

1968 REPORT TO MEMBERS

NASD

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



THE CHAIRMAN'S

At the end of each year in the Association's history we have a tendency to look back and comment, sometimes with an artful cliché, "that the last twelve months have been among the most significant, or most important, or have offered the most changes effecting the securities business". This last year certainly conformed with all of these generalizations.

As almost every firm in the NASD membership knows by now, 1968 was a year beset by unprecedented volume in both the exchange and OTC markets, and equally important, unprecedented problems have materialized because of these heavy trading conditions.

Gross revenues for securities firms have been pushed to new highs by the increased activity as well as a growing speculative philosophy that has made such terms as "go-go fund", "performance" and "hot issue" the watchwords of a stimulated institutional purchaser as well as a large segment of the public who now demands quick appreciation as a factual hedge against spiraling inflation.

At the same time, net income is down in a great many firms due to rapid escalation in fixed costs in almost all areas of the business, but primarily due to the need for emergency injections of money, trained personnel and new procedures in our operational departments.

The most difficult and all encompassing problem faced by your Association in 1968, of course, has been the paperwork-bookkeeping logjam and the resulting failure to promptly deliver securities owed to customers. Not only are we confronted with finding a practical solution to this situation as soon as possible, but we also must contend with customer loss of confidence in our efficiency and performance, which could in the long run do serious damage to our image and our markets.

Both the short range and long range answers to our operational problems that have been developed by the NASD during the last twelve months and described in this Annual Report are designed to rebuild investor confidence. In the years ahead, I am hopeful that we will be able to profit from our experiences now, and with the assistance of extensive broker/dealer financial reporting which will start in 1970, our anticipation and correction of problem areas in the securities business should be greatly improved.

In the President's Report, you will see that our plans for a national clearing network will hopefully alleviate some of the particular difficulties in the OTC markets in clearing and settling transactions which has been a major cause of the fails problem. These plans, in cooperation with the programs of other industry organizations to study and redesign the entire process of buying, selling and transferring ownership of stocks, should in the long run re-establish the confidence of the investing public.

Another major event in 1968 was the signing of a contract with Bunker-Ramo Corporation to design and build a vast OTC automated quotations network that should enhance the attractiveness of our market place to such an extent that we can expect greatly increased investor interest within the next five to ten years. This in itself will most surely trigger new and even more expanded business opportunities for those in the securities industry who can adjust their merchandising and operational techniques to accommodate these new ideas.

What this all means to me is that the NASD is embarking upon an exciting era of not only being the prime example of self-regulation by an industry, but also an organization that is providing leadership in serving its members and the public by developing better methods of doing business and improved information on the products we sell.

Respectfully submitted,

*Phil E. Pearce
1968 Board Chairman*



THE PRESIDENTS

1968-1969

STATEMENT OF THE PRESIDENT

The surveillance and enforcement procedures exercised by the Association during the past year in carrying out its self-regulatory responsibilities have been severely tested by the added burden imposed by the paper work crisis and the almost imponderable fails problem that has continued to plague the securities business, in particular, the OTC markets.

Nevertheless, additional efforts by the Association in its examination activities and a strengthening by the membership in compliance and internal discipline has maintained and supported the concept of self-regulation.

For the first time since 1962, the Association experienced an increase rather than a decrease in total members, and on December 31, 1968, the membership stood at 3,906 firms.

A significant trend in the securities business also during the past year, has been the accelerated opening of new branch offices. In 1968, members opened 1,326 new branches as opposed to 930 such offices opened in 1967. At the end of 1968, branch offices totaled 6,340, the highest figure ever registered by the industry in the Association's history. Together, branch and main offices make up slightly over 10,000 securities industry sales outlets in the United States.

The most striking change in the complexion of the NASD during the past year has been the number of registered representatives entering the business. At the end of 1968, there were 132,705 employees of member firms registered with the NASD. This contrasts with 97,306 which were on the rolls at the end of 1967. During 1968, the Association processed almost 60,000 registrations, approximately 45,000 of these being new registrations. In 1967, the Association registered 31,000 individuals.

In 1968 the NASD administered more than 99,000 qualification examina-

tions which doubled the number of examinations given in 1967. The Association administered 58,000 examinations under its own qualification program and some 31,000 examinations for other agencies. 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. In an effort to accommodate the great increase in examinees, the Association, in addition to the 1700 regular sessions held annually, arranged for more than 650 special examination sessions.

The primary self-regulatory tool of the Association is, of course, the examination of the books and records of member firms to insure compliance with all NASD rules as well as certain federal regulations. In 1968, the Association conducted 2,551 examinations, including 1,788 main office examinations, for a total of 45.7 percent of main offices examined during the year. This compares favorably with the previous year when the Association examined 43 percent of its total membership. In keeping with this expanded work load, the NASD increased its examiner force during the year by 30 percent, and employed 71 individuals in this area as of December 31, 1968, and the Association will continue to increase personnel as required.

A review of the statistics of disciplinary actions stemming from these examinations indicates that during the twelve month period 135 formal complaints were filed by the Association as a whole. Eighty-seven of these complaints were closed, and at the end of the year, 130 cases were still pending. Fifty-three cases were filed under the summary complaint procedure used in minor technical infractions of NASD rules, four are still pending, while 43 were closed.

In disposing of complaints last year, the district committees or the Board expelled 7 members and revoked the registration of 26 representatives. In addition, 6 members and 14 registered representatives were suspended for varying periods of time. Seventy-eight members and 35 registered representatives were fined, the dollar amount of which varied from \$100 up to \$25,000. Also during the year the Association imposed censure on 76 members and 27 registered representatives for relatively minor violations of the NASD rules. Disciplinary actions against 12 members and 12 registered representatives were dismissed during the year after review by the Board of Governors. Total fines and costs collected during the year amounted to \$135,037.

During 1968, seven business conduct decisions of the Association were appealed to the Securities and Exchange Commission and three cases were decided by the SEC. In two of these cases, the Commission sustained the Association's findings and penalties. In one case the Commission reduced the Association penalties.

