against 11 terminations. From the peak of 2,975 membership fell to 2,180 in 1941 but the trend has been upward since.

"Registered Representatives"

We have had another active year in the processing of applications for registration as "Registered Representatives" on the part of individuals associated with or employed by members. As of December 31 there were 25,900 "Registered Representatives" against 24,843 at the end of 1946.

During 1947, 14 members filed applications to register individuals having a statutory bar against them. It was necessary in each case to institute proceedings to decide if such bars should

be removed and the individuals permitted to become "Registered Representatives." During the year five such cases were disposed of and at this meeting the Board is to pass upon nine. Under the covering section of the By-Laws, the statutory bar arises only out of action against an individual or firm on the part of a registered securities exchange, this Association, or the Securities and Exchange Commission. There is no provision in the section covering suspensions or revocations of licenses on the part of a State commission. One of the membership matters pending before the Commission involves an applicant who is barred by one State but is filing for membership from another State having no qualification statutes.

During the year the registrations of two "Registered Representatives" were revoked on complaint cases arising out of abuses of trust on the part of the individuals in their handling of customers' funds.

Certificates of Membership

The Membership Department distributed 593 membership certificates in 1947. These certificates are made available to all members upon request. Practically all newly admitted members request certificates of membership.

When-issued

Included in the kit sent to you in December is a memorandum with respect to the case of Grueninger v. Livingstone. That memorandum, together with the notice of the Commissioner of Corporations of the State of California, sets forth the status of that problem as at the time of mailing of the kit.

[Involved is question of a when-issued transaction being an "installment" sale.]

Since that time another case involving this problem has apparently been presented to the same judge in the County of Los Angeles. The defendant was represented by Counsel, and Counsel for the Association in California attended the hearing. Defense counsel advised the judge of the pending hearings and the proposal to adopt new rules to the California administrative regulations with respect to the interpretation of the term "installment contract." The judge at that time made a comment to the effect that such proposals merely demonstrated that the Corporation Commissioner did not agree with his previous decision but that he did not

see how the Corporation Commissioner could change the plain meaning of the law. However, he stated that if it could be demonstrated and shown that for years prior the administrative rules of the Commissioner's office were interpreted to be as the Commissioner has contended and as the proposed new rules are clearly to provide, such a showing would be of some weight in his court.

Counsel for the Association in Los Angeles is of the opinion that the judge is not as yet sufficiently informed as to the manner in which "when-issued" transactions are affected by brokers.

Counsel for the Association is also advised that it appears that some effort may be made to raise the question directly involved in the Livingstone case with respect to margin contracts.

A hearing was held with respect to the new proposed rules by the Corporations Commissioner late in December and I am advised that no one appeared in opposition to the proposals.

IT-3828

The Board will recall that in December, 1946 the Bureau of Internal Revenue released an interpretative opinion having to do with the computation of taxes for purposes of income by brokers and dealers, and specifically relating to the applicability of the capital gains provisions to the sale of securities held by brokers and dealers. The effect of this opinion was to delimit the area within which brokers and dealers could take advantage of the capital gains provisions of the Internal Revenue Code in computing tax liabilities.

This matter was raised and discussed briefly at the Board meeting in January, 1947 at Hot Springs and has been mentioned in several of my letters to the Board. The Association, together with other representatives of the business, consulted with the staff of the Bureau of Internal Revenue in order to clarify this opinion. As a result, a redraft thereof has been prepared which would in substance ease the application of the present opinion and would provide that a dealer could take advantage of the capital gains provisions of the statute with respect to gains realized in the sale of securities held for bona fide investment purposes. This has not as yet been finally cleared with the Bureau of Internal Revenue and General Counsel of the Treasury.

Complaint Route

Study made of procedure; Code has "worked well" but Committees cautioned

The fact that under the By-Laws District Committees almost literally are called upon to perform the multiple roles of investigator, complainant, judge and jury in enforcing Rules of Fair Practice has several times been a subject of discussion at meetings of the Board of Governors.

A year ago, at the suggestion of the present Chairman, L. Raymond Billett, a committee was appointed to inquire into the experience of the Association as the By-Law has operated and to make recommendations to alter the present system if that seemed desirable and wise. Serving with Mr. Billett on the committee were Peter Ball, of Cleveland, George W. Davis, of San Francisco, Robert S. Morris, of Hartford, and Joseph M. Scribner, of Pittsburgh, all former Governors of the Association.

In addition to exchanging viewpoints, the committee circulated a questionnaire among 190 individuals who had served on District Committees or Business Conduct Committees or had been respondents in complaint proceedings, and 123 replies were received from these persons.

To the question: "Is it possible for the members of a District Business Conduct Committee to be completely impartial in their consideration of a proceeding against a member in which they are also the complainant?", 68 replied "Yes" and 43 replied "No".

