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Letter to St. Paul

Harold E. Wood of St. Paul has been nominated to be Chairman of the Board of Governors of the Association in 1955. He is head of Harold E. Wood & Company, and will succeed Edward C. George of Chicago.

Election of officers takes place at the January meeting of the Board. In addition to Harold Wood, officers chosen for next year by a Nominating Committee of retiring Governors follow:

Vice Chairmen

George F. Noyes, vice president, The Illinois Company, Chicago.

William H. Potter, Jr., senior vice president, The First Boston Corporation, Boston.

Treasurer

Roy W. Doolittle, Doolittle & Co., Buffalo.

Executive Director

Wallace H. Fulton, Washington, D. C.

The Nominating Committee, traditionally the seven Governors whose terms are expiring, was

VICE CHAIRMAN**George F. Noyes****CHAIRMAN****Harold E. Wood**

made up of the following:

Walter I. Cole, Beecroft, Cole & Company, Topeka.

Claude T. Crockett, Crockett & Co., Houston.

Edward C. George, Harriman Ripley & Co., Incorporated, Chicago.

Charles P. Lukens, Jr., Robinson and Lukens, Washington, D. C.

William C. Roney, Wm. C. Roney & Co., Detroit.

Carl Stolle, G. A. Saxton & Co., Inc., New York.

Murray Ward, E. F. Hutton & Company, Los Angeles.

Harold Wood is a graduate (1918) of the University of Minnesota. His intense interest in affairs of his own community and the business in which he has spent his life has brought him many civic and industrial assignments. He has served as president of the Greater St. Paul Community Chest and Council and as president of the Association of Commerce. He is an ex-chairman of the Minnesota Group and an ex-governor of the IBA.

NASD—SEC Meet

The Fall meeting of the Board of Governors in Washington October 11-12 was recessed for a conference with Commissioners of the Securities and Exchange Commission.

The occasion was utilized by both groups as an opportunity to exchange views on a number of current problems with which the business and the SEC are concerned, including rules to be adopted by the SEC bearing on amendments to the Securities Acts voted at the last session of Congress. These rules were being awaited as the *News* went to press.

The problem of the business in getting securities information into the hands of investors, in keeping with disclosure requirements and in time to be useful, also was reviewed.

Explored also was the question of developing and making effective experience and character standards for employment in the securities business. Governors cited to the Commission examples of unsatisfactory conditions that have crept

*(Turn to P. 4, Col. 2)***VICE CHAIRMAN****William H. Potter, Jr.**

"Back-Office" Blues

Members, large and small, struggle every day with back-office operating department problems. These seldom, in individual cases, result in loss of much money but, in the aggregate and over a period of a year, say, losses due to technical miscues or errors can add up to a tidy sum. Many of these problems add unnecessarily to the work burden of office staffs and, too often, create irritants in customer relations.

They can grow out of undue delay in deliveries, dividend give-ups, confirmations, comparisons, or any one of a whole host of prescriptions for settling transactions.

The Association has adequate machinery set up to regulate the traffic and where this doesn't apply to emergency or unique situations, there are experts on the alert at all times to come up with a decision. Even so, sand creeps into the machinery and the resulting grind is hard on everyone's nerves.

At a recent meeting of the Board of Governors there was a rather long rhubarb on the subject of delayed deliveries. This is one of those topics which, like the weather, stumps the experts. There are involved the whole family of parties to a transaction: the customer, the originating dealer, the trading house and, as often as not, one or more other trading houses and and possibly a customer or two on the other side. If the transaction involves a sizeable number or an odd number of shares, the possibilities for delay are multiplied in proportion to these and other unusual characteristics of the order.

In the Board discussion of the subject there was no disposition to point the finger at any single segment of the industry for abuses which creep into delivery "snafus", but it was agreed that a sound and practical solution would be a real contribution. So, some expert exploring and thinking is going to be done.

One way out for the dealer who is at the end of his string of patience beads is the buy-in procedure. Extreme cases may call for

TREASURER



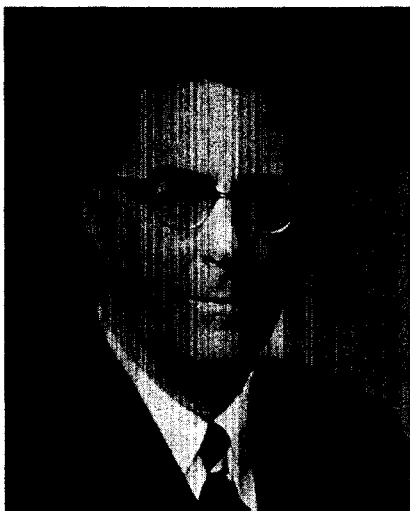
Roy W. Doolittle

just such action, but sentiment seems to indicate use of this device only as a more or less last resort.

Incidentally, considerable misunderstanding appears to exist as to steps to be taken on "buy-ins" or "sell-outs". A member who employs either is subject to the provisions of the Uniform Practice Code of the Association as to procedure to be followed. Among the requirements to be met is the filing of the covering confirmation with the Secretary of the code Committee. This is an obligation apart from suggestions or advices between the parties concerned. The pertinent provisions are under Sections 59-60 of the UPC in the N.A.S.D. Manual.