Of the 135 formal complaints filed by the NASD in 1968, 30 cases were involved in one way or another with deficiencies in capital. During this period of extremely high volume, rising speculation and industry difficulties with bookkeeping, the Association has paid particular attention to its surveillance of capital to insure the protection of investors. As a regular practice, the Association brings all capital deficiency problems to the immediate attention of the SEC and if it appears that there is any likelihood of financial damage to investors, the Commission will ordinarily seek an immediate injunction to prevent the broker/dealer firm from continuing in business. The Association considers even minor capital problems within a member firm as extremely serious which may expose a broker/dealer to heavy penalties.

During this period of increasing speculative psychology, it is most important that the Association maintains close surveillance of proper distribution in the new issue area. An increasing number of new issues coming to market in 1968 were in unseasoned companies selling at immediate premiums over the offering price. More than 200 such "hot issues" were recorded in 1968 compared with only about 50 in 1967 and only 22 in 1966.

Issues which sell at an immediate premium over a certain percentage of the offering price are subject to a questionnaire which is sent to participants in the distribution for the purpose of ascertaining whether or not the shares were properly made available to the public and not withheld for employees of broker/dealer firms or other privileged individuals in the management of institutional customers. One hundred and ninety-nine issues were the subject of a questionnaire in 1968 and 3,290 completed forms from underwriters were reviewed.

In appropriate cases, complaints are filed and disciplinary actions taken against members who violate the Free-Riding and Withholding Interpretation. A total of 43 disciplinary actions involving free-riding and withholding were filed against NASD members during 1968. This contrasts with only 23 such cases that were filed in 1967. While the penalties in most of these free-riding cases have been heavy fines, two members were suspended in 1968 for violations in this area.

An equally important regulatory function of the NASD, particularly in periods when speculative fever seems to be at high levels, is the work of the Association's Committee on Underwriting Arrangements. During the new issue market of 1961, the Association established this committee and imposed requirements that underwriters file with the Association copies of all registration statements and prospectuses submitted to the Securities and Exchange Commission. The purpose of these filings is to facilitate review from the standpoint of the fairness and reasonableness of the overall underwriting arrangement, including the fairness and reasonableness of the underwriting compensation provided. Several new requirements have been instituted by the Committee during the past year to prevent any circumvention and to strengthen the Interpretation.

The Board of Governors, in a notice to members on July 3, 1968, announced new policy guidelines for underwriters. The new guideline resulted from a review of filings in which the Board noted an increasing tendency of granting options, warrants and/or stock to the underwriter. In many cases the options and warrants had been immediately exercisable with the underlying shares. These situations, which allowed sale of the stock or warrants after the underwriting, via a post-effective amendment, gave rise to possible "free-riding" violations since the aggregate number of shares offered, plus the shares included in the options or warrants, were considered to be a single offering.

In order to insure that securities acquired by an underwriter did not violate the NASD Free-Riding Policy, the Association has required under the new guidelines that warrants, options and/or stock received directly by the underwriter must be held and cannot be sold for a period of at least one year after the offering.

Also under the Interpretation, firms associated with an underwriting in an advisory capacity, for the purpose of facilitating the offering and receiving compensation, are considered managing underwriters if such is not designated to another broker/dealer firm. In some cases in the past, particularly in best efforts undertakings, brokers have acted in this advisory capacity without being named managing underwriters. Because of this, firms now designated managing underwriters must adhere to the filing requirements of the Interpretation and, consequently, they will be subject to scrutiny as managing underwriters under the NASD rules and regulations. In cases where the underwriting arrangement is deemed unfair by the Committee, the member is so notified and given an opportunity to amend the registration and bring it in line with standards of reasonableness.

The volume of new issues reviewed by this Committee has been steadily increasing for the past three years. In 1966, 428 issues were reviewed. In 1967, this volume more than doubled to 1,074 issues; and the number of

new issue underwritings reviewed by the Committee in 1968 skyrocketed to 2,108. Of the more than 2,000 new issue reviewed in 1968, 328 were found to be unfair or unreasonable as to the compensation or other details of the arrangement. This contrasts with 17 new issue underwritings that received unfavorable comment in the previous year. This upsurge has continued through the first two months of 1969 and not only is the number of new issues coming to market still on the upswing but the number of issues receiving adverse comment is dramatically increasing. As of February 25, 1969, a total of 502 issues had been reviewed and 104 of these were deemed unfair or unreasonable by the Committee.

Notwithstanding the number of unfavorable determinations made during the last three years, only 7 cases have been referred to District Committees with recommendations that disciplinary actions be instituted. This is occasioned by the fact that after receiving the letter of unreasonableness from the Committee, the underwriters have, for the most part, brought their arrangements into compliance. The Committee's work should, therefore, be termed highly successful.

The Association has also taken other action in the past year in an attempt to curb excessive speculation. In this connection, a notice was sent to the members in July, 1968, urging that they adopt certain suggested measures to assist in stemming, as the Board phrased it at that time, "reckless or imprudent speculation and excessive volume." The voluntary measures suggested by the Association were as follows:

The imposition of a limitation on the trading of new issues in the period immediately following the offering.

Disallowance of commission payments to salesmen on transactions in low priced securities. Such a restriction would serve to decrease the efforts of salesmen to market securities of lower quality and lower unit value.

Require registered representatives to determine that clients have securities in their possession ready for delivery before placing orders. This suggestion precedes a subsequent regulation of the Association which requires such unless other factors are present.

The imposition of monetary penalties on registered representatives for corrections required on confirmations or other records as a result of errors by the registered representative.

A frequent review of client accounts which habitually require extensions of time for payment or delivery.

More recently, on February 5, 1969, the Association again cautioned its members concerning excessive speculation and urged that appropriate steps be taken to restrain contributing to this phenomena. In this connection, all members were urgently requested to review their supervisory procedures and selling practices, as well as those of their representatives, relating to recommendations being made to customers. It was suggested that this review concern itself with new as well as with old issues, and it was urged that positive efforts be taken by all members in this area to ensure the protection of the public interest.