It was then suggested that there might be an alternative to the present procedure which would be "to assign to the District Committee all of the present administrative functions of Business Conduct matters and assign to a separate District Business Conduct Committee, *no member of which would be a member of the District Committee*, the sole function of considering the facts and arguments submitted by the complainant and the respondent and rendering a decision." As to this, the following facts were elicited:

Question: "Would it result in more impartial decisions?" 51 answered "Yes" and 63 answered "No".

Question: "Would it result in more uniform decisions?" 38 answered "Yes" and 69 answered "No".

Question: "Would it make the respondent feel better about the proceed-

"CONDUCT" CHAIRMAN



JOHN O. STUBBS

John O. Stubbs, of Boston, is Chairman of the National Business Conduct Committee for 1948. Other members are: Clement A. Evans, Atlanta, S. Davidson Herron, Pittsburgh, Francis Kernan, New York, John D. McCutcheon, St. Louis, Max J. Stringer, Detroit, and Eaton Taylor, San Francisco.

ings?" 80 answered "Yes" and 27 answered "No".

Question: "Would it be better procedure?" 69 answered "Yes" and 43 answered "No".

Question: "Would you favor it?" 65 answered "Yes" and 50 answered "No".

"The feeling seems to be that, on the whole, the present procedure has worked well." Mr. Billett reported. "This is confirmed by the fact that 68 out of 111 members who gave us a definite reply to our first question, indicated that they consider it possible for members of a District Business Conduct Committee to be completely impartial in their consideration of a proceeding in which they are also the complainants. The fact that the present procedure has worked as well as it has, and with as high a degree of impartiality as has been evidenced, is undoubtedly due to the conscientious effort which has been exerted by the vast majority of committee members.

"However, there seems to be some inconsistency in the results of our survey in that, whereas a majority felt that it was possible to be impartial under the present procedure, a majority also indicated, by a vote of 65 to 50,

that they would favor a change from the present system to one wherein the judicial functions of Business Conduct Committees would be handled by a separate group. A test of sentiment which shows a division as close as 65 to 50, raises the question of whether it is decisive enough to be conclusive, particularly in view of the fact that if this Committee should recommend, and the Board of Governors shall approve, a change from the present set up, it would necessitate an amendment to the By-Laws of The Association, which, in turn, would make it necessary for the amendment to be submitted to the membership for the vote.

"In view of all these considerations, it seems to us that recommendations for such amendments at this time are not justified, particularly in view of the fact that many of the objections to the present procedure can be eliminated within the provisions of the present By-Laws and Code of Procedure. Accordingly, it is the recommendation of this committee that:

"1. No changes be made in the By-Laws of the Association, the Code of Fair Practice, or the Code of Procedure for Handling Trade Practice Complaints, at this time.

"2. That the District Committees and District Business Conduct Committees be reminded that the present By-Laws and Rules of Fair Practice make it possible for them to appoint Local Business Conduct Committees by the use of which the original hearing may be almost completely removed from the Committee which filed the complaint, and that this procedure be utilized wherever possible.

"3. That all individuals participating in the handling of complaints, either as members of Local Business Conduct Committees, District Business Conduct Committees, or of the National Business Conduct Committee, be reminded of the provisions of Section 22 of the Code of Procedure which makes it mandatory for members to disqualify themselves in any case in which they may have either a direct or indirect interest. Only by a broad application of this Section can a high degree of impartiality be maintained.

"4. That the functioning of the existing Code of Procedure be subjected to continuing scrutiny, having in mind that at a later date the need for changes may become more urgent than they appear to be at the present time."

The recommendations of the Committee were accepted and approved.

Annual Report

Audited statements for year ended Sept. 30, 1947

Financial statements of the Association for the fiscal year ended September 30, 1947, are submitted to members of the Association with this issue of the NEWS.

A comparison of income and expenditures appears on the following page. The balance sheet as of the close of the fiscal year appears below.

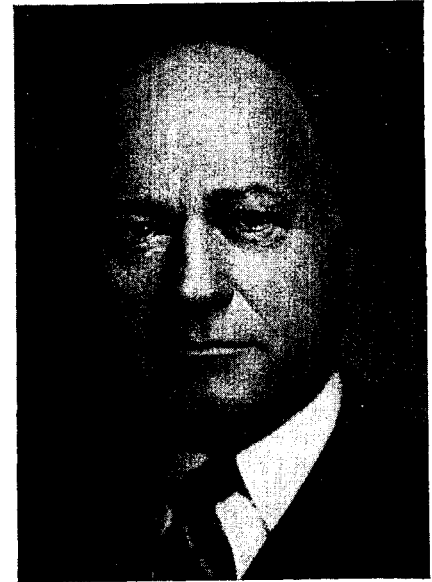
Total expenditures amounted to \$384,151 in 1947, against \$413,268 in 1946. Expenditures of the 14 district committees amounted to \$175,402, compared with \$148,074 the preceding fiscal year. Expenditures of the Executive Office amounted to \$136,310, against \$164,831 in the previous year. General expenses, including costs of meetings of the Board of Governors, Advisory Council, national committees, legal fees and other miscellaneous expenditures, aggregated \$72,439 in 1947, against \$100,364 in 1946.

