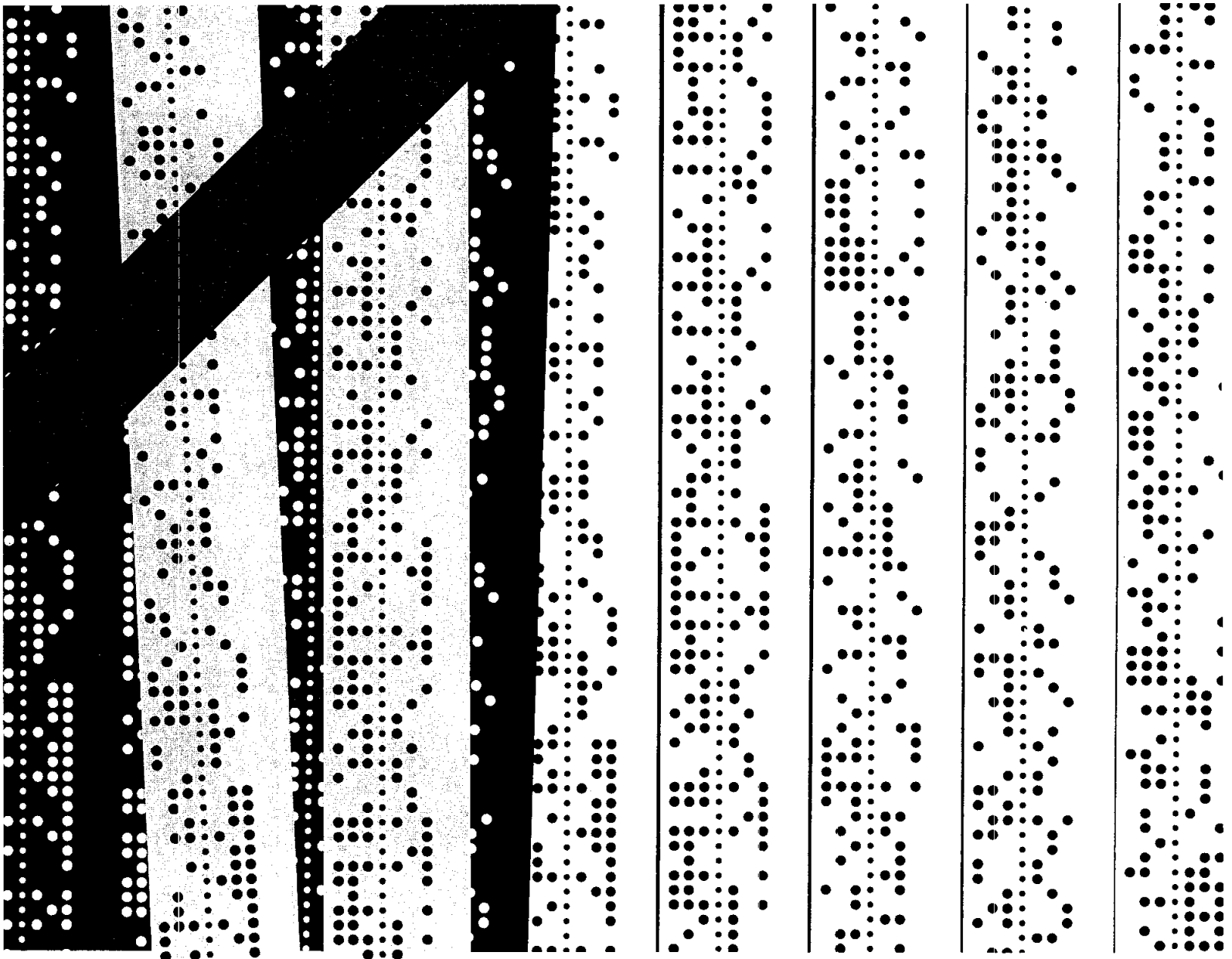
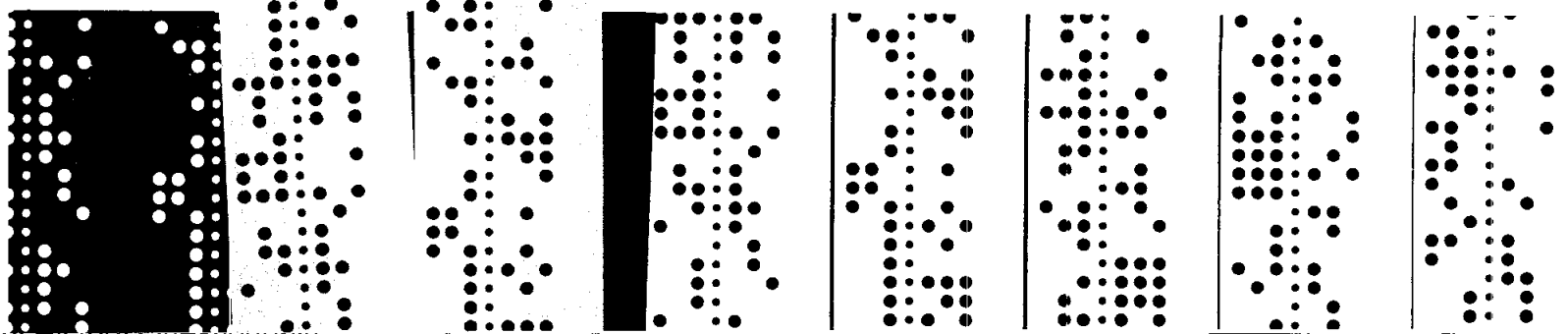


NASD

1967 REPORT TO MEMBERS



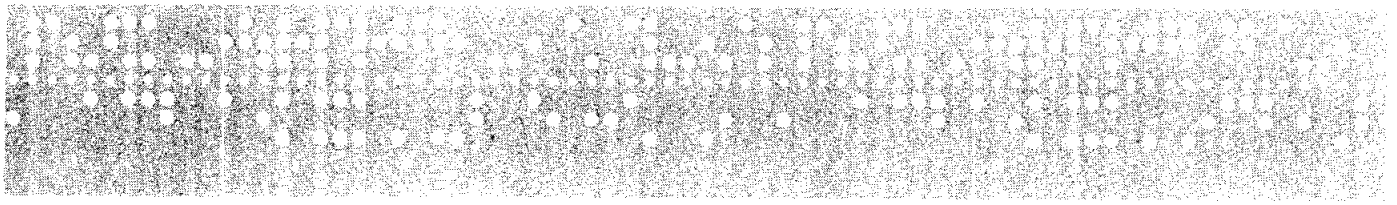
THE REPORT OF THE CHAIRMAN

In an effort to keep all registered representatives informed on the activities of their Association, this special condensed version of the NASD's 1967 Report to Members has been prepared for broad distribution within the investment business. This condensed version of the Annual Report contains the full text of the Report of the 1967 Chairman, Robert M. Gardiner, and the message of the NASD's new President, Richard B. Walbert. Also included is a brief statistical review.

As the reader can see from the cover design of this Annual Report automation has been chosen for the overall theme, not only to emphasize the progress that has already taken place in our industry but to serve as a touchstone for the future.

This past year may well be marked in the history of the financial community as the beginning of a far reaching period of adjustment and change that could resculpture traditional regulatory patterns, business procedures, merchandise, distribution and marketing methods within the securities industry.

Legislative proposals by the SEC concerning mutual fund distribution, management fees and contractual plan selling; the application of automated information gathering techniques to OTC quotations; significant changes proposed for exchange commission structures and reciprocal business practices; expanded institutional participation in the markets; bulging over-the-counter and exchange trading volume coupled with an equally bulging mountain of back office paper work; the advent of extensive broker/dealer income and expense reporting and the increasing desire of insurance companies and banks to enter the mutual fund and variable



annuity fields will all have a significant impact on the securities business as we know it today and the scope and direction of your Association in the future.

In chronicling the past year's activities and accomplishments, this 1967 Annual Report will also be somewhat different. The reports of the Chairman and the President, which in previous years were presented separately, will be combined in this year's report. This change was necessitated by the resignation in August of our President, Robert W. Haack, to accept the presidency of the New York Stock Exchange. In the intervening months the Board of Governors appointed me to serve as both Chairman and President pro tem of the Association until such time as a successor to Mr. Haack was named.