Along the same line, attention is

EXECUTIVE DIRECTOR



Wallace H. Fulton

called to a too-common failing on the part of some members to include due bills for dividends with deliveries. The situation and some covering comment from an expert follow:

"One of the most irritating and eventually expensive items in handling securities is the dividend on securities delivered subsequent to the record date for such dividend. This is especially true when delivery is effected through the mail. Then a receiving member has to make up his mind, either, (1) to turn down the delivery, or (2) to accept it and then attempt to obtain a due bill to cover the dividend through the mail by writing for it.

"It has been suggested by many members that it would be a better practice to include a due bill check covering these uncleared dividends at the time the certificates are delivered to the buyers."

As a matter of fact, a number of active over-the-counter houses employ this device and use a particular type of check for the purpose.

Speech Material

If you are at times called upon to make a speech about your business or explain phases of it, bet you wish you had handy some reference material.

There is available for the asking at the Executive Office in Washington a useful collection of such material—tips on how to tee off with a speech, topics to high-spot, a few misconceptions or untruths about the business to hit in the head, and even some text that might be helpful in untangling your tongue after the first five minutes. A salesman who is looking for a new pitch or two might even find this stuff worthy of inspection.

It's all for free. Just write the Executive Office. Ask for "Speech Material".

Executive "Rep"

An officer, partner or other person with "authority" must be named by each member to act for the member on NASD matters. Who is your "Executive Representative"? Is he still the proper one to act for you?

Vox Populi

Executive Director, NASD:

Since writing you about our tax assessment [an open-end investment company] for the year 1951, we have received a lot of good advice. . . I want to thank you most sincerely for your prompt action in our behalf. I now know by experience that you mean it when you say "we are here to assist you."

Cordially yours,
(Name Withheld)

Dallas.

Experts on Tax Bill

A well-attended and successful meeting was held late in October in Philadelphia at which spokesmen for the American Institute of Accountants, in a fast-moving two-hour session, reviewed major features of the new Internal Revenue Code as they bear on interests of the securities business and investors.

The meeting was sponsored jointly by NASD and IBA. Invitations to the meeting went to securities dealers and trust departments of all banks in the Philadelphia area. Attendance amounted to 499.

The program was divided into three parts. The first was devoted to new provisions of the Code specifically affecting transactions in securities. This portion of the discussion also covered important items relating to personal income tax. There followed an expert's examination into provisions of the Code affecting all types of businesses. Both speakers then undertook to answer questions of the audience.

The Committee on arrangements for the meeting included Sid Blake, Chairman; Albert Rauch, Walter Schmidt, George Elkins and Francis Brooke. Edward R. Gilleran, Secretary, District Committee No. 12, NASD, organized the meeting in cooperation with the AIA.

Explanatory summaries of income, estate and gift tax changes made in the Code were supplied all who attended.

Otis & Co.

On October 20, 1954, the Board of Governors of the Association dismissed a complaint against Otis & Co. and Messrs. Cyrus S. Eaton and William R. Daley, and has also revoked an order of February, 1950, which would have suspended the membership of Otis & Co. and the registration of Messrs. Eaton and Daley as Registered Representatives for a period of two years. The order, now revoked, had never become effective because it had been appealed to the Securities and Exchange Commission and no decision on that appeal had been rendered.

The Association's action was taken because Federal Court proceedings, a recent decision of the S.E.C., and related developments made the proceedings initiated by N.A.S.D. no longer necessary. Those proceedings had been based on the refusal of Otis & Co. and Messrs. Eaton and Daley to provide information as to communications between Mr. Eaton and his attorneys. In the Federal Court proceedings, involving Kaiser-Frazer and Otis & Co., it appears that testimony was given on these matters, and this testimony was also incorporated into the record of hearing before the S.E.C. The disclosure of these communications, as well as the actions of the Federal Court and the S.E.C., were among the factors which were taken into consideration by the Board of Governors.

Are You Among 325?

There are reported to be 325-odd dealers who are still sitting on SEC Form BD. Any member who hasn't filed this required form with the Commission (or who never even heard of Form BD before) should take steps because the form is really a time-saver for him in the long run. BD, by the way, is the simplified method of registering with the SEC and of keeping your registration current. It's four pages instead of twelve—need we say more?

Economic Research Report

An inventory of research activities in the capital and securities markets over the past twelve years,

coupled with recommendations for further studies in these fields, has been completed by the National Bureau of Economic Research.

The inventory, undertaken at the joint behest of the Association and the IBA, is in three parts—a bibliography showing studies that are available and where they may be obtained; a discussion of researched areas on which information should be kept up to date (including the flow of savings through financial institutions, stock ownership statistics, trading activities in the over-the-counter market, and financial data on brokers and dealers); and proposed areas for new research, including analyses of investment holdings and flow of investment funds, studies of private pension and profit sharing funds, public employees retirement funds, and personal trust funds, and the financing policy and preferences of American business.