Income derived from assessments in the last fiscal year amounted to \$546,286, against \$575,356 the preceding year.

Excess of income over expenditures in the last fiscal year amounted to \$167,843, against \$166,769 the previous year. Surplus as of September 30, 1947, was \$606,005.

The balance sheet of the Association shows cash in banks and on hand at September 30 last amounting to \$270,237 and \$345,000 invested in U. S. Treasury 7/8 Certificates of Indebtedness.

FINANCE CHAIRMAN



T. JERROLD BRYCE

Finance Group

T. Jerrold Bryce, of New York, was appointed Chairman of the Finance Committee for 1948. Other members of that Committee are: L. Raymond Billett, Chicago; W. Rex Cromwell, Dallas; Waldo Hemphill, Seattle; Wilbur G. Hoye, New Haven; Walter E. Kistner, Chicago, and Wallace H. Fulton, Washington (ex officio).

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

BALANCE SHEET

SEPTEMBER 30, 1947

ASSETS	LIABILITIES
Cash in banks and on hand:	Accounts payable \$ 12,074.28
The Riggs National Bank,	Deferred credits:
Washington, D. C.:	Receivables uncollected, per contra \$ 231.00
Treasurer's account \$100,504.61	Fines and costs collected,
Working fund 9,183.37	pending review 987.00
American Security and Trust Company,	1,218.00
Washington, D. C.:	Surplus:
Treasurer's account 159,299.45	Balance—September 30, 1946 433,437.72
Petty cash fund,	Excess of income over ex-
Washington 250.00	pense for the year ended
New York 500.00	September 30, 1947 \$167,843.38
Chicago 500.00	Fines and costs collected in
\$270,237.43	prior year 4,723.80
U. S. Treasury 7/8 Certificates of	172,567.18
Indebtedness 345,000.00	606,004.90
Receivables, per contra:	
Assessments 226.00	
Dues from branch office registration 5.00	
231.00	
Deposit with American Airlines, Inc. 425.00	
Deposit with Post Office 350.00	
Advances for traveling expenses 1,400.00	
Accrued interest on U. S. Treasury securities 1,653.75	
Office equipment and furniture (charged to expense when purchased)	
\$619,297.18	\$619,297.18

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

STATEMENT OF INCOME AND EXPENDITURES

INCOME:	Fiscal years ended September 30	
	1947	1946
Assessments Collected	\$546,286.28	\$575,356.25
Branch Office Registration Fees	3,360.00	3,135.00
Other	2,348.26	1,545.89
TOTAL INCOME	\$551,994.54	\$580,037.14
EXPENDITURES:		
General:		
Board of Governors and Advisory Council	\$29,453.66	\$27,035.30
National Committees	29,244.18	34,882.21
NOTE: Above two items represent actual out-of-pocket expense incurred by 21 members of Board, 14 District Chairmen and members of National Committees in attending meetings and administering affairs of Association, as well as costs of meetings of these bodies. All Governors and Committee members serve without compensation. Salaries of two Secretaries, one clerk also included in "National Committees" expenses.		
Legal Fees and Expenses	1,249.48	22,402.08
Employee and Miscellaneous Travel Expense	8,730.29	11,331.54
Insurance, Taxes, etc.	2,661.80	3,973.83
Audit	1,100.00	738.72
Total General	\$72,439.41	\$100,363.68
Executive Office:		
Salaries	103,656.96	101,870.17
(Paid in 1947 to 22 employees, including Executive Director, Assistant, Office Counsel, Comptroller, Examiners, Stenographers and Clerks.)		
Rent	8,486.67	9,593.65
Printing and Stationery	13,374.74	31,600.61
Postage	3,313.49	6,291.89
Telephone and Telegraph	3,179.63	4,132.99
Incidental	1,693.10	6,625.80
Office equipment	2,604.98	4,715.74
Total Executive Office	\$136,309.57	\$164,830.85
District Committees:		
Salaries and Fees	\$117,712.01	\$ 84,955.11
(Paid in 1947 to 14 District Secretaries and Examiners, and 22 stenographers, clerks, etc.)		
Examinations and Complaints	16,694.51	21,355.55
Travel and Meeting Expense	8,159.28	11,756.57
(Being actual out-of-pocket cost to members of Committees incurred in attending meetings, etc., and cost of such meetings. All Committee members serve without compensation.)		
Rent	11,679.65	9,518.80
Quotations	9,604.21	9,128.50
Postage	1,456.21	1,604.34
Printing and Stationery	3,391.58	2,675.37
Telephone and Telegraph	4,113.09	4,488.44
Office Equipment	493.11	809.33
Incidental	2,098.53	1,781.96
Total District Committees	\$175,402.18	\$148,073.97
Total Expenditures	\$384,151.16	\$413,268.50
Excess of Income Over Expenditures	\$167,843.38	\$166,768.64