In January, 1968, the Board of Governors formally adopted an arbitration procedure for disputed matters involving over-the-counter securities transactions. The new code is substantially different from the procedures existing for New York and American Stock Exchange member firms. One major difference is that it limits arbitration controversies to only those arising out of or related to securities transactions. It does not include disputes that may arise in employer-employee relationships and partnership agreements.

The code provides for the appointment of a fifteen-man National Arbitration Committee responsible for policy determination in connection with procedural and substantive matters under the code.

The Director of Arbitration is a permanent NASD staff member stationed

Arbitration

in New York City. He is responsible to the National Committee and supervises the selection of three-to-five man panels from a pool of three or four hundred arbitrators, which has been assembled during the past year from among some of the most prominent businessmen in the country, attorneys and persons from other professional callings.

The panels are composed of three members of the public and two representatives from the securities business in disputes between the public and a member; and in the case of a member-member contest, from three to five representatives from the securities industry will serve. All cases handled under the Arbitration Code are the result of the voluntary submission of both parties.

Disputes must be submitted voluntarily by both parties within two years of the transactions. Panels are presently hearing cases throughout the country determined by such factors as the convenience and location of the parties involved.

Under the Arbitration Code, inquiries from either the public or members of the Association regarding arbitration are to be handled in the following manner:

1. All informal inquiries regarding information on the arbitration procedure generally should be directed to the arbitration department for reply.
2. In connection with inquiries which relate directly to the submission of a dispute to arbitration, the parties should be informed that the following steps must be observed:
 - a) The initiating party should direct his request for arbitration in writing to the arbitration department.
 - b) He must include in his request a representation to the effect that the counterparty has also agreed to submit the controversy to arbitration. Requests for arbitration which do not include a representation that both sides are agreeable to submitting the dispute to arbitration, will not be honored.
 - c) He should also include a concise statement of the facts upon which the claim to be asserted will be based.

The situation may often arise where the same factual allegations which form the basis of a formal complaint filed with a District Committee might also give rise to relief and remedy which falls outside of the Association's disciplinary mechanism, as for example, complaints which basically seek damages, attorney's fees, interest on the sum alleged to be due and owing and other like costs. In such instances where the demand for relief does not assert or raise any disciplinary issues which would legitimately bring into play the Rules of Fair Practice, the parties are appraised of the arbitration facilities of the Association, where specific and direct remedies can provide the type of relief which the parties truly seek.

Investment Companies

During the eighteen years that the Investment Companies Department has conducted the NASD's sales literature and advertising review program, the great majority of members that have been affected by the program have come to recognize it as one of the most substantial continuing services provided by the Association. It has also come to be recognized by the SEC and its staff as a very fundamental and important part of the regulatory structure that makes the concept of full disclosure work in the case of mutual funds.

During 1968, the first year in which life insurance companies in significant numbers have been active in the business, the Investment Companies Department of the NASD reviewed roughly 12,500 pieces of literature, and this was flowing through at an accelerating rate well in excess of one thousand pieces per month. This annual total was at least one thousand pieces higher than ever recorded in previous years.

The NASD Investment Companies Committee also became quite concerned last year with the trend toward increased circulation among members of publications specializing in reporting and analyzing short-term mutual fund performance in ways that did not conform with the Statement of Policy of the Securities and Exchange Commission. In at least one instance the publication purported to predict performance.

Members were, therefore, warned that they have a clear responsibility to insure that publications and oral presentations based on these publications utilized by sales personnel are fully in conformance with the Statement of Policy. The Statement of Policy, which is administered by the NASD as to its members, is designed to foster fair and complete presentations in investment company sales literature.

While the Association cannot interfere with the publication of these services, all members should be aware that their use with the public may involve serious violations of NASD rules. When members are in doubt as to the conformance of a particular publication with the Statement of Policy, it should be referred to the Investment Companies Department of the NASD.

DELIVER FAILS PROBLEM

The most critical problem confronting the NASD and the securities industry in 1968 was the inability of member firms to cope with their bookkeeping and paper work volume and the unprecedented number of failures to promptly deliver securities owed to other dealers and customers.

Association efforts designed to combat the fails problem began in mid-1967 when the trading hours of members were initially restricted. In order to ascertain exactly the fails situation within the industry, the Association sent a questionnaire to all members in January, 1968, to obtain statistics on fails and specific information on the capital situation in each firm. As a result, all non-NYSE Association members who listed fails to deliver exceeding \$1,000,000 were directed to submit monthly "Fail Status Reports" commencing in May. This program continues in effect providing statistics for study of the general trend and highlighting of individual problems.

Because the fails problem in the industry was stimulated in part by the unexpected increases in volume on the exchanges and in the over-the-counter market, part of the Association's initial efforts were directed toward stemming this volume. To accomplish this, shortened trading hours were initiated in February and one day a week closings of business were started in June under emergency regulations.

An even more aggressive program was begun in June, 1968, when it was found that the severity of the fails problem had materially increased. The Association immediately launched a special inspection program to evaluate each members' control of back office procedures and to ascertain their financial condition. Coordination was effected with the SEC and NYSE to attain broadest coverage with a minimum of duplication.

Since June, 1968, 93 disciplinary actions have been filed against members and in excess of 300 letters of caution have been sent. Also during the year various restrictions were placed on approximately 44 members. Thirteen firms were required to suspend their operations because of a composite of problems with books and records, inadequate net capital, or excessive fails.

In addition to the formal examination of members, a concentrated program was also instituted whereby the top officials of firms with the highest dollar volume of fails were called in for conferences involving a detailed review of the firms' operations to more specifically identify and correct problem areas. As a result of these conferences, the majority of firms so contracted agreed to accept certain voluntary restrictions until their situation improved. The type of restrictions imposed were as follows:

1. Limitation on the number of daily transactions.

2. Restrictions on market making activities and trading new issues.
3. Prohibitions against solicited or unsolicited transactions with the public.
4. Requirements that the firm increase capital and employ additional personnel.
5. Requirements that the firm join the National Over-The-Counter Clearing Corporation.
6. Prohibitions against the acceptance of customer sell orders unless the securities were in the possession of the customer. (Later this was adopted as a rule interpretation.)
7. Prohibitions against executing any orders in a security in which the firm had a preponderance of aged fails.

