

PUBLISHED BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., WASHINGTON, D. C.

## Standards

The Board of Governors believes it is nearing an answer to the growing need for experience standards for those who would become members of the Association or who would work for a member firm. Since membership in the Association is required for anyone intending to do a general securities business, such NASD standards would become the qualifying hurdle for new firms.

Because the formal requirement is still in the drafting stage and subject to further amendment and because SEC discussions will precede its acceptance by the Board for submission to a vote of the membership, no constructive purpose would be served by publication at this time of the text of the proposal incorporating the new standards.

However, it can be said that the Board's objective is a much tighter admission requirement for persons who have a "record" insofar as the handling of securities goes or who have been convicted for violation of laws covering fraud, breach of trust, fiduciary relationship, etc.

The Board of Governors feels it is important to make sure there are adequate restrictions against people whose records don't commend them as candidates to be trusted with other people's money.

Progress is being made on setting up minimum educational and experience standards for prospective members or registered representatives of members. These standards will have to do with the minimum time a person must be engaged in the business before gaining membership or registration and, when such required experience is lacking, an examination would

(Turn to P. 4, Col. 2)

## GOVERNOR



Jo M. French

"I consider it top honor in our business to serve on the Board" is the way Jo French expressed his reaction to being elected a Governor. He's Blyth's vice president in charge of Southern California. He got his baptismal and cut his investment banking teeth with the National City Company where he was in the wholesale and syndicate department from 1927 to 1935. Jo then moved over to Harriman Ripley, where he remained four years; then had two years as manager of Alex. Brown & Sons' New York office. Served three years as Lt. Colonel in the Army Air Force and upon leaving the service joined Blyth and was syndicate manager in New York when, in 1946, he went to Los Angeles.

## Down the Hatch

Overheard in the aisle next to the bar:

"If you don't drink you won't live longer. It'll just seem that way."

## Variable Annuities

A special committee of the Board of Governors has been named to keep a close watch on the "variable annuity" situation—what may look to some like just another sales gimmick for the insurance business, but which others fear as a potential threat to the securities business.

The committee was authorized at the January Board meeting. It will work closely with similar groups from other organizations, such as the IBA, National Association of Investment Companies, New York Stock Exchange, etc., to make sure that the interests of the securities business are properly protected in any new developments in the variable annuity field.

H. Warren Wilson, New York, is chairman of the special committee, and other Governors assigned by Board Chairman Harold Wood are Roy Doolittle of Buffalo, Frank Hunter of Pittsburgh, and George Newton of St. Louis.

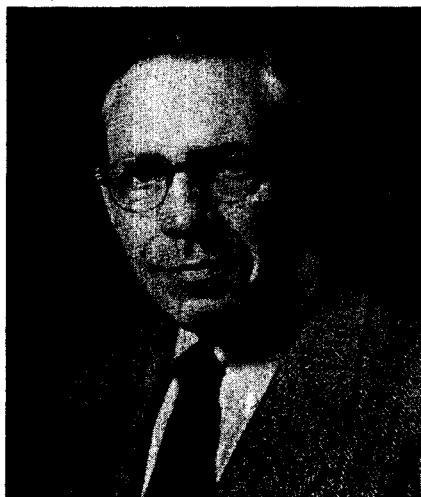
A variable annuity is really a kind of investment company or mutual fund tied to an annuity, but classified as insurance and to be sold as such by insurance salesmen. Under insurance classification, it would be free of virtually all regulation (even though, as a package of common stocks, sold in competition with investments offered by securities firms) and would have unusual tax advantages over common stocks bought in any other manner.

The securities business does not fear any new medium of competition on equal footing; it simply wants to make sure that if variable annuities come into being they are controlled just as other securities are controlled and are subject to similar tax treatment.

The New York legislature passed

(Turn to P. 2, Col. 1)

## GOVERNOR



Howard H. Fitch

Howard Fitch of Kansas City got to be a vice president in 1929, which was as nice a time as any for a fellow in the securities business to find out what it means to be promoted. He got into the business right out of college (University of Kansas) in 1924. He was Jack Benny's age when World War II came on, but the armed forces had nothing against vice presidents so Howard got in, and came out a fly-boy Captain in June, 1945. Joined the late John Barret in forming an investment firm in December of that year and it is now Barret, Fitch, North & Co. He comes to the Board after three years on the District Committee, one as its Chairman. Howard was last year's Chairman of the IBA Southwestern Group and is a former president of the K. C. University Club.

### Variable Annuities (Continued)

a bill in 1954 permitting incorporation of the "Variable Annuity Corporation of America." The bill was vetoed by the Governor. A new bill will be reintroduced at the present session and it is understood this time the major insurance companies that opposed it last year and pressed for the veto have now withdrawn their opposition.