"Boren" Bill

NASD lacks jurisdiction over municipals so takes no position on proposal

Municipal securities being exempt from the Maloney Act amendment of the Securities Exchange Act, the Board of Governors of NASD has consistently voted that NASD has no jurisdiction in matters pertaining to such securities. The Board maintained this position in regard to the bill sponsored by ex-Congressman Boren and as to a similar bill sponsored by Congressman Hinshaw.

Misunderstanding of the position taken by the Board on these bills prompted adoption of a resolution at the recent meeting of the Board setting forth Association policy. The resolution follows:

"RESOLVED, That the Board of Governors of the National Association of Securities Dealers, Inc., at its meeting January 12-13, 1948, reaffirm the position it had taken in January, 1947 with respect to matters pertaining to municipal securities, and this particular legislative proposal, namely, that government and municipal securities being exempt by law from the provisions of the Maloney Act Amendment, the Association does not have any jurisdiction therein. Therefore, in respect to the Hinshaw (Boren) Bill, this Board has in the past and now takes no position on this measure.

"However, it is the unanimous view of the Board of Governors of the National Association of Securities Dealers, Inc., that questions as to the authority of any governmental agency in the promulgation of Rules and Regulations should be determined by law rather than by an opinion or expression of view on the part of that agency; and

"IT IS FURTHER RESOLVED, That we instruct our Executive Director to file copies of this resolution with the Securities and Exchange Commission, Interstate and Foreign Commerce Committee, Representative Hinshaw, and any and all other parties who may have this matter before them now and in the future."

BILLETT

(Continued from page 1)

you that it is your responsibility to keep in contact with your local districts so that if the situation warrants, some comment in connection with the activities or problems may be communicated to the Executive Office."

EXAMINATIONS

(Continued from page 1)

recorded transactions are effected with a mark-up of 5% or less.

"Disregard for the Association's policy, however, is found in isolated instances. For instance, last fall the SEC apprised the Association that during the course of an inspection of a member certain transactions had been noted where mark-ups appeared to be excessive to a degree indicating possible violations of the Association's Rules of Fair Practice. The transactions listed were made at markups from 5.9% to 13%. The matter was referred to the appropriate District Committee which then arranged for an examination of the member to be made by one of the staff of the Executive Office.

"The examination covered a period of 10½ months and disclosed that in 230 transactions for which markets could be obtained, 69% of the transactions were effected with mark-ups in excess of 5%, 40% in excess of 7% and 14% in excess of 10%. Very few of the securities covered in this analysis sold in the less-than-\$10 range. The member informed the examiner that it is his policy, 'where it is in his opinion justified,' to realize in excess of 7%. The report of examination has not, as yet, been reviewed by the District Committee.

"More recently, the Association is in receipt of a formal reference from the SEC directing attention to certain transactions noted in the course of an inspection of another member of the Association. In this case the mark-ups ranged from 9.1% to 30% and in one particular transaction, involving 400 shares which were sold to the customer at 15, the mark-up was \$1,400, or 30%. This matter has been recently referred to the District Committee."

Mr. Billett was born in Rockford and is a graduate of Knox College. He was a first sergeant of Artillery in World War I, entering the bond business in Chicago at the close of the war with Taylor, Ewart & Co., with whom he was associated until 1928. He became a vice president of Lawrence Stern & Company, Inc. in 1929. He was vice president, secretary and treasurer of Stern, Wampler & Co. from 1938 to 1942, when his present firm was formed.

He is a member of the New York Stock Exchange.

He came up in the municipal end of the business, still supervises these activ-

12 Complaints

Filings by District Committees in 1947 compare with 13 in 1946, 16 in 1945

Twelve complaints were filed in four of the 14 NASD districts during 1947, according to a report of the National Business Conduct Committee to the Board of Governors. Seven of the complaints were filed in District No. 13 (New York), two each in Districts No. 12 (Pennsylvania) and No. 14 (New England), and one in District No. 1 (Pacific Northwest).

Ten complaints were closed, one with expulsion of the "Registered Representative" responsible for the complaint against the member, and the balance by penalties of censures, fines and costs. Five complaints were withdrawn or dismissed during the year, and at the end of 1947 six complaints were pending among the 14 districts.