In mid-October, 1968, the Association concluded that its examination and surveillance program in the fail area should be expanded to firms that were members of the New York Stock Exchange in addition to those firms that were solely over-the-counter dealers. It was felt that while the Association could point to an aggressive program designed to reduce the fails situation, the solely over-the-counter firms to which efforts up to that time had been directed, represented only 15 percent of the total fails in the industry.

At the same time the Association was stepping up its examination efforts, it also began to develop specific rules in cooperation with the Uniform Practice Committee and the Trading Committee to further help alleviate the problem.

As previously mentioned, the Association initiated the move toward Wednesday closings in order to try to stem volume within the over-the-counter market and to allow work time for operational personnel to attack the paper work logjam. Other Board action included an Interpretation of the Rules of Fair Practice prohibiting members, among other things, from executing a customer's sell order unless the member had possession of the security or had reasonable assurance that the certificates would be delivered to the member within five business days. This regulation was intended to be a permanent standard of conduct for members of the Association.

The Board of Governors also imposed requirements that would prohibit members from accepting purchase orders from customers without first ascertaining that the customer was willing to receive partial delivery until the complete order was filled. This regulation was directed primarily at institutional accounts which, heretofore, had refused to accept partial delivery of large orders.

Late in the year the Association also instituted an emergency Rule of Fair Practice preventing members from buying or selling securities if the number of aged fails to deliver in that security exceeded a certain percentage of the total fails of the firm. In all cases, if such fails to deliver were in excess of 120 days in age the member was prohibited from selling that security for his own account or buying it as a broker for a customer. This rule also required that monthly reports be filed with the Association concerning all fails to deliver in excess of 120 days in age.

In January 1969, the Board of Governors further tightened this emergency regulation by enacting another rule which provided that when a fail to deliver or a fail to receive reached 120 days in age and was not cleared by the member within 30 additional days, it constituted a per se violation of Article III, Section 1 of the Rules of Fair Practice. As this Annual Report goes to press, the Board has lowered the 120 day limit in this rule to 90 days. While the Association's experience in evaluating the complete success of the rule has been limited, since this regulation has only been in effect for a short time, it would appear that the restriction is proving to be the most effective weapon yet devised against the aged fail problem.

The Association, through its Uniform Practice Committee also took other

steps to assist in clearing transactions and improving the flow of paper work in the over-the-counter market. Accordingly, a procedure was established which would permit a confirming member to send a notice on a new form supplied by the Association (Form 101) to the contra-broker who would be required to respond within a stated number of days. If the contra-broker did not respond, there would be a presumption that the transaction was "DK"ed and the confirming member could, therefore, eliminate it from its books with no further liability. Subsequently, the Association devised a plan whereby this new "Don't Know" procedure could be used with an appropriate legend on the "DK" form for transactions that may have taken place prior to the effective date of the rule, December 31, 1968.

At the same time, other changes were also affected by the Association to expedite delivery. The Uniform Practice Code was changed to permit stock to be delivered in other than 100 share certificates as was previously required. The new provision permitted delivery in 100 share certificates or multiples thereof, plus the odd-lot in any given situation. This reduces the number of times which certificates would have to be sent to transfer to be broken down in appropriate lots.

In addition, to assist in clearing fails on the books of members, the Association has cooperated with the National Over-The-Counter Clearing Corporation in developing a special clearance program for NOTC members. This program was held in three separate stages and had the result of clearing 37 percent of the fail items of NOTC firms, 20 percent of the total shares and 16 percent of the total value of fails on those members' books. The Association also solicited the cooperation of the New York and American Stock Exchanges to require their New York-based members to join the National Over-The-Counter Clearing Corporation.

During the year, the Association cooperated and participated in a joint industry effort to develop more efficient handling of transactions and the subsequent reduction in the time required to process confirmations and security certificates by clerical personnel. This long range project is called CUSIP (Committee on Uniform Securities Identification Procedures) and is designed to identify specific security issuers and their issues—stocks, bonds, notes, etc. of corporate, municipal, state, federal and selected foreign issuers. Under the CUSIP plan, a universally accepted number will be permanently assigned to each issue designating that single issue and no other. In addition, a numbering system also has been devised for all broker/dealer firms. It is hoped that CUSIP will provide a foundation for the further simplification of the operations departments within the securities industry and be readily integrated with automation procedures that are presently being developed.

At the end of the year, a study completed for the NASD by Arthur D. Little, Inc., a consulting firm in Cambridge, Massachusetts, concluded that one of the major causes of the paper work backlog in the over-the-counter markets and the continuing problem of failure to promptly deliver securities was the absence of a national clearing facility for unlisted stocks that would embrace all types of broker/dealers in various sections of the country. Accordingly, the Association embarked upon a program to establish such a national clearing network and held discussions with six national and regional stock exchanges for the purpose of utilizing the facilities of these organizations to set up regional clearing centers for the over-the-counter market all across the United States.

The Association feels strongly that this OTC stock clearing system will be one of the most ambitious steps ever undertaken, and one that compares in importance with the program now underway to develop an automated OTC quotations system by late 1970.

NASD plans for a national clearing operation call for the immediate expansion of the NOTC Corporation in New York, which presently utilizes the facili-

ties of the American Stock Exchange Clearing Corporation.

In addition, the NASD plans to adopt a clearing procedure in all regional set-ups similar to the one now being used by the Pacific Coast Stock Exchange, which is termed a net-by-net system. Basically, this is a method of settlement whereby each clearing member's net balance in securities and money is brought forward on a daily perpetual inventory basis. The clearing corporation takes a position in the trading comparison so that the net balances of a clearing member are handled only with the clearing corporation. In effect, the clearing corporation acts in the capacity of another broker and all settlements of net balances for a clearing member are transacted with the corporation instead of between two participating member firms as is the case with other clearing operations. This net-by-net clearing method is the most adaptable to the needs of the over-the-counter markets.