A "variable annuity" is described as a method whereby the annuitant can be protected against declining

purchasing power of the dollar by giving the purchaser an undivided interest in holdings of a diversified list of common stocks.

One expert on the subject explains it this way:

"A variable annuity company will be patterned after an investment trust, whereby a man could either make a lump sum payment for the purchase of an annuity under the terms, say, of a life income certificate, a ten-year certificate, twenty-year certificate—whatever form wished. He would purchase a certain number of annuity units, which would consist of nothing more than common stocks as the underlying backlog of the insurance company. The company would not guarantee to pay him a certain number of dollars in an annuity, but would pay him a certain number of annuity units or the value thereof, at the first of each year.

"At the time his annuity would begin, his money would be converted on an actuarial basis to accumulate annuity units. During the years of accumulation, the annuitant would pay no tax. He would be buying, in effect, common stocks through an insurance annuity, without any apparent tax on his income dividends.

"If this variable annuity company qualified as a life insurance company, there would be no tax on the capital gains at all. In other words, the annuitant would be avoiding, at least until the time he took the money in his retirement years when the tax rate might be much lower, the tax that all other investors in common stocks must pay today as soon as they get their dividends. In other words, he would be accumulating tax-free income in the form of dividends."

It is planned, under the annuity company being sponsored, that all purchases be of listed stocks.

It is expected that the various committees representing the several branches of the securities business will meet shortly to plan strategy.

## GOVERNOR



Frank L. Reissner

Crisp and clear came the response from Frank Reissner when asked to tell us a little about himself: "Came to work for Indianapolis Bond and Share in June of 1934 directly from Butler University with a B.S. in Business Administration and Economics... never worked any place else... except for 41 months in the Army during World War II... started as errand boy, clerk and general janitor... head of the trading department for many years... elected a director and vice president in March, 1946, and president in October, 1948... also, am president and director, Indianapolis Terminal Warehouses, Inc., vice president and director, Booth Tarkington Civic Theater; treasurer and director, Indiana State Cancer Society; director, Downtown Indianapolis Kiwanis Club, and president, Butler Alumni Association." Frank also did a stint on NASD's District Committee #8.

### Nadler Needle

Professor Marcus Nadler picks up some side change by counselling a bank and others that can use his economic advice. His position reminds him of the earnest and ambitious young negro who prayed hard for guidance and help from the Lord. "Use me Lord, use me!" he pleaded, "preferably in an advisory capacity."

## COMMITTEEMAN



Joseph E. Welch

Joe Welch was born 52 years ago in Philadelphia's Germantown. He has just completed two years as Chairman of the Association's Investment Companies Committee. Joe joined Wellington Fund in 1936. Jack-of-all trades, he handled all accounting, trading, dividend disbursements, and SEC and state Blue Sky work for the fund. In addition to his important NASD committee work, Joe finds time for the Administrative, State Legislative, Prudent Man, and Public Information committees of the National Association of Investment Companies, and is one of the three men on its Administrative Committee.

### Membership

NASD national membership rose 5 per cent in 1954, and at the year-end was at a new high—3,204. In Utah, the jump was 193 per cent—from 16 to 47, due to the uranium stock boom concentrated in Salt Lake City. In New York City, membership rose 4 per cent, from 865 to 901, and in New Jersey the rise was 17 per cent, to 115 members from 98. In contrast, the Chicago area showed a drop in members to 338 from 341.

Here is the way in which the membership-style breaks down: 1,098 are sole proprietorships, 1,034 are partnerships, and 1,072 are corporations. Members operated 1,579 branch offices at the year-end.

## Fails! Fails! Fails!

A layman, overhearing a couple of over-the-counter dealers engaged in a discussion of their business, might gather that everybody was going broke. "Fails, fails, fails is all those fellows talk about," he might report.

Here is how an off-the-cuff discussion of the subject went recently:

"Are you having the same trouble we are, as a result of the tremendous market activity, with the big jump in the number of fails throughout the country? It's getting worse and customers are getting aggravated. Why, one firm in New York, figuratively speaking, throws the stuff in the corner and you get it when you get it. They have the stuff around the shop for days and you just can't get it because they don't have the personnel. I suppose it will take a slowdown in the market to get them anywhere near in balance."

"Sure, and in the meantime, the rest of us just wait. The customer, too, waits. He gets mad. We get mad. It's getting worse all the time."

"Well, I can cite a case in our own firm where we owed out to one firm 82 deliveries and the oldest was three months and seven days and he was complaining about it. I looked through the 82, and 67 of them were for odd amounts, like 62 shares. You know how it is, if you have a 100-share delivery going out, owed for one week, and 62 shares for three weeks, your delivery clerk is going to deliver out the 100-share piece against the 100-share fail."