The 12 complaints filed in 1947 compare with 13 in 1946, 16 in 1945, 20 in 1944, 46 in 1943, 57 in 1942, 120 in 1941 and 109 in 1940.

Executive Committee

L. Raymond Billett, Chairman of the Board, after his election, announced that the Executive Committee for 1948 would be composed of the following Governors, with Mr. Billett as Chairman: Herbert F. Boynton, New York; W. Rex Cromwell, Dallas; Robert C. Kirchofer, Raleigh; G. M. Phillips, St. Paul; Joseph L. Ryons, Los Angeles; John O. Stubbs, Boston, and Wallace H. Fulton, Washington, (ex officio).

QUOTATIONS

George Geyer, of Geyer & Co., Incorporated, New York, has accepted reappointment as Chairman of the Association's National Quotations Committee.

Associated with Mr. Geyer on this Committee are the following: Harry L. Arnold, Paine, Webber, Jackson & Curtis, New York; Albert C. Purkiss, Walston, Hoffman & Goodwin, Los Angeles; Herman J. Sheedy, McDonald & Company, Cleveland; Bradford W. Shaw, Swift, Henke & Co., Chicago.

ities of his firm, but his major responsibility now is the financial and operating problems of the firm.

Legislative Plan

Members of Board named as Advisory Committee to study securities laws

In keeping with an objective set forth in its Certificate of Incorporation, NASD has always made itself available, principally through the Board of Governors, for consultation with governmental and other agencies on problems affecting investors and the investment banking and securities business.

No formal committee of the Board has in the past been charged with responsibility for conducting such activities. Deeming it advisable that such responsibility be appropriately assigned, the Chairman of the Board has appointed a Legislative Advisory Committee, with Herbert F. Boynton, of New York, retiring Chairman, as head of the Committee, with the following Governors serving also: Philip L. Carret, New York; Russell I. Cunningham, Cleveland; Harlan Herrick, Wichita, and John J. Sullivan, Denver. The Chairman of the Board and the Executive Director are ex officio members of the Legislative Advisory Committee.

The resolution adopted by the Board regarding the Committee follows:

"RESOLVED, that the Board of Governors shall create a Legislative Advisory Committee consisting of four or more members of the Board in addition to the Chairman and the Executive Director, as ex officio members.

"That the Legislative Advisory Committee is authorized to study and to report to the Board of Governors on all matters pertaining to existing and proposed Federal legislation having to do with the regulation of the securities business.

"That the Legislative Advisory Committee encourage the formation and supervise the activities of District Legislative Advisory Committees in the respective districts of the Association, to study and report to the respective District Committees on all matters pertaining to existing and proposed State legislation having to do with the regulation of the securities business.

"That to the extent that is consistent with the purpose of this Association and the welfare of its members, the Legislative Advisory Committee, and each District Legislative Advisory Committee, be authorized to cooperate with the representatives of other

"GUARANTEES"

(Continued from page 1)

the transfer of securities and have such guarantees accepted by transfer agents.

In a report to the Board of Governors on this subject, Wallace H. Fulton, Executive Director, discussed many legal and practical aspects of the problem.

"From preliminary conversations," he reported, "it appears that representatives of transfer agents desire a guarantee which would guarantee not only the signature and the legal capacity and authority of the signer, but would also go so far as to guarantee the genuineness of the transaction. The transfer agents have in the past, and presently, argued that this should be the proper guarantee.

"The New York Stock Exchange rule relates only to the genuineness of the signature and is a guarantee of the legal capacity and authority of the signer. A study of the extant cases and the textbooks on this subject has been made and we are of the opinion that the rulings of courts interpreting the rules of the stock exchanges and custom of the business are to the effect that such a signature guarantee only guarantees the signature itself, the legal capacity and authority of the signer, and does not in any way guarantee the genuineness of either the certificate or the entire transaction.

"Unless the Board decides otherwise, the Uniform Practice Committee and the Executive Office will pursue discussions with representatives of transfer agents and banks in an endeavor to develop a system satisfactory to members of this Association. It is submitted that no agreement should be made or system set up which would in any way extend the present contemplated liabilities involved in the guarantee of signature in order to effect the transfer of securities."

groups or associations having similar objectives."

One of Mr. Boynton's first acts as Chairman was to request that the NEWS invite members to submit to him such recommendations as they may have for amendment and improvement of State and Federal statutes concerned with the securities business.

"We will welcome all of the assistance the membership can render in bringing before the Committee ideas and suggestions looking toward sounder and more practical securities laws, having in mind our ultimate goal of investor protection and facilitating

Registration

Nine admitted as "Registered Representatives" by Committees, Board

Approval of the Board of Governors has been given to registration as "Registered Representatives" of nine individuals seeking association with or employment by members. Action of the Board in respect to these individuals was necessary since each was disqualified from membership short of special proceedings.