The clearing problem in the over-the-counter markets, according to the Arthur Little study, centers in the fact that almost half of the transactions between firms are inter-regional in nature; for example, one firm may be in New York or Chicago and the firm on the other side of the trade may be in Boston or Los Angeles, thus seriously restricting the use of present OTC clearing facilities that by nature cannot accommodate inter-regional trading.

The Little study estimates that five billion shares per year are traded in the OTC markets and a surprisingly high degree of these are inter-regional trades (approximately 42 percent of all trades) and a surprisingly low percentage are purely local trades where both sides of the transaction are in the same city. Thus, only about 25 percent of all trades are, for example, New York City to New York City; and local trading in the top twenty cities in the country still represents less than 50 percent of the total.

It is the NASD's hope to have its inter-regional OTC stock clearing operation set up by the end of 1969, and by that time to also tie each regional clearing center together in a national network. Regional centers are already being formed by the Pacific Coast Stock Exchange and the Midwest Stock Exchange. The Association is also seeking cooperation and participation from the banking industry to incorporate certain bank clearing operations into the national OTC clearing network.

The conclusions of the Little study are being implemented by a special NASD Committee, consisting of the present and recent Board Chairmen and headed by Robert M. Gardiner, managing partner of Reynolds & Co. in New York City. Other members of the Committee are the present NASD Chairman, Kenneth H. Sayre, a partner of Irving Lundborg & Co. in San Francisco; Phil E. Pearce, president of G. H. Crawford Co., Inc. in Columbia, South Carolina; Allan C. Eustis, Jr., a vice president of Spencer Trask & Co., Inc., in New York City and G. Shelby Friedrichs, a partner of Howard, Weil, Labouisse, Friedrichs and Company in New Orleans, Louisiana.

**Mutual Fund
Legislation**

A revised version of the Mutual Fund Bill S 3724 was approved by the Senate in July 1968 after being reported out by that body's Banking and Currency Committee. The revised legislation reflected several major differences from the original SEC proposals including changes in three important and controversial areas; sales charges, management fees and contractual plans.

The original SEC proposal to limit mutual fund sales charges to 4.76 percent was dropped from the Senate passed bill and replaced with language that would allow a registered national securities association (the NASD) to regulate the level of these charges. The Association had previously stated in both Senate and House committee hearings considering this legislation that it did not aggressively seek the sales charge supervisory powers but would accept these added responsibilities as part of its self-regulatory role. It was stipulated by the Association that a reasonable level of sales charges could not be determined on the basis of information then available and a thorough indepth study would have to be made by the NASD and evaluated before any sales charge guidelines could be put into effect.

In the area of management fees, the Senate approved legislation directed that management fees would be presumed to be reasonable if they had been approved by a majority of a fund's independent directors. Such a presumption must, however, be made by courts considering challenges to the level of management fees, and the courts may overturn the decision of independent directors by the presentation of a "preponderance" of contrary evidence.

The SEC proposal to abolish front-end load contractual plans was also discarded in the revised legislation passed by the Senate. In its place, the Senate voted to allow the continuation of contractual plans but limit commission withdrawal to 20 percent of any single year's payment and 64 percent of the total commission in the first four years.

Also included in the Senate passed bill were provisions which would allow banks to establish and sell mutual fund type shares.

Subsequently, the House Subcommittee on Commerce and Finance of the Interstate and Foreign Commerce Committee, which was considering the bill, decided on September 11, 1968, by a four to three vote not to take any further action regarding the bill and the next day the full Interstate and Foreign Commerce Committee confirmed this action by also refusing to consider the legislation.

In January, 1969, Senator John Sparkman, the Chairman of the Senate Banking and Currency Committee and Senator Thomas McIntyre, a member of the Committee, both re-introduced two different versions of the Mutual Fund Bill. The Sparkman bill was exactly the same as that passed by the Senate during the previous session. The McIntyre bill, however, would remove Section 22(d) of the 1940 Investment Company Act which provides for retail price maintenance of mutual fund shares. This provision would be substituted for the NASD supervision of mutual fund sales charges. Also contained in the McIntyre version of the bill was a provision that would outlaw front-end load contractual plans entirely.

The Association expects to again testify on this proposed legislation and will support the majority of the measures in the Sparkman introduced legislation.

Corporate Takeover Bill

In July, the President signed the Corporate Tender and Takeover Bill which was strongly supported by the Association in both houses of Congress. This legislation is primarily designed to provide full disclosure in cash tender offers and other block acquisitions in the same manner as disclosures are made in a proxy contest.

The legislation amends the Securities Exchange Act of 1934 by requiring the disclosure of pertinent information when a person or group seeks to acquire a substantial block of equity securities of a corporation by a cash tender offer or through open market or privately negotiated purchases. Equally important, disclosures must be made when a corporation repurchases its own equity securities.

Marginability of OTC Securities

In August, 1968, President Johnson signed into law the Senate and House passed bill to authorize marginability for certain over-the-counter securities under regulations to be established by the Federal Reserve Board. The NASD supported the concept of OTC marginability in both the House and Senate hearings on this legislation even though it was felt that many complex and difficult problems would have to be resolved before an extensive margin program could be put into effect.

In the latter months of 1968, the Association has been working closely with the Federal Reserve Board in developing guidelines to be used in selecting a limited number of the most active and widely traded OTC securities that would be afforded margin privileges. The Association anticipates that only a small number of NASD members will be able to begin handling margin accounts immediately after the publishing of the Fed's new guidelines, which at this time, have not as yet been completely developed. Notwithstanding the merits of extending margin privileges to certain OTC securities, NASD members should proceed cautiously in this area when the guidelines are finally published and recognize the additional back office expertise necessary in the handling of margin accounts.

Institutional Market Impact Study

Another important bill approved by Congress in 1968 was the legislation authorizing the SEC to conduct a broad study of the impact of institutional investing on the securities markets. The Association strongly supported the concept of this legislation, however, with the specific stipulation that such a broad study should be conducted under the direction, and with the cooperation, of the securities industry. This provision was included in the legislation that was signed by the President.