A limited printing of the Bureau's report, of importance to the industry, has been arranged. It will be available from the Executive Office at 50 cents a copy, one copy only per member, on a first-come, first-served basis.

Headquarters "Look See"

The Board of Governors has received the report of a committee of Board members appointed to give a "once over" (but not lightly) to the operations of the Executive Office. The Board Chairman, a Vice-Chairman and the Treasurer comprised the committee. They looked into all corners, examined expenses over the past three or four years, and interviewed individual staff members as to job assignments. Said the report ". . . there is certainly no evidence of excessive expenditure for housing facilities for the Washington office . . . All the equipment seems to be thoroughly modern. Everybody appears to know their job thoroughly and to be busy . . ." The report concluded favorably on the operation of the office with an added word for Wally Fulton's efficient manner of administration.

First SOP Penalty

In the first formal complaint case brought against an Association member for violation of the Statement of Policy in offering shares of mutual funds (investment companies), an NASD District Business Conduct Committee has imposed fines and costs and censured the member firm, suspended, fined and censured one registered representative of the member, and suspended another registered representative.

The case actually involved two complaints. In one, the committee cited the firm and a registered representative for multiple departures from the ethical standards of the Rules of Fair Practice, including Statement of Policy violations along with other matters. In the other, the firm and another registered representative were cited for Statement of Policy departures exclusively.

It is the first time the Association has had to go this far in enforcing the SEC's Statement of Policy, administered for its members by the Association as a cooperative effort in self-regulation. Committee action was taken when violations continued in spite of many promises of future compliance. In addition to fines of \$2,500, costs of proceedings were imposed amounting to \$2,839.33. The firm has paid the penalty, waiving the right of appeal to the Board of Governors, and since has sent its sizable roster of salesmen a summary of the case together with a strong warning of severe reprisals for future infractions.

One of the principal violations found by the committee was the repeated allegation to customers that the shares of the investment companies involved paid rates of return ranging from 8% to 11%, basing the claim on the improper combination of capital gains distributions with dividends from investment income, both orally and in written material. Also, it was found that the firm failed adequately to supervise the activities of its employees so as to prevent such violations, in violation of Section 27(a) of Article III of the Rules of Fair Practice.

The respondent member argued

at the hearing that it held annual sales meetings at which the Statement of Policy was discussed, and that it had instructed its salesmen on the SOP standards. However, the District committee ruled that in the light of all the evidence, "It can only be presumed, and the Committee finds, that Respondent Member countenances and encourages its Registered Representatives to make representations that all the dividends on shares of.....are income distributions, when, in fact, part of such dividends are capital distributions.

"The committee finds that such conduct . . . is contrary to high standards of commercial honor and just and equitable principles of trade, and that such conduct constitutes a violation of Section I of Article III of the Rules."

SEC Meet—Cont. from P. 1

into the employment situation due in large part to the absence of standards by either the SEC or the NASD to guide members in hiring new employees.

The Board of the NASD has discussed at recent meetings the desirability of prescribing such standards for employment in the business. Demand of members for such action has spurred the Board to study the Maloney Act to determine whether authority exists for fixing such standards. This study is being continued.

Edward C. George, Chairman of the Board, commenting on the meeting with the SEC, said Governors were pleased with the friendly spirit in which they had been received and with the interest evidenced by the Commissioners in broad problems of the securities business which are currently under review by the Board. He expressed the hope that such meetings can be held periodically in the future for an exchange of views and suggestions.

NASD News

Published periodically by the Board of Governors under the supervision of the Information Committee

HAROLD E. WOOD, *Chairman*
Editor, JAMES P. CONWAY

\$2,000 Fine

A member has been fined \$2,000 and required to pay costs of \$482 as the result of a complaint by a District Business Conduct Committee filed against the member for excessive mark-ups [6% and up] in a series of thirty-four transactions. The member was censured, as well, for his conduct. The Board of Governors, which heard the complaint on appeal of the member, remitted a 90-day suspension ordered by the District Committee in the case while sustaining all findings of guilt arrived at by the Committee.

The member's defense before the District Committee was:

"... these transactions are not out of reason as to commission or charges, because of our travelling expenses involved and also because of the study we give to the securities before selling them to our customers. Our business, consisting of going to the homes or business places of our customers and presenting our views, (in most all cases) requires several calls before closing our sales."

Said the NASD Committee:

"We are well aware of the expenses connected with conducting a securities business and are of the opinion that adding expenses to the price of the security where the effect of such inclusion is to make the selling price no longer reasonably related to the then current market price, constitutes conduct inconsistent with just and equitable principles of trade.

"We have considered the mark-ups, the amount of funds involved in the transactions, the nature of the securities and their market, the expenses involved, and the fact that the respondent is entitled to a profit, and we find that the respondent sold securities to customers at prices which were unfair and not reasonably related to the current market price."

Membership

Membership of the Association amounted to 3,166 at the end of October, 1954. The figure is the highest since formation of NASD in 1939.