"All I can say is our firm's fails are higher now than they were back in 1929 when we had twice as many traders."

"What about buy-ins? There seems to be a reluctance to buy-in."

"Well, one firm said they were going to buy us in. We made a check and found they owed us more than we owed them."

## GOVERNOR



Edward H. Austin

It must be that all them there stories about rampagin' Texans are found at the bottom of a TV script writer's bottle. For all NASD's Governors from that Republic seem to be the soft-spokinest people imaginable and not given to any boastin', whatsoever. Ed Austin may not equal Claude Crockett's record for peaceful co-existence with fellow Governors in debating sessions. Still, Ed's normal pitch is just above a whisper. Mr. Austin started out in business with Jos. T. Ryerson & Sons and he was in the steel business in Chicago and New York from 1927-31. He returned to San Antonio in 1932, joining Dewar, Robertson & Pancoast, of which he became a partner in 1947. His present firm, Austin, Hart & Parvin, was organized in 1951. Ed's a graduate of Rice Institute with a B.S. in Mechanical Engineering. Also did a hitch in the N.Y.U. Graduate School of Business and one in the Army Ordnance Department in World War II. Ed's been one of a group that's been working pretty hard to get a new Securities Act in Texas.

### Kind Executioners

Harold Wood, in remarks accepting election as Chairman of the Board of Governors, said the kindness of the nominating committee in paying him that honor recalled to mind the considerate old lady who always warmed the water before drowning the kittens.

## GOVERNOR



Lee H. Ostrander

With or without his glasses, Lee Ostrander is a photogenetic fellow whose appearance belies many years of pavement-pounding and celebrating to make his way in the securities business while raising a brood of four (two and two). Started as a salesman with White, Weld & Co. in 1926; spent a couple of years with Harris, Forbes and a longer stretch (1933-40) with R. W. Pressprich in Chicago. Settled in his present berth as partner of Chicago's William Blair & Co. in 1944. A past Chairman of the Central States Group and Governor of IBA, he served the NASD District Committee for a term and was its Chairman in 1950.

### Retroactive Dividends

Members may be interested in the solution of a problem District Committee No. 5 had for a number of years with two local companies having active securities in the Kansas City market. The companies always insisted on declaring dividends retroactively, with consequent inconvenience to dealers and confusion to the public.

This year, for the first time, the District Committee has been able to convince the companies that their practice should be changed. The Chairman of the District Uniform Practice Committee accomplished this by pointing out the advantages the companies derived from having their securities quoted by the Association.

## Standards (Continued)

be given by the District Committee for the area.

It will be recalled that the NASD Governors discussed this matter at their Fall meeting with the SEC. Governors then cited to the Commission examples of unsatisfactory conditions that have crept 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.

### SOP Revisions

Although all member firms and all branch offices received a copy of the Statement of Policy on investment company sales literature, as amended effective January 31, there is some indication that not all who should know about it have seen the amended material. Extra copies are available without charge at the Executive Office, together with a series of sample performance charts and interpretative bulletins covering the amended sections.

It should be emphasized that the SOP changes are distinct from proposed new SEC rules governing advertising that names particular investment companies, currently under active consideration at the Commission. So-called institutional advertising, that which speaks of mutual fund investment in general terms, on the other hand, does have to comply with the SOP.

### Welcome Back!

Back in 1939 when the Association was being organized, a gentleman from Milwaukee served one year as a Governor. When he retired, he was drafted to serve the Association as Chairman of the Uniform Practice Committee. Later on, the Investment Bankers Association beckoned to him for its Presidency. After serving the business well in these capacities, you might think he'd look in earnest for those carpet slippers. Not this fellow! When the nominations for members of District Committee #8 (Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin) came out recently, there he was—starting over again. Welcome back, Joe Johnson!

## GOVERNOR



Earl K. Bassett

Earl Bassett's the man to see if you're figuring on moving to Chappaqua, N. Y. He's secretary of the town's zoning board. Also he's a partner in W. E. Hutton & Co., New York. Earl's been in the securities business 28 years and boss of the zoning board since 1947. This New York Governor hailed originally from Trumbull, Conn.; was educated in public schools of Bridgeport and N.Y.U. School of Finance; came up to the Board of Governors after three years on the District Committee, the last as its Chairman.

### From Letters on SOP

"My associates here wish to join me in expressing our appreciation of your courteous and helpful letter... with reference to the circular letters we filed with you..."

\* \* \*

"We think your letter a completely fair one, and our respect for the practical day-to-day operations of the NASD is increased by its receipt."

\* \* \*

### NASD News

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

GEORGE F. NOYES, *Chairman*  
Editor, JAMES P. CONWAY

1625 K St. N.W. Washington, D.C.