The intensive, five-month search for a new President culminated in late September when your Board of Governors unanimously elected Richard B. Walbert to officially become President of the NASD on January 1, 1968.

A great measure of credit and appreciation is deserved by my fellow members on the selection committee which chose Mr. Walbert. This committee was made up of men from all sections of the country representing all of the various groups within the Association's membership. Those serving on the committee with me were:

Clifford B. Barrus, Jr., 1967 Vice Chairman of the NASD Board and partner of Barrett & Co. in Providence, Rhode Island

Robert L. Cody, a former NASD Board member, newly elected to the Board in 1968, and Vice President of American Funds Distributors, Inc. Los Angeles, California

Julian A. Kiser, a former Vice Chairman of the NASD Board and Chairman of the Board of Kiser, Cohn & Shumaker, Inc. Indianapolis, Indiana

Gordon S. Macklin, Jr., NASD Finance Committee Chairman in 1967 and a partner of McDonald & Company in Cleveland, Ohio

Allen L. Oliver, Jr., a former president of the National Security Traders Association and Chairman of the Board of Sanders & Co., Inc. in Dallas, Texas

Phil E. Pearce, NASD Chairman-elect for 1968, Chairman of the Association's National Business Conduct Committee in 1967 and President of G. H. Crawford Co., Inc. in Columbia, South Carolina

Avery Rockefeller, Jr., a former NASD Board Chairman and Executive Vice President of Dominick & Dominick, Inc. in New York.

Although Mr. Walbert was originally a member of the selection committee, he removed himself from the deliberations of the group when it became evident that his candidacy as NASD President would be under consideration.

A special section of this Annual Report beginning on page 22 contains a discussion by our new President on what the membership might expect in the future in the way of leadership and help from the NASD to broaden investor interest in the securities market, enhance the concept of self-regulation and improve our own business practices.

This past year will also be noted I think for still another reason. The vision and leadership of your elected representatives on the Board of Governors and District Committees have been outstanding, particularly in view of the difficult legislative and regulatory problems that have faced the Association during the past twelve months. While the loss of Mr. Haack as President in mid-year could have been a grievous blow to the NASD, we were able to maintain a high degree of continuity in all of our work due primarily to the extra effort of the staff and all of my colleagues and your elected representatives in the districts and at the Board level.

As one retiring governor noted during our organizational meeting in January, nowhere in his long experience in the securities business had he witnessed the dedication and complete lack of self-interest which are displayed by the men who direct the activities of your Association.

AUTOMATION

After an intensive study of more than two years, the Association's Board has approved a comprehensive plan to develop an automated quotations system (NASDAQ) for the over-the-counter securities market. The initials NASDAQ stand for National Association of Securities Dealers Automated Quotations.

Envisioned in the highly technical and complex project is the use of electronic data processing equipment in combination with communications facilities to eventually produce a three-level system responsive to 350,000 inquiries in any given eight-hour trading period and designed to aid registered representatives, customers, order desks and professional traders in the OTC markets.

A Level I service, which is aimed at the requirements of registered representatives and securities customers of retail sales firms, will supply a current representative bid and ask price for any security registered in the system. This current representative bid and ask would be supplied through the more than 25,000 interrogation display units now in use by broker/dealers throughout the country.

The availability of these "instant" bid and ask quotations together with such other attending data as volume information, will be helpful not only to the more efficient servicing of customer accounts by registered representatives but also will provide for the first time a broad list of current OTC bid and ask prices for use by public investors in an NASD member's office. It is expected that approximately 1,500 different securities will be quoted initially in the Level I program.

The second level of the NASDAQ system will be designed for use by the trading departments of retail sales firms who are NASD members and will supply upon request a complete list of market makers together with their respective bid and ask prices for each security registered in the system. Information will be sup-

plied participants in the Level II service via a cathode ray tube (CRT) display similar to a small television screen or through a teletypewriter printout.

Level III of the NASDAQ system will also be for use by trading departments but will differ chiefly from Level II by providing input facilities allowing authorized market makers who are NASD members to enter, change or update bid and ask prices. Level III information will be dispensed through CRT equipment and may include optional sophisticated accessories for broker/dealer firms making markets in a great many securities.

The Level II and III services of the NASDAQ system will eliminate the necessity of separate requests for a market maker's quotations and expand a trader's knowledge of market conditions to a complete list of all market makers and their current prices. Thus traders will be able to execute transactions more effectively by going directly to the firm offering the most favorable markets.

In 1966 the NASD Board appointed a special Automation Committee to investigate the feasibility of automated quotations in the OTC market.

In 1967 the Automation Committee retained the technical expertise of management consultants Arthur D. Little, Inc. to assist in making an indepth study of the feasibility of a NASDAQ system. The complex nature of the over-the-counter market and the wide differences in the size, location and interest of broker/dealers presented unique challenges to the study team.

Presently, the NASD is the only authoritative source for quotations on OTC securities and supplies bid and ask prices to newspapers, radio, television and other media through a National Committee and network of 122 local quotations committees. These committees are composed of experienced representatives of NASD member firms who compile daily quotations tables corresponding to the interests of the public investors in the area.

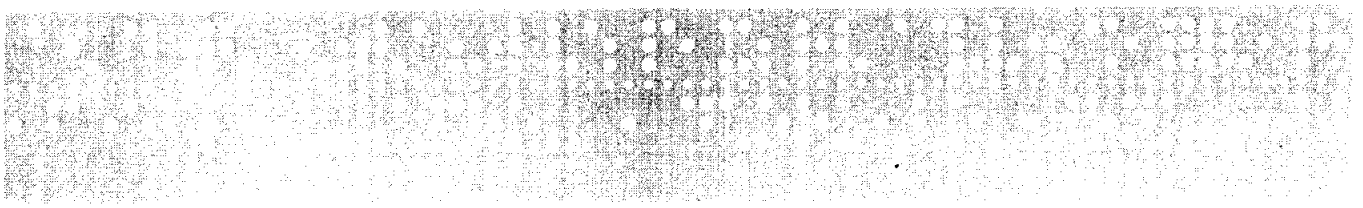
This project will represent not only a significant advance in the information available to brokerage firms and their customers, but will allow the NASD to supply more current price information to newspapers and other media. The bid and ask prices now being published will be replaced by more timely quotations and will include volume data as reported by firms participating as market makers in the automated system.

Although the physical equipment will be supplied and operated by a qualified independent firm, the NASD will administer and supervise the NASDAQ system.

The completed first phase of the study conducted by the Little firm directed itself particularly to the technical and economic feasibility of a tentative system and the development of a general technical description of NASDAQ. Phase I of the study was completed within the strict guidelines for automation previously approved by the Association's Board of Governors. These guidelines included provisions that the system would:

1. Maintain and support the negotiated character of the over-the-counter market.
2. Provide safeguards to protect the important functions of market makers.
3. Not involve any electronic crossing or matching of orders in a machine thereby actually effecting trades and removing the essential function of negotiation.

Shortly after the January Board meeting, the general description of NASDAQ together with a specific request for proposals were made available to interested firms. The next step in the Automation Committee's continuing study will entail analysis and evaluation of the respective cost, design and operation proposals received from these firms. The target date for making the NASDAQ system operational is 1970.



FINANCIAL REPORTING

The plans of the SEC to require annual financial reporting of all registered broker/dealers were first disclosed publicly in a speech by Chairman Manuel Cohen before the Investment Bankers Association on November 30, 1965. He stated on that occasion that this move would enable the Commission to make decisions with a better realization of the impact particular actions may have on all segments of the industry. He asked for the assistance of industry groups in developing financial reporting procedures.

Shortly after this, the SEC submitted drafts of its proposed forms to industry representatives for comment. The NASD then established a Special Committee to Consider Financial Reporting.

During 1966 and 1967 NASD staff representatives and committee members met on numerous occasions with a group of industry technical representatives from the New York, American and certain regional stock exchanges, the Association of Stock Exchange Firms and the Investment Bankers Association, to study the several, successive SEC drafts of the proposed forms and to prepare recommendations directed toward simplification of the forms, reduction of the burden of compliance and the protection of confidential information. Interspersed with these meetings were numerous conferences between NASD representatives and members of the SEC staff.