In all of these cases circumstances were as follows: An individual who at some time in the past had his registration with the SEC revoked, been suspended or expelled from NASD or a national securities exchange, filed an application for registration with the Association as a "Registered Representative." The facts of the disability (revocation, suspension or expulsion) existing against the individual were thereby or otherwise disclosed. Under the By-Laws and the statute, proceedings must be instituted, the end result of which is either approval or disapproval by NASD of the individual's registration; in either event, each situation must be passed upon by the SEC. Parenthetically, it should be said that the membership of the firm with whom the individual is to become associated or employed is at issue in the proceedings, although only in a technical sense under the practice pursued.

In all, 14 such "Registered Representative" cases were considered and passed on by the Board in 1947. The By-Law providing for registration was adopted by the membership and approved by the SEC in 1945.

the flow of capital to meet the needs of industry," Mr. Boynton said. "During 1947 as Chairman of the Board I participated in many conferences looking toward amendment of the Securities Act of 1933. We will continue our study of that Act and hope that in time we may obtain such amendments as seem desirable and useful.

"It is possible that individual members out of their own experience are aware of defects and outmoded provisions of State 'Blue Sky' laws. Our Committee would welcome information of such character, having in mind that administrators of such acts would undoubtedly welcome cooperation on the part of the Association to correct deficiencies and weaknesses in the laws they administer."

Quotations

Vital role of over-the-counter published prices shown in report

Owners of unlisted securities are entitled to conveniently accessible information concerning the market value of such securities, and publication of the prices of these securities keeps the over-the-counter market prominently before investors and helps break down resistance investors may have against "off-board" securities.

These are two of the basic reasons for sponsorship of over-the-counter securities quotations by the National Association of Securities Dealers, Inc. and its members. George Geyer, Chairman of the National Quotations Committee, said in a comprehensive and enlightened report to the Board of Governors at its recent meeting. Other "basic reasons" for the quotations program cited by Mr. Geyer are that they often facilitate sale of unlisted stocks and bonds, whereas absence of published prices frequently is an obstacle to sales. Mr. Geyer's report also said:

"The widest possible publication of honest, accurate information as to prevailing prices on unlisted securities seems an effective measure toward preserving the right of security dealers to deal in unlisted securities as principals at a profit."

In addition to discussing the basic reasons for publication of unlisted securities prices, Mr. Geyer's report was devoted to a discussion of what the Association is doing in this field, how it is being done and recommendations for future development. He pointed out that in 1947 the Association expended \$36,952 on its quotations services and he reported that prices on unlisted securities are now being published daily in more than 80 newspapers in 43 principal cities. The WALL STREET JOURNAL, NEW YORK JOURNAL OF COMMERCE and the CHICAGO JOURNAL OF COMMERCE quote between 700 and 1,350 issues daily and several other metropolitan newspapers of general circulation now carry around 300 quotations a day.

Pointing out that the Association has adopted a descriptive explanation of the prices supplied by it and requests all newspapers to use this description, Mr. Geyer went on to say:

"Investors may not always understand that there is a spread between the bid and asked prices of listed securities, just as there is a spread

FINANCES

(Continued from page 1)

should have as a reserve against all contingencies or emergencies. Recourse to surplus as a means of lightening assessments of members was reviewed.

The discussion on the subject of expenses, assessments and surplus of the Association was resolved with a recommendation that the new Finance Committee which came into being at the January meeting give careful weight to viewpoints mentioned when assessments for the 1948-1949 fiscal year are taken up this summer.

Irving D. Fish, retiring Chairman of the Finance Committee, told the Board that the size of the surplus the Association should have depends upon a multitude of factors, among them being the sound business objective of funds sufficient to meet any emergency that might arise. Conditions and events developing between now and the time when the present Finance Committee decides on dues of the next fiscal year, he said, should enter into decisions that will be made at that time.

between bid and asked prices of unlisted securities. It may be noted, additionally, that besides the invariable spread between the bid and asked prices of listed securities, the seller is obliged to deduct the prescribed amount of commission from the proceeds received from liquidation of a security, and the buyer must add the commission charge to the cost of a security purchased. On many exchanges, furthermore, an odd-lot differential is charged to the buyer and seller of securities in amounts other than for stipulated units of trading. We suggest that if the commissions charged on both sides of a transaction in listed securities and the odd-lot differentials are added to the actual spreads between quoted bid and asked prices of listed stocks, the total spread between the bid and asked prices of listed securities probably is not appreciably less than the customary spread between the published bid and asked prices on unlisted securities of comparable price, trading activity and size of issue."

