

NASD

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NATIONAL ASSOCIATION OF SECURITIES DEALERS AND BROKERS, INC. WASHINGTON, D. C.

To NASD Members and Registered Representatives:

**NEW BY-LAW AMENDMENTS
AND RULES APPROVED
BY MEMBERSHIP**

By an overwhelming majority of 1801 to 92, the NASD membership has voted approval of the latest package of changes to the By-Laws and Rules of Fair Practice submitted June 23 and occasioned by the passage of the 1964 Securities Acts Amendments.

Other amendments were submitted to the membership and approved in July and October, 1964, in connection with the Board of Governors' continuing program of revision and updating of the Association's Rules.

The latest amendments include the following:

- ▶ Establishes a new penalty providing a statutory disqualification barring suspended or expelled persons from associating with other members in any capacity.
- ▶ Disallows admission to or denies continuance in membership of any member or person associated with a member who has been suspended or expelled from any stock exchange without the previous necessity of such exchange finding a violation of conduct inconsistent with just and equitable principles of trade.
- ▶ Expands the present statutory bars to admission to include additional financial crimes, offenses or court actions.
- ▶ Gives the Board of Governors the power to classify and establish various qualifications, requirements and standards for members and persons associated with members in respect to training, experience and financial responsibility.
- ▶ Defines the term "persons associated with a member" which will be used to replace the term "registered representative" and gives the Association specific jurisdiction over all such persons.
- ▶ Clarifies the present membership continuance procedure and spells out the discretionary power of the Board of Governors to summarily cancel the membership of any member who no longer possesses appropriate qualifications.
- ▶ Eliminates the present requirement of establishing rates of assessment and fees at least 30 days in advance of each fiscal year and allows rates of assessment to be determined after rather than before members file their assessment reports.

► Allows the Association to proceed directly against persons associated with a member without necessarily joining the member in a complaint action.

► Establishes registration requirements for certain classes, principals and representatives, and includes various exemptions from registration for these classes.

► Reaffirms the concept that members and persons associated with members have similar obligations regarding the Association's Rules so that expelled, cancelled or revoked members or persons associated with members lose all privileges of membership. In addition, suspended members and persons associated with members, while retaining their obligations during a suspension period, at the same time lose all privileges of membership.

► Introduces requirements for lending or pledging of customers' securities on a basis reasonably related to the customers' indebtedness and sets up specific prohibitions against guaranteeing a customer's loss and sharing in profits or losses without prior approval of the employing member.

These new amendments are now being submitted to the SEC for formal approval, and it is anticipated that an effective date of September 1, 1965, will be established. The effective date for the new Schedule "C" of the By-Laws, pertaining to registration requirements, is expected to be set as October 1, 1965. (See following story on Schedule "C".)

VOTE ON BY-LAWS IS BY SECRET BALLOT

In response to member inquiries questioning whether or not votes on recent By-Law amendments were by secret ballot, NASD President Haack points out that such votes are indeed secret, and under no circumstances would the Association have knowledge of how an individual member cast his ballot.

Although NASD rules do not specifically provide for a secret ballot, the Association has always felt that matters such as this should be confidential, and for that reason an independent tabulation of all ballots is made by the Corporation Trust Company, Wilmington, Delaware. This firm is under explicit instructions not to disclose to NASD officers, members or staff any individual member's vote. However, comments placed on a ballot by members are extracted by the independent tabulator and sent to the Association for reply.

The names of NASD members have been imprinted on return ballots to assist this independent firm in checking membership rolls to determine whether or not the specific ballot is properly cast.

CHANGE IN EXAM REQUIREMENTS

The Association's new Schedule "C" of the By-Laws will require after October 1, 1965, that every person associated with a member who becomes an officer, partner, sole proprietor or manager of an office of supervisory jurisdiction must take an examination for Principals unless that person was registered with the Association and previously designated as an officer, partner or sole proprietor.

Registered Representatives will be required to take the Principal Examination if they become an officer or principal after the above date, as opposed to the current

situation where a registered representative can change his designation to that of a principal without examination by simply having the firm notify the Membership Department at the Association's Executive Office.

**MEMBERS SHOULD BE
CAREFUL OF FOREIGN
SECURITIES TAX**

It has come to the Association's attention that some questionable certificates of American ownership are finding their way into the markets in connection with the purchase or sale of foreign securities under the provisions of the Interest Equalization Tax.