In addition to these efforts, the NASD conducted a trial test of the SEC's proposed forms among more than 60 member firms of various type and size. This survey elicited estimates of the cost of compliance and an analysis of the most difficult items, based upon completion of the forms for the month of August or September, 1967.

As a result of the combined efforts of the NASD and other industry representatives, negotiations with the SEC have been successful in securing the following modifications in the financial reports which were officially proposed in February, 1968:

1. Financial reports will be filed directly with self-regulatory agencies, on a disclosed basis, and will be subsequently passed along to the SEC *without identification of firm.*
2. Three different sets of forms will be used, but each firm will file only one set depending upon its size and type of business (based upon criteria recommended by the NASD). Less than one-seventh of the NASD membership will be required to file the complex, modified NYSE form. The smaller firms and those specializing in mutual funds will use one of two shorter and less

complex forms. Specialized schedules will be developed later to suit: (a) investment company underwriters and advisors; (b) specialists and floor traders.

3. Among other points in question where industry objections have prevailed, the SEC has withdrawn its insistence on: (a) trade date (as distinguished from settlement date) reporting; (b) breakdown of commission business with institutions other than mutual funds; (c) breakdown of profitable and unprofitable underwriting.

In addition, many improvements in terminology and clarifications in instructions have been effected.

All three types of forms have been mailed by the SEC to every registered broker/dealer and the instructions indicate who is to file each form. A new NASD interpretation will require that these reports be filed with the NASD by every member. These will not need to be certified.

Although the proposed rule and accompanying text did not actually indicate that the first required reports would cover the full calendar year 1968, the fear that this is the Commission's intention appears to be a primary concern of many of our members, both large and small, both computerized and not. They point to the burden of having to adjust records retroactively to January 1, 1968, by costly methods, either manually or by reprogramming and rerunning of computer operations. Especially under present heavy back office backlogs this requirement seems entirely unreasonable and impractical.

The NASD has strongly recommended to the SEC that for other than New York Stock Exchange member firms, the first reports cover only the period from July 1 to December 31, 1968. While six months' data may have somewhat less value than data for the full year, it is felt that in any event the first returns under the new rule (even if they cover a 12-month period) will be of limited accuracy, especially if retroactive adjustments of records are required.

It appears that many of our members employ a fiscal year other than a calendar year. The proposed rule would require such firms (if not NYSE members) to initiate a second closing of their books or to change their accounting periods. To do either would be expensive for the firms and would add uncomfortably to the seasonal peak load of auditors.

Accordingly, it has been recommended by the NASD that, at least for the first year, fiscal years other than the calendar year be permitted for all non-NYSE member firms presently employing such an accounting period. In doing so, appropriate adjustment should be made in applicable effective dates and submission dates.

The NASD is very much concerned over the heavy burden that these reports will place upon its member firms, especially the smaller ones. Specifically, it is felt that certain items still included in the SEC's final proposal will cause great difficulty. These include: (a) non-inventory principal transactions; (b) mutual fund dollar sales and breakdown of first-year and subsequent year on contractual plans; (c) market-maker definition; (d) breakdown of employee compensation; (e) transaction count.

Unfortunately, these reports will not replace the SEC Form X-17A-5, which will continue to be required. On the other hand, certain benefits may be derived by the NASD and its members from the new financial reporting requirement. The following areas are being explored:

(a) Elimination or simplification of other reporting requirements presently placed upon NASD members;

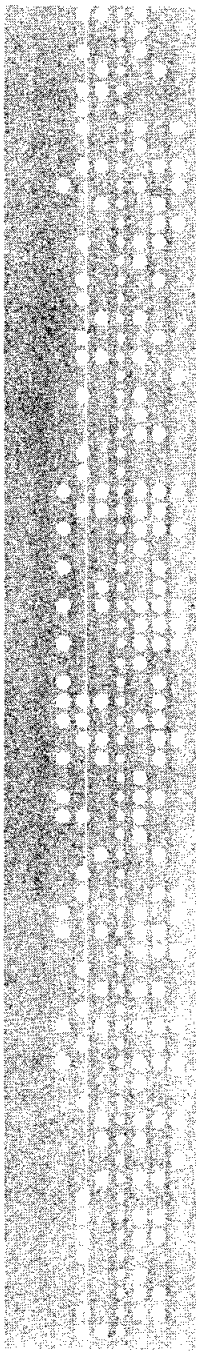
(b) More frequent review of members' financial condition than present examining procedures permit;

(c) Cost savings to the NASD through integration and computer processing of routine information now gathered from member firms;

(d) Publication of certain aggregate financial data by the NASD as a contribution to public information;

(e) Feedback of data to members in summary form to enable them to compare their financial results with those of other firms of similar size and type; and

(f) Accumulation of important financial data within the NASD (heretofore available only through ad hoc, expensive, crash-type surveys, usually employing outside consultants) to be utilized in continuing economic studies oriented toward policy formulation for legislative and regulatory purposes.



INSURANCE COMPANIES– MUTUAL FUNDS– VARIABLE ANNUITIES

Today an ever increasing number of national insurance companies are entering the investment business for the purpose of offering mutual funds and/or variable annuities through their own agents, general insurance agents, and independent insurance brokers. Some of these insurance companies, usually through a subsidiary or affiliate, have become members of the Association and others are considering this possibility. Presently, the NASD has nearly thirty insurance company sponsored members.

The introduction of the insurance companies into the equity field will undoubtedly have a significant impact upon the entire investment business due to the size and scope of the companies coming into the area. By using their present structures of distribution the insurance companies could, within a relatively short time, double the number of representatives currently offering mutual funds. For example, Connecticut General Life Insurance Company which recently became a member of the Association has already registered some 1,500 people.

The problems of identification, supervision, payment of commissions, the use of independent insurance offices and agents, the present branch office definition and the fact that traditional methods of selling insurance are different from the methods of offering securities will all have to be closely studied in connection with the NASD rules and their application to these new members.

In addition to those problems centered in distribution, the variable annuity product raises particular questions, both practical and conceptual and it is expected that new rules and interpretations will have to be developed in order to properly accommodate this unique equity-insurance product. Very much related to this entire picture are the problems of "joining" under Section 25 of the Rules of Fair Practice which arise when a NASD registered representative (usually an insurance agent or an employee of an agency) wants to offer a variable annuity sponsored by a non-member (SECO) dealer. Or in reverse, an insurance agent licensed with SECO to sell a variable annuity desires to become registered as a representative of a NASD member to sell mutual funds.

In order to study and recommend solutions to these probem areas and develop appropriate policies and guidelines, the Board has created a Variable Annuity Committee. In addition, a staff member has been assigned to make a fact finding tour of some of the insurance organization members and prospective members, as well as their agents and field offices, in order to prepare a report on the manner in which they distribute or intend to distribute securities. This information will enable the Association to ascertain that there will be equality of regulation and public protection.

LEGISLATION

Mutual Fund Proposals

A great deal of the Board and staff effort during this past year with respect to legislative matters has been directed toward the SEC proposals concerning mutual funds.

As noted in the last Annual Report, after studying the Commission's 346-page mutual fund report, which was submitted to Congress on December 2, 1966, it was the opinion of the NASD Board that this SEC Report lacked sufficient economic data, particularly with respect to the proposed 5 percent ceiling on sales charges, to make an informed judgment as to the desirability or appropriateness of these far reaching recommendations. Consequently, the Association undertook, with the help of Booz Allen Applied Research, Inc., to make a detailed economic study of the impact on various segments of the NASD membership of the SEC proposals with emphasis on the area of sales charges.

This study, which was completed in May, 1967, and distributed to the membership, showed that a great many NASD firms would suffer a drastic loss of income and some might be forced to leave the securities business should the SEC proposals, legislative and otherwise, actually become law.

The NASD impact study showed that the proposed lowering of the sales charge on mutual funds to a mandatory 5 percent would have the most severe impact of any of the SEC recommendations in this area. Taking the sales charge alone, the reduction in net income after taxes for all firms in the NASD sample would have amounted to over 3½ million dollars or 22.7 percent.