Progress to date in the Institutional Investor Study consists of the appointment of an Advisory Committee of 12 individuals and their alternates, representing various institutional investor groups, securities exchanges, and the NASD. The Chairman of this Committee is John C. Whitehead, Goldman Sachs & Company. The Committee has met twice and plans to meet monthly. According to the terms of the Joint Congressional Resolution authorizing the study, the Commission is required to consult with the Advisory Committee on a regular basis.

Most of the members of the Institutional Investor Study staff have been hired. The director is Dr. Donald E. Farrar, on leave from Columbia University, and, with few exceptions, most of the members are from academic institutions. About two-thirds of the professional staff members are economists (12) and the remainder are attorneys (6). A draft outline of the study prepared by the staff was submitted to the Advisory Committee at its last meeting and discussed briefly.

Give-ups and the Stock Exchange Commission Rate Hearings

Early in January, 1968, the New York Stock Exchange presented to the SEC a five part proposal for revising the Exchange's commission schedule including the establishment of a volume discount; continuation of customer directed give-ups with certain limitations; elimination of certain reciprocal practices which had resulted in rebates of NYSE commissions; access to exchange commissions by non-member broker/dealers and finally, a requirement that would limit exchange membership to bona fide broker/dealers thus excluding institutional members from the Exchange.

Subsequently, the SEC proposed Rule 10b-10 which would have prohibited customer directed give-ups unless the full amount given up was credited or paid to the mutual fund for shareowner benefit.

In commenting on the SEC proposed rule and the stock exchange's five point proposal, the NASD strongly supported the concept of allowing non-member broker/dealers to share in stock exchange commissions on listed business they might generate. However, the Association objected to the proposed SEC rule to eliminate give-ups.

In order to resolve the questions that had been raised in this area, the SEC ordered hearings related to a broad range of questions including give-ups, the commission rate structure and other proposals made by the Exchange. Subsequently, the Department of Justice filed a memorandum with the Commission suggesting the complete abolition of minimum commission rates to be substituted by open competition.

Prior to the start of the commission hearings, the NYSE changed its original five point proposal and recommended a gradual phasing out of give-ups. Shortly thereafter, the exchange further modified its position by agreeing to the immediate abolition of give-ups.

At the SEC hearings which began in July, the Association testified and emphasized that limited access to the exchanges for non-members was not a complete substitute for the present give-ups system. However, the Association pointed out that this long sought participation in listed business on a fair and equitable basis would enable NASD members to provide even more expanded facilities to public investors. The Association also stated that if customer directed give-ups were to be abolished it was the NASD's strong belief that they should be phased out over a reasonable period of time giving members who would be seriously effected the opportunity to assess any loss of income and hopefully to make plans to adjust their businesses so that this loss of income could be replaced.

The Association also again strongly encouraged and endorsed the exchange proposal that non-member firms be given access to the listed markets through a plan to share stock exchange commissions on listed business developed by over-the-counter broker/dealers. It was pointed out, however, that the exchange proposal for listed commission sharing should be made attractive enough to enable non-members to support the cost of serving customers in this area.

While the SEC hearings were in progress, an interim commission schedule proposed by the New York Stock Exchange which provided for quantity discounts on large orders, was accepted by the SEC. Also included in this package was the complete abolition of give-ups which went into effect on December 5, 1968.

**Proposed SEC Rule
Allowing Individuals
to Form Groups
for the Purpose of
Purchasing Mutual
Fund Shares at
Quantity Discounts**

On October 7, the SEC proposed to amend Section 22d-1 under the Investment Company Act of 1940 so as to remove all restrictions on the grouping of individual purchasers of mutual fund shares to obtain quantity discounts.

Rule 22d-1 now provides that quantity discounts on purchases of mutual fund shares may be allowed only in accordance with a scale of reducing sales charges varying with the quantity of shares purchased by "any person." The rule defines any person, and it's this definition which determines to whom quantity discounts may be allowed.

The proposed amendment would bring within the definition of any person entitled to a quantity discount any natural person, a corporation, a partnership, an association, a joint stock company, a trust, a fund or any organized group of persons whether incorporated or not.

The Association in its comments on the SEC proposed rule, pointed out that the effect of the change in definition for "any person" would eliminate any meaningful restrictions on groups that could be formed to obtain such discounts and would completely destroy the purpose and meaning of Section 22d which was included in the act to maintain the orderly distribution of mutual fund shares.

As this Annual Report goes to press the Commission is considering the Association's comments on proposed Rule 22d-1 which has not been finally adopted.

**Broker/Dealer
Financial
Reporting**

The Securities and Exchange Commission announced June 28, 1968, the adoption of SEC Rule 17a-10 under the Securities Exchange Act of 1934 requiring broker/dealers to report on income and expenses. The reporting form is divided into three parts and many of the items the NASD had previously objected to have been deleted and these omissions should ease the cost and burden of filing.

All firms are required to file the income and expense information on a calendar year basis. Firms with gross income of less than \$20,000 during the year will be required only to file the introductory page and not any of the forms. The first calendar year applicable under the new rule will be 1969 and forms must be filed within 90 days after December 31, 1969.

Broker/dealers are required under the new rule to file one of the three part forms along with an introductory page. Part I applied to non-members of the New York Stock Exchange whose gross securities income was between \$20,000 and \$100,000 or had gross income of at least \$20,000, eighty (80) or more percent of which came from retail mutual fund sales, municipal bonds, fractional interests in oil, gas or other mineral rights, variable annuities, savings and loan placements, or real estate syndications.

Part II of the reporting form is required of non-NYSE members who do not qualify under Part I and whose gross securities income was between \$100,000 and \$1,000,000.

The final Part III applies to the income and expenses of broker/dealers who are members of the NYSE or who do not qualify to complete Part I or II.

The NASD will pass an interpretation requiring all Association members to file directly with the NASD. The only exception to this will be members of stock exchanges having a reporting plan approved by the SEC. All information received by the NASD will be passed on to the Commission on an undisclosed basis without identification of particular firms.

