

# NASD

*News*  
VOLUME XIV NO. 1  
MAY 1969

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. 1735 K STREET, N.W. WASHINGTON, D. C.

*To NASD Members and Registered Representatives:*

**SEC MINIMUM  
CAPITAL RULE  
READY for ADOPTION**

The SEC's proposed Minimum Capital Rule will probably not become effective after adoption by the Commission for at least six months so that broker/dealers who presently do not meet the \$5,000 general securities and \$2,500 mutual fund requirements will have adequate time to bring their firms into compliance.

Under the proposed rule all broker/dealers in the general securities business must have and maintain a minimum net capital of \$5,000 in addition to the provisions of the present SEC (20 to 1) Rule which states that aggregate indebtedness must not exceed 2000 per centum of net capital.

Broker/dealers who do not hold customers' funds or securities and whose business is limited to the sale and redemption of mutual fund shares, or the sale of securities for a customer to obtain monies for immediate re-investment in mutual funds, will be required to have and maintain \$2,500 minimum capital. In addition, those firms dealing in the solicitation of accounts for certain insured savings and loan associations must also have and maintain \$2,500 minimum capital.

For firms that do some commodity business the tentative new regulation provides that in computing net capital an amount equal to 1½ per cent of the market values of total long or total short future contracts should be deducted from net worth. The provision is similar to recently adopted rules of the New York Stock Exchange and other exchanges for members that deal in commodities.

Also included in the proposed new rule is an amendment which requires the filing of two copies of subordinated loan agreements with the Commission together with information concerning the lender who must now meet all statutory qualifications under the Securities Laws.

Exemption from the rule is provided for broker/dealers subject to more comprehensive exchange capital requirements and for those who make application and satisfy the Commission that the nature of their business is such that an exemption is consistent with the public interest.

**DEFENSE DEPARTMENT  
RESTRICTS SECURITIES  
SALES TO SERVICEMEN**

A recent directive issued by the Defense Department forbids any officer or enlisted man on active duty to solicit any type of business from military subordinates "at any time, in or out of uniform." The sale of securities or mutual funds is specifically mentioned in the directive. Regulations of the Army, Navy, Marines and Air Force will be amended to reflect the new policy.

**NASD RETAINS  
CONSULTING FIRM TO  
CONDUCT O-T-C STUDIES**

The NASD has retained the management consulting firm of Booz, Allen & Hamilton to conduct a comprehensive study of the over-the-counter securities markets.

The purpose of this research project is to examine the effect on the securities markets engendered by the recent change to an inter-dealer quotations system for active OTC stocks and to study the possible effects of implementing proposed SEC rules requiring profit disclosure by broker/dealers and eliminating so-called riskless principal transactions.

Late last year, after more than 12 months of discussion, the NASD struck a compromise agreement with the Commission whereby on a test basis a limited number of active securities would be reported to the public carrying inter-dealer prices at which brokerage firms buy and sell among themselves.

The new quotations system started February 15, 1965 and included in the agreement with the Commission was the understanding that the NASD would undertake an intensive research study before giving further consideration to the two other SEC recommendations involving profit disclosure by broker/dealers and the execution of all non-inventory transactions as agent.

The NASD study will examine the effects of the new quotations system on depth and liquidity of markets; possible diversion of sales efforts by dealers; profit positions of various sizes of securities firms; as well as the potential impact on the entire securities distribution system, including capital formation.

To assist and advise the consulting firm in its work, the Association also announced the formation of a special Impact Study Committee headed by Julian A. Kiser, Kiser, Cohn & Shumaker, Inc., Indianapolis, Ind. Other members of the Committee are as follows: Glenn E. Anderson, Carolina Securities Corporation, Raleigh, N. C.; Clifford B. Barrus, Jr., Barrett & Company, Providence, R. I.; Robert E. Daniel, Pacific Northwest Company, Seattle, Wash.; Maurice Hart, New York Hanseatic Corporation, New York, N. Y.; G. Shelby Friedrichs, Chairman of the NASD Board of Governors and Partner, Howard, Weil, Labouisse, Friedrichs & Company, New Orleans, La.; and Robert W. Haack, NASD President.

**COMMITTEE FORMED TO  
STUDY POSSIBLE USE  
OF AUTOMATION**

The NASD has appointed a special committee to study the possible use of automated equipment in the OTC market chaired by Governor Robert M. Gardiner of Reynolds & Co., New York. Other members of the committee include N. Gregory Doescher, The First Boston Corporation, New York; Joseph T. Fuller, William A. Fuller & Co., Chicago; Edward Glassmeyer, Blyth & Co., Inc., New York; Joseph D. Krasowich, Gregory & Sons, New York; John A. McCue, May & Gannon, Inc., Boston; G. Shelby Friedrichs, Chairman of the NASD Board of Governors and Partner, Howard, Weil, Labouisse, Friedrichs and Company, New Orleans; and Robert W. Haack, NASD President.