The NASD study showed that there would be such significant reductions in the profitability of the small mutual fund transaction that large numbers of potential investors might no longer have this important investment medium brought to their attention. The study concluded that salesmen who now find it worthwhile to seek out investors with modest means, to the point that the average mutual fund share purchase today is $1,240, may no longer be willing to offer this unique type of security to the very investors who perhaps need this medium the most.

On May 1, 1967, the Commission's mutual fund proposals were submitted to both Houses of Congress (S1659 and HR9510-9511) in much the same form as presented in the SEC mutual fund study. Hearings were held by the Senate Banking and Currency Committee in July and August and by the House Interstate and Foreign Commerce Subcommittee on Commerce and Finance in October, 1967.

Using the economic data developed in the Association's Mutual Fund Impact Study, NASD and other

industry representatives appeared at both Congressional hearings and testified in opposition to the Commission's three main recommendations; (1) to cut mutual fund sales charges to 5 percent; (2) to provide for court determination of the level of mutual fund management fees and (3) to abolish front-end load contractual plans completely. In an effort to present the most effective industry arguments on these proposals, NASD testimony concentrated on the sales charge question while the Investment Company Institute undertook to analyze the recommendations concerning management fees and the Association of Mutual Fund Plan Sponsors testified primarily concerning contractual plans.

Prior to the beginning of Senate hearings on the mutual fund bill, Chairman John Sparkman of the Senate Banking and Currency Committee asked the Association in a letter whether or not it would be willing to assume responsibility for supervising mutual fund sales charges if Congress saw fit specifically to delegate this task to the NASD as an alternative to the SEC 5 percent proposal. In its reply to Senator Sparkman's letter, the Association's Board of Governors stated that because it believed that supervision of sales charges was an appropriate function of a self-regulatory organization, which meshed with similar present responsibilities of the NASD in other areas, the Board would be willing to undertake the suggested responsibility.

At the same time the NASD reply to Chairman Sparkman pointed out that the SEC report on mutual funds was seriously lacking in economic data upon which enlightened judgments could be made as to appropriate sales charge levels. Because of this, the NASD stated that it would in good faith initiate the necessary study and, in cooperation with all interested parties, develop effective guidelines for mutual fund sales charges if this responsibility were delegated by Congress.

The Association's reply to Senator Sparkman also outlined certain statutory changes that would have to be made, and certain problem areas that would have to be resolved if the Association were to assume the supervision of mutual fund sales charges. One of the most important statutory changes was the removal of the duplicate or concurrent authority now granted to the SEC under the 1940 Investment Company Act. It was also pointed out that the Association recognized that the SEC should have appropriate oversight powers as to NASD activities. However, this authority should be limited, so that true self-regulation could not be circumvented by forcing the Commission proposals on the NASD, even after its completion of an extensive study to determine the appropriate sales charge levels and the implementation of guidelines or other regulatory measures by the Association.

The NASD reply to Senator Sparkman also pointed to the serious problem presented by sales charge regulation for broker/dealers that are not members of the Association but subject only to SEC jurisdiction. It was emphasized that the concept of self-regulation could also be nullified if the SEC were to exercise its rule-making authority for non-NASD members in a manner which would in effect dictate the terms of any guidelines adopted by the NASD in the mutual fund sales charge area.

At both Senate and House hearings, Association representatives reiterated this position relating to the assumption of sales charge responsibility in addition to strongly opposing the SEC's original mutual fund recommendations regarding a statutory 5 percent maximum sales charge.

In November, 1967, Senator Thomas McIntyre, a member of the Senate Banking and Currency Committee, introduced an amendment to the Mutual Fund Bill which would specifically authorize commercial banks to operate various types of collective funds for

managing agency accounts, common trust funds and other collective investment funds for corporate pension, profit sharing or retirement plans.

Again, NASD representatives testified at a special Senate hearing called to consider the McIntyre Amendment. The Association's position was that banks should not be allowed to engage in this type of activity since it was a direct violation of the Glass Steagall Banking Act designed to separate banking activities from the securities business and the considerations that went into developing this landmark banking legislation were still applicable today.

Prior to the introduction of the McIntyre Amendment the Investment Company Institute had won a District Court decision against the Comptroller of the Currency who had previously allowed First National City Bank of New York to establish a bank mutual fund. At the same time, the NASD has been contesting this same issue in the courts with the SEC, which had allowed First National City Bank certain exemptions from the Investment Company Act in establishing its mutual fund. Of course, passage of the McIntyre Amendment by Congress would nullify the courts' opinion in both cases.

In late January, Congressman John Moss, Chairman of the House Subcommittee of the Interstate and Foreign Commerce Committee, introduced a new mutual fund bill (HR 14742) which incorporated a number of changes previously agreed to by the industry but also containing a similar recommendation regarding bank mutual funds as the McIntyre Amendment on the Senate side. The three main proposals regarding mutual fund sales charges, management fees and contractual plans were not changed in Congressman Moss' bill. House hearings on this subject were held in March, 1968.

Also in connection with the mutual fund legislation, Congressman Moss and Congressman Hastings Keith have introduced in the House a joint resolution (H.J. Res. 946) authorizing a study of the institutional impact on various securities markets. The resolution would empower the SEC to make a study concerning the activities of all types of institutional investors including mutual funds, banks, insurance companies, employees pensions and welfare funds, foundations and college endowment funds in order to determine the effect of sales and holdings upon the maintenance of fair and orderly securities markets.

Corporate Tender Offer Bill

In mid-January, 1967, Senator Harrison Williams of New Jersey and Congressmen Harley Staggers of West Virginia introduced in both Houses of Congress bills (S 510 and HR 12210) which would provide for additional disclosures involving corporate equity ownership of securities. The bill would afford certain disclosure in connection with purchases of 10 percent or more of a company's common stock, either through cash tender offers or in the open market, by the corporations themselves, insiders or persons intending to acquire controlling interest in the corporation.

The bill would require notice to be given issuers and the SEC within seven days after the acquisition of more than 10 percent of a class of equity security. Also, persons making tender offers who would, if the offer were accepted, own 10 percent or more of a class of equity security, would be required to give notice to the SEC five days prior to making such an offer.

In March, hearings on this legislation were held by the Senate Banking and Currency Committee at which time representatives of the NASD generally supported the provisions of the bill. It was stated that information relating to the identity, background, source of funds, intentions and arrangements of those making tender offers would be of obvious material value to shareholders. In addition, the Association strongly recommended an exemption from the bill for broker/dealers who acquire 10 percent of an equity security solely in connection with their market making activities. It was also pointed out that the Association felt that the SEC was currently empowered to act in situations involving a corporation's acquisition of its own securities and provisions in the bill relating to this problem were unnecessary.

On August 30 the Corporate Tender Offer Bill was passed by the Senate and is now pending before the House Committee on Interstate and Foreign Commerce.

The Interest Equalization Tax Extension of 1967 and Foreign Securities

Again in 1967 the question of extending the Interest Equalization Tax on foreign securities for an additional two years was placed before Congress by the administration. This tax, which was originally imposed on American purchases of foreign securities under the Kennedy administration's balance of payments program, has been extended every two years since its inception. The purpose of the tax is to discourage American purchase of foreign securities from foreigners thus limiting the outflow of American dollars.

Henri L. Froy, Chairman of the Association's Foreign Committee, delivered before Congress the NASD's

statement on the administration's bill. Mr. Froy stated that the Association was unalterably opposed to the suggested doubling of the tax rate and stressed that no economic data supporting such an increase had been adequately demonstrated. He pointed out that the bill would almost certainly have repercussions both here and abroad. Mr. Froy suggested that since equity securities and debt securities are so different in nature, the Congress might consider reducing or even eliminating the tax on the former.

On February 27, the House Ways and Means Committee approved an extension and increase in the so-called Interest Equalization Tax effecting purchases of foreign securities made after January 25, 1967. The higher tax voted by the Committee was only half the increase proposed by Treasury Secretary Henry Fowler on behalf of the administration.

This legislation, which was signed into law, gave the President thirty-day discretion after passage of the Act to adjust the tax rate between 15 percent and 22.5 percent. The President has exercised this discretion raising the tax to 18.75 percent.