The better to serve the interests of both investors and members of the Association, Mr. Geyer suggested that further constructive results can be achieved by:

TREASURER



W. REX CROMWELL

(1) Further extension of unlisted securities quotations, by having prices on more securities published in more newspapers in additional cities throughout the country.

(2) By activating local Quotations Committees in areas where there is no NASD local Quotations Committee functioning.

(3) By continued effort to obtain conformance of local Quotations Committees with the principle that all published prices for unlisted securities should represent retail prices (rather than the "wholesale" prices customarily made between dealers), and continued effort to have more local Quotations Committees use the approved "masthead" to define the prices printed.

He reported that the National Committee last year sent a questionnaire to 520 corporations in an effort to obtain facts about the geographical distribution of their stockholders. 280 corporations supplied the information requested. These 280 corporations had a total of 1,243,964 stockholders.

Studies made of the replies from the corporations will be helpful, it is hoped, in obtaining even wider circulation for over-the-counter security prices. To date, the Committee has been able to compile statistics showing the number of corporations owned by more than 100 stockholders in each district of the Association, the number of issues owned by more than 100 stockholders in each State, and the cities and areas of largest concentration of ownership of over-the-counter securities.

Kit of Forms

Sample basic records being assembled for distribution to members when completed

A kit of forms which may be used by members for bookkeeping, record and confirmation purposes is being assembled and will be made available to the membership when in final, approved form. Since certain of the suggested forms must comply with the rules of the Securities and Exchange Commission, a conference with the Commission staff to review the suggested forms is to be held, after which, barring serious differences as to their structure and content, the bound kit will be assembled and members notified of its availability.

In the meantime, members interested in such a kit are asked to await notice of its availability before communicating their interest in it to the Association. All members will be advised immediately that the kit can be supplied.

It is expected that it will contain a journal, ledger, securities record, sample of confirmations, suggested "when-issued" contracts, Regulation T extension application forms, a state stamp tax memorandum, buy-in notice, and sample notarial acknowledgments.

It perhaps should be stated that the purpose in compiling such forms as mentioned is to offer suggestions that may be improvements over bookkeeping methods, etc. being employed by some members. Examinations that have been made of members this past year indicate that, for the most part, books and records are adequate to the needs of the member and in general comply with covering federal and state laws. NASD has no rule respecting books and records beyond a requirement that members comply with the federal and state laws in this field. However, in response to requests by members for advice and assistance, particularly from newly-formed organizations, it was decided that a kit of essential forms be assembled and made available insofar as this was practical, having in mind especially the requirements of the Securities and Exchange Commission. We repeat, availability of the sample forms will be the subject of a notice to all members.

Registration

Partners, officers as well as salesmen, traders, etc., should be "Registered Representatives"

If you are a proprietor, partner, officer, salesman or trader, or if you occasionally handle transactions for customers of a member, you should be registered with the Association as a "Registered Representative."

When you leave the employ of one member and become associated with another member, you are required to re-register.

Notification of any change of address should be given promptly to the Executive Office of NASD in Washington.

The By-Law providing for registration of member principals and employees went into effect early in 1946. Among other things, the By-Law provides that:

"No member shall permit any person to transact any branch of the investment banking or securities business . . . unless such person shall be registered . . . as a 'Registered Representative' of such member."

There is reason to believe that some proprietors, partners and officers, and perhaps some employees of members have neglected to become registered. Doubts as to the status of the personnel of any member may be resolved by inquiry of the Executive Office.

MEMBERSHIP

Association membership, in the light of conditions in the securities business last year, made a remarkable record.

In a period when membership might have been expected to show a downward tendency, an upward trend prevailed throughout the year.

Membership at the end of December amounted to 2,648, as compared with 2,580 December 31, 1946. The gain of 68 for the twelve-month period is the net result of additions and terminations.

Membership currently is the highest since May, 1942. The present total of 2,648 compares with a low of 2,180 in March, 1944 and a high of 2,975 in August, 1941.

Confirmations

Members advised of wisdom of exchanging confirms; costly errors cited

That the habit of exchanging confirmations with other brokers and dealers is sound practice was well recognized by informed and experienced people in the business who assisted in the drafting of the National Uniform Practice Code. However, District Committees of the Association continue to be confronted with disputes between members arising solely or largely out of the fact that one or both parties fail to send confirmations to the other party in the transaction.

Although there is no binding law on this particular phase of members' business, the wisdom of confirming all transactions without fail is spelled out in the Code, where, under Section 9, the following is set out:

"Each party to a transaction shall send written confirmation of same on the date of the transaction. Confirmations shall be compared upon receipt and any discrepancies shall be checked immediately; and a corrected confirmation shall be sent by the party in error."