Many different types of automated equipment are now being developed specifically for OTC broker/dealers and it will be the responsibility of the Committee to study and evaluate these systems with a view toward the possible use of automated equipment in the dissemination of quotations between dealers and its possible use in improving trading techniques, keeping in mind the cost involved and the unique characteristics of the over-the-counter market.

The Association expects that the studies of the Automation Committee will result in a positive recommendation to the Board to take a position as to the most adaptable system so that NASD members will utilize a standard system which gives heed to all practicalities of the business.

**NASD HAS NEW  
SUMMARY COMPLAINT  
METHOD**

A new Section of the Association's Code of Procedure was put into effect March 15, in order to reduce the time and effort expended in a great number of rule infractions which do not lend themselves to, or require, formal complaint hearings.

The new procedure for complaint actions provides that in any case where a District Business Conduct Committee feels that there has been a violation of Association rules, that the facts are not in dispute and the penalties under the circumstances would not exceed censure and/or \$500 fine as to each respondent, then the Committee may offer the respondents Summary Complaint Procedure.

Summary complaints will specify in reasonable detail the nature of the charges, the rule or rules deemed to have been violated, and the penalties to be imposed. Of course, any respondent may reject the summary procedure, in which case the regular disciplinary procedure will be followed. Unless an acceptance of the summary offer is received by a District Committee within 10 days after receipt of the complaint by the respondents, the offer will be considered as rejected.

Summary complaint offers may be accepted by executing and returning to the District Committee three copies of the complaint and other related documents together with remittance in the amount of any fine proposed. Acceptance of the procedure constitutes the respondent's admission of the violations, acceptance of the penalties and a waiver of all appeal rights to the Board of Governors. The complaint and related documents will constitute the decision and record in the case and shall, except as noted below, conclude the proceedings as of the date the acceptance is received.

The Board of Governors may institute review proceedings within 30 days after receipt of a respondent's acceptance and such review will operate as a stay of the action. Thereafter, the Board may dismiss one or more charges and/or reduce the penalty or remand the matter to the District Committee to institute a regular complaint. In the case of a regular complaint, the respondents will not in any way be prejudiced by the prior summary complaint procedure which shall have no effect on the consideration and determination of the issues involved.

**ADDITIONAL BY-LAW  
CHANGES TO BE MADE  
SOON**

Within the next two months, the NASD will be sending an additional package of By-Law changes to the membership for approval.

These changes will include a provision to allow the Association to proceed directly against individuals in disciplinary actions and there will be several changes to the rules giving the Association authority to establish qualification requirements and classification of members in compliance with the 1964 Amendments to the Securities Acts. In this regard, it will be specifically spelled out who is required to take the Association's Principal and Registered Representative Examinations.

Another change involves a provision allowing the Association to bar from NASD membership, firms or individuals revoked or suspended by registered stock exchanges for violation of any rules of the exchange. Previously, the NASD could proceed only against those suspended or expelled by the exchanges for violations of just and equitable principles of trade.

Other proposed changes will prevent firms or individuals from sharing in profits with customers except to the extent of their financial contribution. In the same vein, a provision will be included in the Rules of Fair Practice requiring the segregation of hypothecated securities.

**BOOKLET ON  
SUPERVISION  
TO ASSIST  
MEMBERSHIP**

The NASD is readying a new booklet entitled, "A Guide to Supervision Procedures," for distribution to the membership in early May.

This book has been prepared to assist in developing and maintaining procedures and policies in conformity with recently adopted regulations, as well as already established Association rules, relating to supervision, customer records and discretionary accounts.

These new rules were voted and approved by the membership late last year. The effective date has been set at July 1, 1965, so as to allow time to prepare and study the supervision booklet.

The new rules require, among other things, that each firm must prepare a written procedure of supervision methods which covers the acceptance of new accounts; the review and endorsements of transactions and correspondence; the periodic review of customer accounts; the inspection of offices of supervisory jurisdiction; the review of the activities of all other offices; the investigation of individuals prior to applying for registration with the Association and requirements for handling discretionary accounts.

The new booklet will attempt to show members large and small the minimal efforts which must be taken in order to insure compliance. For example, the booklet points out that effective supervision varies with the size and organizational structure of a particular firm, the nature of its business, the type of customers, and the experience of its personnel. As outlined in the manual, final responsibility for proper supervision has always rested solely with the principals of a firm. Under the new rules, members are responsible for follow-up and investigation of the activities of each office and the supervisory procedures established by the firm must be carried out by those to whom the responsibility is delegated.

Also contained in the new supervision manual is a section showing sample forms, account agreements, etc. which other member firms have found useful.

**POLICY ON CONTIN-  
UING COMMISSIONS  
UNDER STUDY**

Recently the NASD has received an increasing number of questions from the membership concerning the Board's policy on continued payment of commissions for sales of securities or mutual funds after retirement, death or termination of employment. A special sub-group of the Investment Companies Committee is currently studying the Interpretation that now appears in the Manual.

The sub-group is reviewing all inquiries with a view to clarifying the present policy so as to recognize the needs of former registered representatives and their heirs, as well as sole proprietors who might retire or go out of business while holding selling group agreements with mutual fund underwriters under which sales have been made in the past.