In addition to the tax, this legislation also put into effect a new plan by the Treasury Department and Internal Revenue Service to insure the validity of certificates of American ownership which must accompany any foreign securities purchase on which the Interest Equalization Tax has not been paid. The Treasury's validation procedures were designed to close certain loopholes in the old tax law that allowed and even encouraged widespread evasion. The Association worked closely with the Treasury Department to conform its Uniform Practice Code to the new validating procedures of the Treasury and to lessen the burden of compliance upon the membership.

Marginability of Over-the-Counter Securities

In late spring Senator John Sparkman and Representative Harley Staggers, at the request of the Federal Reserve Board, introduced bills (S 1299 and HR 7696) to permit regulation of the amount of credit that may be extended and maintained with respect to securities that are not registered on a national securities exchange. This bill would allow the Federal Reserve Board to establish margin requirements for certain over-the-counter securities.

Hearings before the Senate were scheduled for the latter part of July, 1967, but were subsequently postponed indefinitely because of the mutual fund legislation and other matters before the Senate Banking and Currency Committee.

For many years the Federal Reserve Board has favored allowing marginability of certain actively traded and widely-held over-the-counter securities. This attitude was predicated in part on the growing concern about the lack of controls over credit that banks and other lenders may extend for the purpose of purchasing or carrying equity securities in the over-the-counter market. It has been the feeling of the Federal Reserve Board that the present arrangement is also inequitable in its discriminatory treatment of brokers over banks. In addition to limiting the effectiveness of controls over security credit, it unnecessarily deprives over-the-counter securities of credit facilities that might appropriately be extended by broker/dealers.

The Association has established a special committee of the Board to study problems attendant to the marginability question and to work closely with the Federal Reserve Board in the event this legislation is more actively considered by Congress in 1968.

Other Federal Reserve Proposals

In a related area, on October 20, 1967, the Federal Reserve Board proposed various new rules and amendments to existing rules pertaining to the extension of credit for the purpose of purchasing or carrying securities. The main proposals were:

1. Impose a new rule (Regulation G) covering loans on securities by heretofore unregulated lenders, such as factors, which would bring these lenders under similar provisions as apply to broker/dealers and banks.
2. Impose the same margin requirements on loans made by banks for buying or carrying securities convertible into listed stocks, as now apply to the listed stocks. This would apply to convertible bonds, whether or not the bond itself was listed.
3. Require that non-convertible bonds and exempted securities that are pledged for a loan be segregated in an account separate from the ordinary margin account in which only stocks and convertible bonds may be held.
4. Extend the period in which a broker/dealer must obtain the customer's deposit on a margin transaction from four to five business days after the transaction.
5. Require that collateral in a special subscription account, covering the exercise of subscription rights, be brought into a fully margined status in four equal quarterly installments.

The Association was among the interested parties who were asked to comment on these proposals. The new FRB rules which were put into effect early in 1968, incorporated many of the NASD suggestions.

LITIGATION

Bank Mutual Funds

As previously mentioned in the discussion of mutual fund legislation, the NASD has been contesting an SEC order permitting certain exemptions from the Investment Company Act of 1940 in connection with the co-mingled investment account or mutual fund established and operated by First National City Bank of New York. On November 21, 1967, the Court of Appeals ruled that the Association did not have standing as an aggrieved party by the Commission's order. Subsequently, the NASD filed a motion for a rehearing which was granted by the Court, however, no date has been set for the rehearing.

Variable Annuities

Since 1962 the SEC has been involved in litigation with the United Benefit Life Insurance Company in an attempt to prevent the company from selling a flexible annuity plan without complying with the Federal securities statutes. The Association, along with the Investment Company Institute, has participated in the lower court proceedings in this case supporting the SEC position. Both the lower court and the U. S. Court of Appeals decided that the policy was not a security because it guaranteed to return a fixed percentage of the net premium during the life of the plan.

The SEC requested that the Supreme Court review the lower court's decision and again the NASD and the ICI filed a joint brief in support of the Commission.

In May, 1967, the Supreme Court handed down its decision reversing the lower court and Court of Appeals, and finding that this flexible annuity contract must be registered under the 1933 Securities Act. The decision ruled that these plans were in fact securities but did not reach the issue of whether the company itself was an investment company. As to this issue, the Supreme Court remanded the matter to the District Court for further proceedings which are still pending.

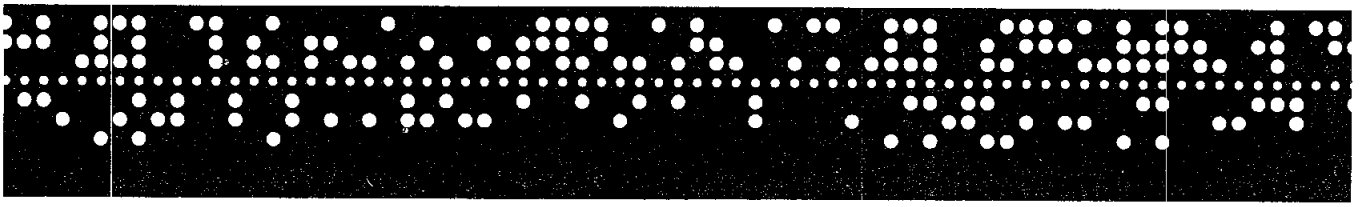
Suits Against the Association

As reported to the membership in the last Annual Report, the Association has been named as a defendent in suits brought by certain customers of Norville and Company in Chicago and Riley & Grant Company in Washington, D.C. The grounds for the suit in the Norville action was that the Association failed to fulfill its regulatory responsibility by allowing the member firm to operate while in a tenuous capital position and thus causing customer losses when the firm went into receivership. In the Riley & Grant suit it was charged that customers suffered losses because the NASD allowed the firm to sell questionable securities. No action has been taken by the Court as yet in the Norville proceedings, however, on October 13, 1967, the District Court dismissed the case against the NASD in the Riley & Grant matter.

In another action an NASD member, Warren Lester & Company, has attempted to enjoin the Association from taking further disciplinary proceedures against the firm. The firm and its principal officer also sued the NASD for damages in the amount of $200,000 alleging civil conspiracy to restrain their business, harassment and a variety of other allegations. The injunction sought was denied by the Court in December, 1967 and the NASD has filed a motion to dismiss the civil suit. The Court has granted the plaintiffs an opportunity to file further briefs. It is expected that the motion to dismiss this case will be granted by the Court after the filing of these briefs.

The Association's Interpretation on Withdrawal and Reinstatement Privileges

In 1966 the Association established a new Interpretation designed to limit withdrawal and reinstatement privileges in mutual fund contracts which had the effect of diluting or harming the interests of other shareholders. This Interpretation, established as a result of certain discovered abuses of the privilege, restricts the exercise of 90 percent withdrawals to once a year in addition to other limitations. Growth Programs, Inc., an NASD member, changed its mutual fund contract to comply with the Association's Interpretation and thereafter certain plan holders sued Growth in 1967 for breach of contract. The Association intends to participate as amicus curiae if permission to do so is granted by the Court.



REGULATION

Members

The regulatory responsibilities of the NASD embrace almost every type and size of firm in the industry. During 1967, 225 new firms became members of the Association. The number of firms entering the securities business has remained relatively constant over the last four or five years, however, the number of firms leaving the business has decreased each year, and during the last two years there has been a virtual standoff in the number of firms being formed compared to the number terminating. During 1967 there was a net loss of 22 members and at year end the membership numbered 3,669.

Branch Offices

The number of branch offices in 1967 increased by 376 to a year-end total of 5,535. More than 900 new offices were opened and slightly more than half that number closed. Contrary to the membership totals, the total number of branch offices has not only increased each year for the last several years, but the annual rate of increase has picked up considerable momentum.

Registered Representatives

Nearly 31,000 registrations of representatives and principals were effected during 1967. Approximately 18,000 of these were filed on behalf of persons becoming registered with the NASD for the first time and the balance were filed for persons moving from one member to another. The 18,000 new registrants represented an approximate 15 percent increase over the new registrants in 1966.

Approximately 21,000 registrations were terminated in 1967 causing a net increase in registration of 9,732. At year end, total NASD registrations stood at 97,538 compared to 87,806 at the end of 1966. Total new registrations for the year were not substantially affected by the advent of insurance companies entering the NASD membership. However, it is estimated that 13 or 14 percent of new registrants were from the insurance industry. This particular growing segment of the NASD membership and the securities industry is discussed in another section of this report. Comparative figures for total members, branch offices and registered representatives for the last five years may be found in the statistical section on page 23.