The NASD Foreign Committee believes all firms should familiarize themselves with this tax, and earlier advisory notices of the Committee have drawn members' attention to the provisions and implications of the law in this regard.

In view of the Administration proposal to have Congress extend this tax beyond December 31, 1965, NASD members are urged to use the prudent businessman's approach in transactions involving foreign securities and to be careful about the identity of their customers. They should realize that a guarantee of signature in no way insures the contents of the certification of American ownership.

**NASD MEMBERS ASKED
TO HELP WITH
QUOTATIONS AND
MARKUP STUDY**

Participation of NASD members in a broad economic study conducted by the management consulting firm of Booz, Allen & Hamilton on the quotations issue, so-called riskless transactions and disclosure of sales markup is expected to begin this Fall with the distribution of a series of detailed questionnaires.

Other study techniques including interviews may also be used by the firm in its information gathering process which will require the complete cooperation of the Association's membership. All individual firm information obtained will be held in the strictest confidence.

A special project team of Booz Allen executives has been working since May on the development of a program and approach to this in-depth examination of the change-over to inter-dealer quotations on the National List and the possible effect of SEC Special Study recommendations calling for sales markup disclosure by broker/dealers on confirmations and the elimination of so-called riskless principal transactions.

The consulting firm has held several interviews with SEC staff personnel, met with Association representatives and intensively examined the historical background, mechanisms and operations of the over-the-counter market in an effort to define the scope and direction of work necessary to complete its study.

Assisting the Booz Allen firm in this first phase educational process and later advising on questionnaire development has been a special study committee headed by Governor Julian Kiser of Kiser, Cohn & Shumaker, Inc. Other members of the committee are Glenn E. Anderson, Carolina Securities Corporation; Governor Clifford B. Barrus, Jr., Barrett & Company; Robert E. Daniel, Pacific Northwest Company; W. Yost Fulton, Fulton Reid & Co., Inc.; Maurice Hart, New York Hanseatic Corporation; G. Shelby Friedrichs, NASD Board Chairman, of Howard, Weil, Labouisse, Friedrichs & Company and Robert W. Haack, NASD President.

**AUTOMATED BOOKKEEPING
GETS STARTED WITH
NASD MEMBERS**

Over 200 NASD members, with a potential of 15,000 securities transactions a day, have indicated an interest in using the automated back office and accounting system operated by the Midwest Stock Exchange.

The availability to NASD members of this highly sophisticated system was recently negotiated with the Midwest Exchange in an effort to reduce cost and improve efficiency.

Approximately 30 firms meeting the initial volume requirements for economical participation on a direct tie-in basis with the centralized bookkeeping system are now being surveyed so that a specific proposal can be made to suit their particular operating needs.

Some 65 other firms in New York, Cleveland, Chicago, Washington, D.C., Pittsburgh and Los Angeles are also being contacted with the idea of setting up a common back office in these cities. This involves several firms, each having more than 25 transactions a day, combining their volume with that of other dealers in the computerized system to providing accounting, bookkeeping, record-keeping, delivery and billing on an individual firm basis.

A third group of approximately 30 NASD members will be candidates for a common back office set up in the near future when additional interest has been developed in the nine metropolitan areas in which they are located.

It is expected that those firms who have initially indicated an interest in joining the centralized bookkeeping system will more than double the present capacity of the Midwest operation which is processing approximately 10,000 transactions a day. The Midwest Stock Exchange Service Corporation will take delivery of another IBM 7010 computer in the near future to facilitate its growing volume.

**AUTOMATION COMMITTEE
WILL SET CRITERIA
FOR QUOTE SYSTEM**

A special committee of the NASD, formed to study the possibility of automated quotations in the OTC market, met July 14 in New York and after reviewing presentations by five equipment manufacturers, stated that some electronic techniques were promising in improving the dissemination of OTC quotes.

The committee, headed by Governor Robert M. Gardiner, a Partner of Reynolds & Co., has been studying the problem of applying automated techniques to the dissemination of quotations between dealers in an effort to develop a standardized, low cost system which can be used by the Association's 4,000 members.

After the day-long meeting, Gardiner said that the Automation Committee would recommend that the Association's Board of Governors not support or back any proposed system for over-the-counter securities which removed the principle of a negotiated market by mechanically crossing and matching buy and sell stock orders in a computer.