Plans are being made for editing and checking of more than three thousand reports to be filed directly with the NASD. Hopefully with the use of computer processing, an economic analysis of certain quantitative data will be made available to NASD members so that they may compare their operation with firms of similar size and with a similar product mix.

INSURANCE COMPANIES AND VARIABLE ANNUITIES

Every industry can look back to some landmark event or series of events which may have changed dramatically the progress and style of that industry. The year 1968 witnessed such an occurrence in the investment business and that was the full blown entrance of the insurance industry into merchandising equities.

At this point in time, perhaps the most dramatic aspect of insurance company participation, as it effects the securities industry, has to do with the sheer numbers of people and dollars which the insurance companies are committing to this endeavor. In the last 12 months, over 100 insurance companies or their affiliates became members of the NASD in order to offer an equity product—mutual funds and/or variable annuities. Less newsworthy but of considerable significance is the fact that aside from these insurance companies themselves, nearly one-third of all new broker/dealer firms being formed today are comprised of general insurance agents and independent insurance brokers.

During 1968, the NASD registered approximately 45,000 new representatives from all sources—of these new people, not including 16,000 re-registrations, some 15,000 were representatives of insurance affiliated members. It is anticipated that 30,000 more insurance people will become registered in 1969 so that by year end somewhere in the neighborhood of 1 out of 4 registered representatives will be insurance company based—and the insurance industry will have in two years created more registered representatives than all of the NYSE members combined.

This legion of salesmen is now being armed with existing and traditional funds—new funds created by the insurance companies—as well as the variable annuity product consisting of group and individual plans. Many insurance companies have yet to equip their representatives with a home grown fund and these companies are still actively inquiring into the possibility of purchasing established funds.

The potential public market awaiting the insurance industry is astronomical, considering there are today about five million people who own mutual fund shares as opposed to 130 million life insurance policy holders.

With this great influx of new people into the securities business, the Association has been severely taxed in providing adequate registering, examining and surveillance facilities. Consequently, the Association is presently examining some of its traditional procedures and policies to see what changes, if any, may be needed to meet new problems created by the entrance of insurance companies into the securities business.

The Association has established a Variable Annuity Committee which is working on new rules proposed by members of the insurance industry to apply to variable annuities. Representatives of some 20 insurance companies participated in the drafting of the rules, which are being proposed in order to recognize and accommodate the unique nature of variable annuities within the framework of the NASD.

Plans are underway to change the Committee's name to the Variable Contracts Committee and to increase the insurance industry's representation in recognition of the growing importance of variable contract products.

The Investment Companies Committee has also added a member from the insurance industry; and in November this past year, the Association held a day-and-a-half meeting in Washington, D. C. directed just to insurance company affiliated members. More than 85 companies were represented at the meeting by some 200 people.

Executive Committee

Phil E. Pearce
Chairman
Herbert R. Anderson
W. Scott Cluett
Charles E. Cray
Ralph E. Phillips
Arthur Stansel
Richard B. Walbert
(Ex Officio of all committees)
(All Governors)

Finance Committee

Ralph E. Phillips, Jr.
Chairman (Governor)
R. S. Abernethy, Jr.
(Governor)
Robert V. H. Harned
(Governor)
Phil E. Pearce
(Governor)
Gordon L. Teach
(Governor)
Jack A. Schindel
(Ex Officio)

National Business Conduct Committee

W. Scott Cluett
Chairman
C. Rader McCulley
Vice Chairman
John M. Bleakie
J. Howard Carlson
Watson B. Dabney
Phillip Hettleman
Preston E. Macy
Francis S. McComb
Gordon L. Teach
(All Governors)

National Uniform Practice Committee

George J. Denzer
Chairman
John H. Kirvin
Vice Chairman
George R. Becker
Gerard J. Ehter
Gerland J. Foucha, Jr.
Phillip Hettleman
(Governor)
Roy W. Jordan
Thomas P. Lynch
Philip M. Neagle
Richard A. Parker
Junius W. Peake

National Quotations Committee

Ralph E. Phillips, Jr.
Chairman (Governor)
Glen A. Darfler
Milton F. Lewis
C. Rader McCulley
(Governor)
John K. Roney
Zoltan Salkay
Arthur Stansel
(Governor)
William S. Thompson

Investment Companies Committee

S. Whitney Bradley
Chairman
Herbert R. Anderson
(Governor)
John C. Bogle
Robert L. Cody
(Governor-at-Large)
Dennis H. Greenwald
Franklin R. Johnson
John A. McCandless
Rowland A. Robbins
D. George Sullivan
Peter R. Wilde

Foreign Committee

Henri L. Froy
Chairman
John A. Nevins
Vice Chairman
Henry H. Arnhold
Ned B. Ball
Townsend Hornor
Edwin S. Marks
Kenneth G. Murton
Rudolf F. Nager
Alexander C. Schwartz, Jr.
J. Raymond Smith
(Governor)
Arthur R. Taylor
Louis F. Wade
Hans A. Widenmann

Trading Committee

James F. Jacques
Chairman
John Barker
Grant A. Feldman
(Governor)
Phillip Hettleman
(Governor)
Louis P. Singer
John Wasserman
Donald E. Weeden
Morton N. Weiss
Nicholas H. Witte

Information Committee

Robert V. H. Harned
Chairman
Herbert R. Anderson
Watson B. Dabney
A. Paul Ogilvie
Kenneth H. Sayre
J. Raymond Smith
(All Governors)

Insurance Trustees

Glenn E. Anderson
Allan C. Eusis, Jr.
Jack A. Schindel
Treasurer

SPECIAL COMMITTEES**Automation Committee**

Robert M. Gardiner
Chairman
W. Scott Cluett
(Governor)
N. Gregory Doescher
Allan C. Eustis, Jr.
G. Shelby Friedrichs
Joseph T. Fuller
Edward Glassmeyer
John A. McCue
Samuel Mothner
John D. Ohlandt, Jr.
Phil E. Pearce
(Governor)