Qualification Examination Program

In 1967 the NASD administered more than 45,000 qualification examinations which was a 13 percent increase over the number of examinations given in 1966. The Association administers examinations for the New York, American and Pacific Coast Stock Exchanges, the Chicago Board of Trade, many state securities departments, as well as those of the SEC for non-NASD members under the SECO program.

Of the 45,833 examinations given in 1967, more than 25,000 were for qualification as registered representative with the NASD. Approximately 1,400 were principal examinations which the Association requires of all new partners, officers, sole proprietors and certain supervisory personnel.

To improve the study methods and training given applicants for the NASD qualification examination, the Association has completely revised and updated its Training Guide and two new forms of the qualification examination were prepared and put into effect during 1967.

Surveillance and Examination of Member Firms

The maintenance of high ethical standards in the securities business remains a fundamental responsibility of the Association and one which is constantly under close scrutiny by the SEC and Congressional authorities. In this regard, an equally important task is to promote self-discipline among members through first, the examination program of members' books and records; second, new member interviews with district committees; third, district-wide membership meetings; and finally, various communications to the membership from the district offices and the executive office in Washington. As an adjunct to these activities, the Association has established a highly successful program of promptly examining all new members of the Association, preferably during their first six months in the NASD. Through this procedure, new members become immediately aware of what is expected of them in regard to Association rules and procedures and many minor technical misunderstandings can be cleared up early in a firm's history before they become major problems requiring possible business conduct actions.

The basic tool of the NASD to insure compliance with its rules and the applicable rules of other regulatory agencies, thereby protecting investors and the public, is the examination of books and records of members. In 1967 the Association made 1,580 main office examinations or a total of 43 percent of all members. Also during this period the Association examined approximately 17 percent of the registered branch offices. At year end there were fifty field examiners on the Association's staff in addition to the fourteen district secretaries who direct their activities and who also may make examinations of member firms.

At the January, 1968, Board meeting, the governors authorized a substantial increase in the Association's examiner force so that the continuing high quality of this program can be maintained. In each of the last four years the Association increased its examiner force by approximately 15 percent and the new personnel authorized by the Board will bring the examiner force up to its highest level. At the same time both the quality and comprehensiveness of Association examinations have been materially strengthened.

The Association's unannounced examinations are relied upon in great measure by the Securities and Exchange Commission in enforcing its Net Capital Rule. All apparent violations of capital requirements uncovered by NASD examinations are immediately brought to the attention of the Commission. Additionally, the disposition of every business conduct case filed by the Association as a result of its examination program or as a result of public complaint is reviewed by the SEC.

Review of Business Conduct Activities

During 1967, 118 formal complaints were filed by the Association against members. One hundred thirteen were closed and seventy-four business conduct cases were pending at the end of the year. In accordance with the Association's procedures for summary complaint, whereby members may admit to certain minor allegations and receive the lesser penalties of a fine and/or censure, twenty-four such complaints were filed in 1967, one is still pending and twenty-five were closed.

In disposing of complaints last year, district business conduct committees or the Board expelled seven members and revoked the registrations of twenty-five representatives. Nine members and ten registered representatives were suspended. Sixty-eight members and thirty-three registered representatives received fines as a result of disciplinary actions brought by the Association. Sixty-seven members and forty-one registered representatives were censured, and after careful review of proposed business conduct cases, actions against twenty-two members and seventeen registered representatives were dismissed in 1967.

OTHER ASSOCIATION REGULATORY ACTIVITIES

Underwriting Arrangements

Since 1961 the Association has maintained a program to review all securities offerings of companies with a view to providing guidance for underwriters as to the fairness and reasonableness of the arrangement. The sole test for this review is whether or not, taking into account all elements of compensation and all of the surrounding circumstances of the underwriting, the arrangements as a whole appear fair and reasonable in each case.

A special Underwriting Arrangements Committee takes into consideration the size of the underwriting, whether the issue is being sold on a firm commitment, best efforts, or all or none basis, the type of securities offered and various other factors. All members acting as managing underwriters of new issues and registered secondaries to be offered either interstate or intrastate are required to file the arrangements of their underwritings with the Committee at the time they are filed with the Commission, or in the case of intrastate offerings at least fifteen business days prior to the anticipated offering date.

Since the inception of this program, the Association has reviewed more than 5,000 offerings. In 1967, 1,074 arrangements were filed with the NASD which was a 300 percent increase over the previous year. More than 80 of these underwriting arrangements were questioned by the Committee as to fairness and received detailed analysis by the staff. Sixteen of these issues were deemed unfair and unreasonable by the Committee after this analysis and nine underwriters subsequently offered alternative proposals and have reduced their compensation in accordance with the Committee's opinion. In two issues the underwriters withdrew the offering from registration subsequent to receiving a letter of objection from the Committee. Recommendations for the filing of formal business conduct complaints have been made to the appropriate districts in connection with three isssues where underwriters ignored the opinion of the Committee.

Free-Riding and Withholding

Another significant regulatory responsibility of the NASD is to insure that there is broad public distribution of all new issues and that quantities of new securities are not withheld by so-called insiders or persons actually engaged in the securities business with the intention of making quick profits when an issue commands an immediate premium in price.

To insure that NASD members live up to this obligation, the Association vigorously enforces its Interpretation with respect to Free-Riding and Withholding. Under this Interpretation members have an obligation to make a bona fide public offering at the public offering price of securities acquired from participation in any distribution whether acquired as an underwriter, a selling group member or from another member participating in the distribution as an underwriter.

The failure to make a bona fide public offering when there is a great demand for an issue can be a factor in artificially raising the price of that issue. In this regard members may not acquire significant portions of an underwriting for their own accounts or sell any such securities to officers of banks, insurance companies and other institutional insiders unless the withheld securities are for bona fide investment in accordance with the normal investment practice of the account and the withheld portion is not disproportionate in amount as compared to sales to the public.

In 1967 the Association distributed over 1,200 questionnaires on 18 different new issues that commanded immediate premium prices after their initial offering. These questionnaires were sent to members and are designed to disclose whether or not the member's method of distribution violated the Free-Riding and Withholding Interpretation.

SIGNIFICANT NEW REGULATIONS AND INTERPRETATIONS

Proxy Rules

At the January Board meeting, rules were adopted which, for the first time, will govern the conduct of members when they receive solicitation or proxy material from either listed or unlisted issuers. The various exchanges all have had such rules for many years, however, there have been no comparable requirements for over-the-counter dealers.

The thrust of the new rule is that when a member receives sufficient copies of proxy material and satisfactory assurance that the firm will be reimbursed by the issuer for all out-of-pocket expenses, such member must forward the proxy material to the beneficial owner of the secuities. There is also a requirement in the new rule that members must forward information statements (annual financial reports) or other material to be sent to beneficial owners if the issuer meets the same conditions as to reimbursement. There is a general exemption in the NASD rule for exchange members who may follow the already established rules of their respective exchanges. The new proxy rules will go into effect early in the summer of 1968.

Code of Arbitration Procedure

For the first time in NASD history, a formal Arbitration Code has been established similar to the programs which are operated by the New York and American Stock Exchanges. The Code, which was approved by the Board at its January, 1968, meeting, was developed after extensive research and discussion with representatives of the NYSE and the American Arbitration Association as well as staff members of the SEC. The new code differs substantially from that of the exchanges in that it limits arbitration controversies to only those arising out of or related to securities transactions. It does not include such disputes that may arise as employer-employee relationships and partnership agreements.

Under the Arbitration Code no dispute will be considered unless both parties involved agree to the arbitration procedure and the binding nature of the subsequent decision. No dispute, claim or controversy shall be approved for submission to arbitration under the code in any instance where two years or more have elapsed from the date of the securities transactions giving rise to the dispute.

The code provides for the establishment of a National Arbitration Committee and a staff director of arbitration. The committee and director of arbitration will appoint panels of hearing arbitrators and also name the chairmen of the hearing panels. All arbitration involving public customers will be heard before a panel of five people, at least three of whom will be from outside the securities industry. In disputes between broker/dealers, the majority of the arbitration panel will be from the securities industry.