Numerous instances could be cited from records of District Committees to establish the soundness of the above advice. In recent months such committees have arranged for arbitration of disputes between members which would have been prevented from arising had the members exchanged confirmations and promptly and carefully checked these against their own records.

One such dispute involved a transaction which resulted in a loss of \$750, and other cases where somewhat smaller losses were incurred could also be cited from the records, to say nothing of the mistakes and misunderstandings out of which no dispute arose which necessitated intervention on the part of the Association's arbitrating service.

So the advice of the National Uniform Practice Committee, which might be summed up in the words "CONFIRM! CHECK!," would seem to be, next to the transaction itself, a most important element in strict dollars and cents business practice. The Uniform Practice Committee emphasizes the wisdom of confirming and checking an exchanged confirmation in the case of transactions involving when-issued securities.

Uniform Practice

Report to Board discusses activities and accomplishments of Code committee

Services rendered the membership by Uniform Practice Committees are in the "taken-for-granted realm," which is as it should be after a decade of work by such committees in perfecting delivery practices and the multitude of other technical rules for over-the-counter trading.

However, as revealed in the report of the National Uniform Practice Committee to the Board of Governors, the year 1947 presented its quota of problems to the Committee. The report of Harold C. Patterson, Chairman, touched among other things upon work that had been done and decisions made respecting registration of Philippine securities, so-called looted European securities, policies of the Netherlands government in respect to Dutch securities, a number of "when-issued" problems growing out of railroad, public utility and industrial reorganizations, and more or less continuous problems in the field of State and federal transfer stamp taxes. In addition, Mr. Patterson reported on exploratory work done by his committee and the Executive Office on acceptance by transfer agents of guarantees and assignments of NASD members.

Both formal and informal opinions, numbering a dozen or so a month, are supplied by the Committee and its Secretary to members involved in differences in such settlement matters as accrued interest and accrued dividends and "good" or "bad" delivery disputes. An example of the current work to which the Committee is devoting attention is a suggestion that the Uniform Practice Code be amended to provide that in certain circumstances certificates in the names of deceased persons, trustees, guardians, etc., be considered a good delivery. Delivery of so-called "equivalent securities" is also under study.

Meanwhile, the Secretary of the Committee and the Staff of the Association are undertaking to draw up a set of due bill forms to be used by members to cover cash and stock distributions on regular way and "when-issued" contracts.

NASD VICE CHAIRMEN



JOSEPH L. RYONS



ROBERT C. KIRCHOFER

SEC Budget

House Committee disallows larger staff of inspectors.

The Securities and Exchange Commission's proposal to add 28 additional employees, including 10 inspectors for regional offices, was disallowed by the House Appropriations Committee in passing on the SEC budget. The Committee suggested that the agency, instead, reduce the number of assistants to the commissioners and the number of "opinion writers" and personnel office employees.

The Commission is requesting of Congress a budget for fiscal 1948-49 of \$6,000,000 against \$5,738,700 in the current fiscal year and \$5,533,700 in fiscal 1947.

The Commission reported 1,257 are now employed. The ten additional inspectors were budgeted for a total of \$49,020. It now has 41 inspectors, the SEC told the House Committee.

NASD NEWS

Published periodically under supervision of the Board of Governors for members and "Registered Representatives."

JAMES P. CONWAY, *Editor*

Additions to mailing list made at no cost to members. Extra copies may be obtained by writing the Executive Office.

Eleven new positions were needed in the corporation finance division, the SEC said.

UNIFORM PRACTICE

Harold C. Patterson, of Auchincloss, Parker & Redpath, Washington, has accepted reappointment as Chairman of the Association's National Uniform Practice Committee.

Associated with Mr. Patterson on this Committee are Vice Chairman Reginald Martine, of Harriman Ripley & Co., Incorporated, and the following: H. Wilson Arnold, Weil & Arnold, New Orleans; W. B. Brown, William R. Staats & Co., Los Angeles; J. Wallace Coxhead, Bosworth, Sullivan & Company, Denver; George L. Morris, Hornblower & Weeks, Philadelphia; Reuben Thorson, Paine, Webber, Jackson & Curtis, Chicago; Oliver J. Troster, Troster, Currie & Summers, New York.

MEMBER RELATIONS

Robert C. Kirchofer, of Kirchofer & Arnold, Inc., Raleigh, Vice Chairman of the Board of Governors for 1948, will serve as Chairman of the Association's Member Relations Committee this year.

Others invited to serve on the Committee include: Harry W. Beebe, Harriman, Ripley & Co., Incorporated, New York; John R. Longmire, I. M. Simon & Co., St. Louis; Henry G. Riter, 3rd, Riter & Co., New York; Robert G. Rowe, Stroud & Company, Incorporated, Philadelphia.