SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

OFFICE OF
THE CHAIRMAN

JAN 8 1968

Mr. Richard B. Walbert
President
National Association of
Securities Dealers, Inc.
888 Seventeenth Street, N.W.
Washington, D. C. 20006

Dear Dick:

I have recently talked with Bob Gardiner concerning the present "hot issue" period and the underwriting terms we have been seeing lately on new issues.

I thought the enclosed memorandum of a recent meeting at one of our regional offices with the underwriter of a relatively small issue might further highlight the situation. Except for the co-underwriter referred to, the firms whose names are deleted are mostly large firms. It is difficult to reconcile the alleged "spontaneous" interest in the offering with the terms of the underwriting, which included:

(1) An underwriting discount of 10% of the public offering price;

(2) Reimbursement for underwriting expenses in an amount which, if added to the discount, would increase the underwriting compensation to 12.7% of the public offering price;

(3) Five-year warrants issued to the underwriters at a nominal cost to purchase a number of shares equivalent to 15% of the number of shares underwritten at the public offering price.

As you know, high rates of compensation may be indicative of the degree and nature of the selling effort that is made, and of course we, like the NASD, are concerned about selling efforts that may involve overreaching of public investors.

Perhaps of more concern is the issuance of warrants to underwriters, which raises questions not only of excessive compensation, but also of a type of "free riding" and an inducement to manipulative activities in the aftermarket. In another recent issue the underwriter received warrants entitling it to purchase at the public offering price a number of shares equivalent to 18% of the total number of shares underwritten. The warrants could be exercised or sold immediately. After discussions between the Commission and NASD staffs the terms of the warrants were amended to make them non-exercisable for nine months, but no restrictions were placed on their transfer. The managing underwriter of this issue was also a major firm.

On both the issues referred to above there was a very substantial increase in the market price after the issue. In the first case the price went from $7.50 to $37.00 in the first week. In the second case the price went from $11.00 to $21.00 in the first week.

I have cited these two examples only as further illustrations of the basic problems to which I hope you will address yourself when you come down to discuss with the Commission the current “hot issue” period.

With best regards.

Sincerely,

Manuel F. Cohen
Chairman

Enclosure