It is expected that the new NASD Arbitration Code which is now before the SEC for approval, will be implemented sometime in the early spring of 1968.

Executing Retail Orders

The practice of interpositioning (placing retail orders with a non-market maker or purchasing securities from a market maker that is not the best available market) has been a regulatory problem under surveillance by the Association for many years. As early as 1952, District Business Conduct Committees brought complaint actions involving indiscriminate use of intermediary firms in the execution of customer orders.

In the past few years, however, investigative activities of the NASD have tended to underscore the need for further regulatory standards in this area.

In 1967 the Trading Committee of the NASD did considerable research on this problem in conjunction

with a special committee of the New York District, holding conferences with many groups of members to determine present practices and examined in detail previous business conduct cases which the Association has brought against members for interpositioning. As a result of this work, the Board of Governors approved at its September meeting a new Interpretation regarding the execution of customer orders.

In general, the new Interpretation prohibits members from interjecting a third party between the member and the best available market, except in cases where it can be positively demonstrated that at the time of the transaction the total cost as confirmed to the member was better than the prevailing interdealer market for that particular security. The Interpretation recognizes that there are occasions when a member cannot execute directly with a market maker but must employe a broker's broker or some other means in order to insure an advantageous execution for a customer. The purpose of the Interpretation, however, is to insure that all NASD members shall use reasonable diligence to ascertain the best inter-dealer market for a security and buy or sell in such market so that the resulting price to the customer is as favorable as possible under the prevailing conditions. It is felt that the new Interpretation will assist members in becoming more fully aware of their obligations in this area and more expressly define the standards of fair practice which pertain directly to the execution of customer orders. This new Interpretation has been submitted to the SEC for approval and will be effective May 1, 1968.

Regulation of Mutual Fund Sales and Distribution Practices

One of the major responsibilities of the NASD is the administration of rules and interpretations and other matters relating to transactions in the shares of investment companies. In connection with this responsibility, the Association, through its Investment Companies Committee, reviews all literature and advertisements used by members in the sale and distribution of mutual fund shares. This review is accomplished in strict accordance with the SEC Statement of Policy regarding mutual fund sales literature.

In 1967 the Association reviewed over 9,000 pieces of sales literature bringing the total number of pieces reviewed since this program began in 1950 to approximately 131,000. Emphasis continues on the service aspect of the program as well as effective and constant application of the standards prescribed in the SEC's Statement of Policy.

Review of Sales Incentives

Also during the past year the Association has become increasingly concerned about certain incentives offered in connection with the sale of mutual fund shares. In order to more fully explore this problem, the Board of Governors at its May, 1967, meeting created a Special Committee on Mutual Fund Sales Incentives for the purpose of assisting in the implementation of the existing interpretation concerning "Dealer Compensation of Salesmen". This special committee of the Board was empowered to require the filing of such information as it deemed necessary including normal salesman's compensation practices as well as sales incentives, campaigns and contests, reciprocal business offered, paid and/or received in connection with the sale of open-end investment company shares.

Switching Mutual Funds

In still another area of regulatory responsibility involving mutual funds, the Association is making plans to advise members of certain broad considerations that should be made in recommending that a customer switch from one mutual fund into a fund under another management without taking advantage of any intragroup transfer or exchange privileges that may be available.

The Association has long held that "high standards of commercial honor" normally preclude members or their representatives recommending that customers switch from one mutual fund to other mutual funds, absent significant changes in a customer's needs or circumstances. This important standard of business conduct flows from considerations of public interest including the following:

—A mutual fund investment is inherently an investment for the long term, designed to achieve specific customer objectives commensurate with the customer's ability to take investment risk.

—Switching from one fund to one or more other funds may constitute a taxable transaction with resulting shrinkage in the amount of the investor's capital at work.

—Switching may further diminish an investor's capital through the imposition of additional sales charges.

It is clear that the public interest would not be served by an Association position which, in effect, automatically categorized all such recommendations as violations of the Association's Rules of Fair Practice. It is also clear that the public interest would not be served by an Association position which ignored general switch recommendations by members.

Important Regulatory Areas Under Study

During 1967 a special committee of the Board has continued its review and study of the NASD Markup Policy with the aim of clarifying its application and to also insure that this key Interpretation of the Rules of Fair Practice is consistent with changing business methods in the securities industry. Also under review is Section 25 of the Association's Rules of Fair Practice, which precludes NASD members from dealing with non-members at preferential prices or from participating in underwritings with non-members. The Association is also continuing its study and dialogue with the SEC concerning recommendations made in the Commission's Special Study of the Securities Markets regarding disclosure of dealer profits on confirmations and the elimination of non-inventory principal transactions.

In still another area the Association has been studying the present requirements concerning confirmation legends on third market transactions in listed securities which are executed off an exchange.

The present third market confirmation legend was promulgated by the Association in November, 1966, after a series of discussions with the SEC staff. The main purpose was to establish uniformity in the methods of confirming retail transactions in a manner which was consistent with the Commission's views on the need for full disclosure, while also accommodating traditional practices in the third market whereby retailers, for competitive reasons, wanted to confirm at a unit price that was in line with the last sale on an exchange.

Experience with use of the legend indicates that it has caused considerable confusion to customers and that it may be putting third market retailers at a competitive disadvantage.

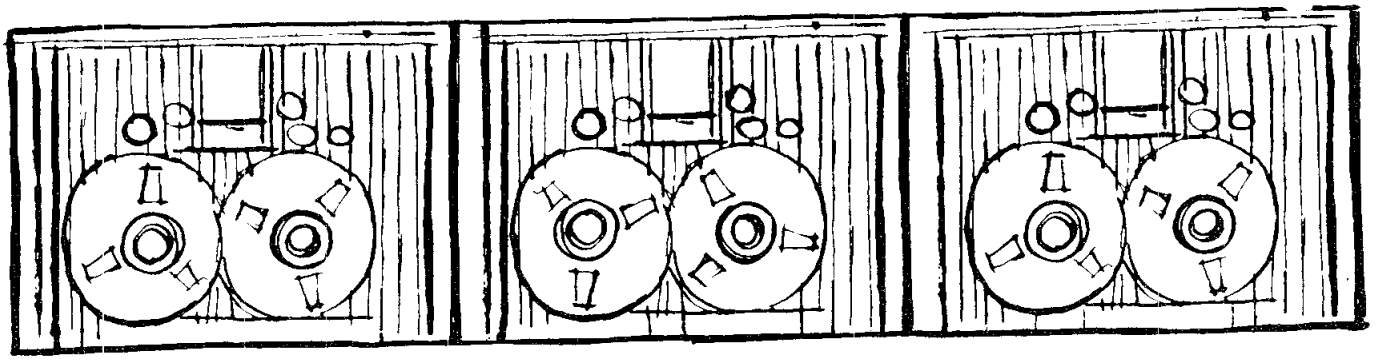
The NASD staff is presently exploring with the Commission the possibility of revising or eliminating the legend. At a meeting in November, the SEC staff was receptive to a revision, though felt that some legend was necessary. Recently, a shorter legend was submitted to the Commission, one which omits any reference to figures or dollar amounts.

In concluding this report to NASD members, I wish to reemphasize my own personal conviction that the Association is working diligently and constructively toward the advancement of the investment banking and securities industry and the promotion of the interests of all investors.

I have every confidence that future Boards and district committees will continue to make the interests of the membership and the public the paramount considerations in all Association decisions.

Respectfully submitted,

Robert M. Gardiner
1967 Board Chairman



THE PRESIDENT'S REPORT

Richard B. Walbert, 51, was born in Milford, Illinois, and attended public schools in Wheaton and Chicago. After attending Northwestern University, he joined the brokerage firm of Lehman Bros. rising to Midwest Syndicate Manager. He became associated with Blyth & Co. in 1953 serving through 1967 as Director and Vice President in charge of the ten-office Middle West operation.

Prior to Mr. Walbert's selection as the Association's President, he served as a Vice Chairman of the Board. He also has been President of the Chicago Bond Club, Chairman of the Central States Committee of the Investment Bankers Association, Governor of the IBA and President of the Executives' Club of Chicago.