The committee examined in detail the equipment and proposed electronic quotations systems of Bunker-Ramo Corporation; Masterquote, Inc.; OTC Trading Corporation; Scantlin Electronics Company and Western Union. Masterquote, Inc., was recently formed by Ultronic Systems Corporation and Data Network Corporation.

Committee Chairman Gardiner pointed out that while the NASD was still engaged in a study process, it had been determined that the essential functions performed by individual traders of making markets in OTC securities and providing depth and liquidity in these issues would be dangerously impaired by any computer system that would automatically execute transactions in a machine.

NASD President Haack, who is also a member of the committee, stated that it was the goal of the Association to develop criteria for a quotations system that would help in the dissemination of information for both investors and dealers and, at the same time, improve the mechanics of the over-the-counter market.

Automation, properly applied in the informational area of the OTC market, could assist in quickly and efficiently identifying market makers, help insure firmness of quotes, provide up-to-date price information and other attending statistical figures such as volume and timed changes in quotes. The application of electronic techniques to executions, confirmations and back office operations will also be considered by the Automation Committee in establishing criteria for any proposed system. It is expected that the Automation Committee will submit to the NASD Board before year-end an extensive report covering these criteria.

Other members of the Automation Committee include N. Gregory Doescher, The First Boston Corporation, New York; Edward Glassmeyer, Blyth & Co., Inc., New York; Joseph T. Fuller, William A. Fuller & Co., Chicago; Joseph D. Krasowich, Gregory & Sons, New York; John A. McCue, May & Gannon, Inc., Boston; and G. Shelby Friedrichs, Howard, Weil, Labouisse, Friedrichs & Company, New Orleans, Chairman of the NASD Board of Governors.

NASD MEMBERS RECEIVE ALMOST HALF MILLION INSURANCE DIVIDEND

Firms participating in the NASD group life and medical insurance programs are receiving a record \$434,000 in dividends this year as a result of favorable claims experience according to a recent announcement by the Association's Insurance Trustees. In addition to an unprecedented dividend equal to 30% of annual premiums under the Group Life plan, a 10% dividend was earned by the comprehensive Medical insurance plan and by the Hospital-Surgical plan.

The Trustees also announced that the premium rates for group life insurance will again be reduced by approximately 5%. The latest reduction brings the NASD premiums to 30% below the most widely-used basic rate table.

FED GUIDELINES FOR BALANCE OF PAYMENTS

The Federal Reserve has issued extensive guidelines and voluntary suggestions for non-bank financial institutions concerning limiting foreign credit and investment in connection with President Johnson's program to improve the country's balance of payments position.

NASD members who deal with charitable institutions, insurance companies, pension and retirement funds, mutual funds and investment trusts are urged to obtain copies of these new guidelines from the Federal Reserve Board or bank in their area and bring the guidelines to the attention of their institutional customers.

**BOARD STATES
POLICY ON FIRMNESS
OF QUOTATIONS**

At the May Board meeting, the Governors reaffirmed a policy, developed by the Association's Trading Committee, with respect to telephone, wire or National Quotations Bureau quotes supplied by NASD members.

The policy states that, under the usual circumstances of making a firm trading market, dealers are expected to at least buy or sell a normal unit of trading in a quoted stock at the member's then prevailing quotations unless clearly designated as not firm or good only for less than a normal unit of trading. The policy recognizes that members, of course, change inter-dealer quotations constantly in the course of trading and at times contemporaneous transactions or substantial changes in inventory might well require dealers to quote a "subject market" temporarily.

The new Board policy, in order to insure the integrity of quotations, points out that every member has an obligation to correctly identify the nature of its quotations when they are supplied to others. In addition, each member furnishing quotations through any medium must insure that the firm is adequately staffed to respond to inquiries during the normal business hours of that firm.

In some instances a member's quotations, purportedly firm, have been, in fact, so qualified upon inquiry as to constitute "backing away" by the quoting dealer. Dealers who place quotations in the sheets have been found, in some instances, to be unwilling to make firm bids or offers upon inquiry in such a way as to pose a question as to the validity of the quotations originally inserted. Such "backing away" from quotations disrupts the normal operation of the over-the-counter market and, in the view of the Board, it shall be deemed conduct inconsistent with high standards of commercial honor and just and equitable principles of trade if a member fails to fulfill its obligations as stated in the policy.