Mr. Walbert is married to the former Jane Northrop. They have four children: a married daughter, Mrs. Ann Schwandt; a son, David, 20; and twins, Nancy and Richard, Jr., 17.

Two key issues are now under study by the NASD which could very well affect major changes in the investment business during the next few years. The first involves our present inability to cope with the mounting logjam of paper work in our back offices which has resulted in a critical failure in timely delivery of securities. The second issue has to do with a recent SEC proposed rule to prevent customer-directed give-ups of brokerage commissions. Related to this SEC proposal are recommendations of the New York Stock Exchange on the same question of give-ups and the exchange commission rate structure.

Concerning the "fails to deliver and receive" problem, the exchanges and the NASD have instituted a number of temporary measures hopefully to halt further escalation. In addition, we are diligently searching for long range, permanent answers such as the possibility of using data processing card stock certificates, nationwide clearing and transfer organizations and the establishment of training schools to develop a continuing pool of experienced back office personnel.

Turning now to the give-up question, in January the New York Stock Exchange submitted for SEC comment a broad outline of certain proposals primarily concerned with the commission rate structure but also incorporating recommendations concerning access to the exchange for non-members, reciprocal practices and recognition of customer directed give-ups.

The Exchange package of proposals generally provided as follows: (1) a volume discount in the minimum commission rate structure (2) access to the exchange market for qualified non-member broker/dealers through a professional discount (3) recognition of customer-directed give-ups to both members and non-members on New York Stock Exchange executions, however, a limitation upon the percentage amount which may be given up (4) taking steps to prohibit reciprocal practices which may result in de facto rebates of New York Stock Exchange commissions to other markets (5) the establishment of rules limiting membership and broker/dealer allowances to bona fide broker/dealers.

Subsequently, the SEC announced that it had under consideration a proposed new rule, 10b-10, which essentially would prohibit investment company managers from directing the executing broker of an investment company to divide his compensation in any way with other brokers unless the benefits of such division accrued to the investment company and its shareholders. In simplest terms, this proposed rule of the SEC would flatly prevent customer-directed give-ups; a historic practice that has gained wide-spread acceptance and use in the securities business and one that is an important contributor to the net income of many NASD members.

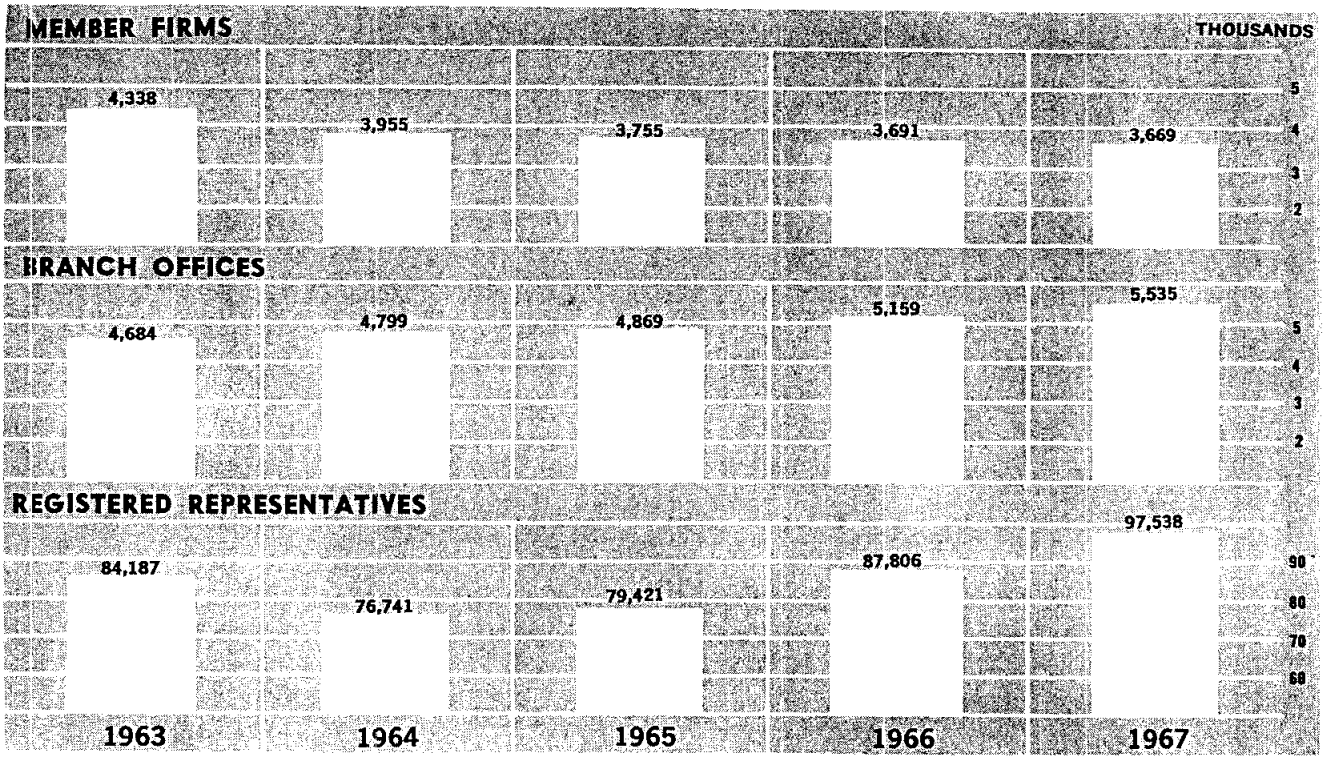
The SEC has asked the investment industry to comment not only on its proposed 10b-10 rule but also on the stock exchange proposals which are addressed in part to the same question of give-ups.

As this Annual Report goes to press, we are in the process of drafting our comments on the SEC's proposed rule and the New York Stock Exchange recommendations. We are strongly opposed to the 10b-10 rule on the basis that traditional give-up practices of the investment business are an integral part of the distribution system for mutual funds, providing the most efficient procedure for the execution of relatively large orders placed by investment companies. Any restriction that would prohibit present give-up practices could seriously disrupt the complex distribution pattern for mutual funds and also fractionalize the handling of large investment company portfolio transactions to the detriment of shareholders in a fund. We are also in the process of replying to the stock exchange proposals in this area, however, due to the lack of specific detail, our comments will be generally favorable but broad in nature.

Respectfully,

Richard B Walbert

RICHARD B. WALBERT



MEMBERSHIP SUMMARY—1967

New Members			225
Mergers		17	
Terminations		193	
Normal Resignation	123		
Death of Sole Proprietor	11		
Retirement or Death of Principal	12		
Absorbed by Another Member	41		
Capital Rule (SEC)	2		
Not doing OTC Business	3		
Inactive	1		
Terminations for Cause		37	
By SEC	13		
NASD Action	8		
Non-Payment Assessment	11		
Failure to File Assessment Report	5		
Total Out			247
Net Loss			−22

Re: Total Out	
Type of Organization	
Corporations	127
Partnerships	45
Sole Proprietorships	75
Length of Membership	
Less One Year	23
One to Two Years	19
Two to Three Years	15
Three to Five Years	38
Five to Ten Years	62
Over Ten Years	90

EXAMINATIONS ADMINISTERED BY THE NASD FOR THE FIVE YEAR PERIOD BEGINNING

January 1, 1963 and ending December 31, 1967

YEARS	*QUALIFICATION EXAMS FOR NASD*	*EXAMS ADMINISTERED FOR OTHER INSTITUTIONS*	*TOTAL*
1963	13,000	2,900	15,900
1964	10,900	8,277	19,177
1965	14,207	10,170	24,377
1966	23,359	16,858	40,217
1967	25,544	20,289	45,833

PURPOSES

TO promote the investment banking and securities business

TO standardize its principles and practices

TO promote high standards of commercial honor and to promote among members observance of Federal and State securities laws

TO provide a medium through which the membership may consult with governmental and other agencies

TO cooperate with governmental authority in the solution of problems affecting this business and investors

TO adopt and enforce rules of fair practice in the securities business

TO promote just and equitable principles of trade for the protection of investors

TO promote self-discipline among members

TO investigate and adjust grievances between members and between the public and members

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 17TH STREET, N.W., WASHINGTON, D.C. 20006