Committee on Internal Reorganization

Arthur N. Honig
Chairman
Robert L. Cody
(Governor-at-Large)
Charles E. Cray
(Governor)
A. Sherman Ellsworth
Robert R. Miller
Paul E. Youmans

Committee on Qualification Examination Program

Kenneth H. Sayre
Chairman (Governor)
Phillip Hettleman
(Governor)
Robert R. Miller
Cornelius Roach

Committee to Study Matters Relating to Variable Annuities

Arthur Stansel
Chairman (Governor)
Herbert R. Anderson
(Governor)
Newell Blair
John J. Byrne
A. Paul Ogilvie
(Governor)
Robert M. Powell

Financial Statement

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. STATEMENT OF INCOME AND EXPENSES

	Year ended September 30	
	<u>1968</u>	<u>1967</u>
Income:		
Assessments	\$1,610,102	\$1,512,814
Registered representatives' fees:		
Applications	1,656,550	821,130
Examinations	1,451,622	665,770
Branch office fees	190,215	166,400
Fines and costs	128,834	66,598
Interest	155,392	126,378
Admission fees and other income	72,045	74,083
	<u>5,264,760</u>	<u>3,433,173</u>
Expenses:		
Salaries and office services	2,058,305	1,705,007
Travel and meetings—Board of Governors, District Committees and other, except for staff investigators	276,676	233,404
Travel of staff investigators, transcripts and miscellaneous expenses of investigations and complaints	137,557	150,247
Publications, printing and stationery, net	184,659	167,533
Postage	74,961	60,711
Fees—legal, administration of qualification examinations, compilations of quotations and other	465,170	341,832
Rent	238,997	214,814
Furniture and equipment	50,061	17,333
Office and miscellaneous	197,835	141,883
Insurance and taxes	134,394	126,071
Retirement plan	92,815	122,272
	<u>3,911,430</u>	<u>3,281,107</u>
Excess of income over expenses	<u>1,353,330</u>	<u>152,066</u>
Net assets, beginning of year	2,418,335	2,266,269
Net assets, end of year	<u>\$3,771,665</u>	<u>\$2,418,335</u>

COMPOSITION OF NET ASSETS

	September 30	
	<u>1968</u>	<u>1967</u>
Cash	\$ 242,094	\$ 212,595
Investment securities, principally United States Treasury obligations at cost (approximate market value \$3,540,000 and \$2,237,000, respectively)	3,545,169	2,274,345
Special investment account (marketable securities at cost, cash and accrued interest)	84,445	42,080
Other assets	75,320	44,640
Accounts payable, accrued and withheld taxes	(173,986)	(149,664)
Assessments collected in advance	(1,377)	(5,661)
	<u>\$3,771,665</u>	<u>\$2,418,335</u>

To the Board of Governors of the National Association of Securities Dealers, Inc.

In our opinion, the accompanying financial statements present fairly the income and expenses of the National Association of Securities Dealers, Inc. for the year ended September 30, 1968 and the composition of its net assets at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1707 L Street, N.W.
Washington, D. C. 20036
December 16, 1968

PRICE WATERHOUSE & CO.

**TO SERVE
UNTIL
JANUARY 1969**



Richard B. Walbert
President and
member of the Board



Phil E. Pearce
G. H. Crawford Co., Inc.
Columbia, South Carolina
Chairman 1968



Charles E. Crary
E. F. Hutton & Company,
Incorporated
Tucson, Arizona
Vice Chairman 1968



Arthur Stansel
Courts & Co.
Birmingham, Alabama
Vice Chairman 1968



Ralph E. Phillips, Jr.
Dean Witter & Co.
Los Angeles, California
Chairman, Finance
Committee 1968



Herbert R. Anderson
Distributors Group
Incorporated
New York, New York



Robert V. H. Harned
Warren W. York & Co.
Incorporated
Allentown, Pennsylvania

Officers and Board of Governors

1969-1970



J. Raymond Smith*
Weedon & Co.
New York, New York

* Elected to serve unexpired
term of Joseph D. Krasowich

**TO SERVE
UNTIL
JANUARY 1970**



Kenneth H. Sayre
Irving Lundborg & Co.
San Francisco, California
Chairman 1969



W. Scott Cluett
Drexel Harriman Ripley,
Incorporated
New York, New York
Vice Chairman 1969



R. S. Abernethy, Jr.
Interstate Securities
Corporation
Charlotte, North Carolina
Vice Chairman 1969



C. Rader McCulley
First Southwest Company
Dallas, Texas
Chairman, Finance
Committee 1969



Edward J. Costigan
Edward D. Jones & Co.
St. Louis, Missouri



Grant A. Feldman
Piper, Jaffray &
Hopwood
Minneapolis, Minnesota



A. Paul Ogilvie
Hornblower & Weeks—
Hemphill, Noyes
Chicago, Illinois

**TO SERVE
UNTIL
JANUARY 1971**



John M. Bleakie
W. E. Hutton & Co.
Boston, Massachusetts



J. Howard Carlson
Loeb, Rhoades & Co.
New York, New York



Robert L. Cody**
American Funds
Distributors, Inc.
Los Angeles, California



Watson B. Dabney
J. J. B. Hilliard, W. L.
Lyons & Co.
Louisville, Kentucky



Phillip Hettleman
Hettleman & Co.
New York, New York



Preston E. Macy
Murphey Favre, Inc.
Spokane, Washington



Francis S. McComb
Wagenseller & Durst, Inc.
Los Angeles, California



Gordon L. Teach
Shearson, Hammill &
Co., Incorporated
Chicago, Illinois

**TO SERVE
UNTIL
JANUARY 1972**



Edmund Y. Bennion
Goodbody & Co.
Salt Lake City, Utah



J. Coleman Budd
The Robinson-Humphrey
Company, Inc.
Atlanta, Georgia



Francis J. Cunningham
Kidder, Peabody & Co.,
Incorporated
New York, New York



Arthur Horton
Penington, Colket & Co.
Philadelphia,
Pennsylvania



Louis A. Lanford
Hill, Crawford and
Lanford, Inc.
Little Rock, Arkansas



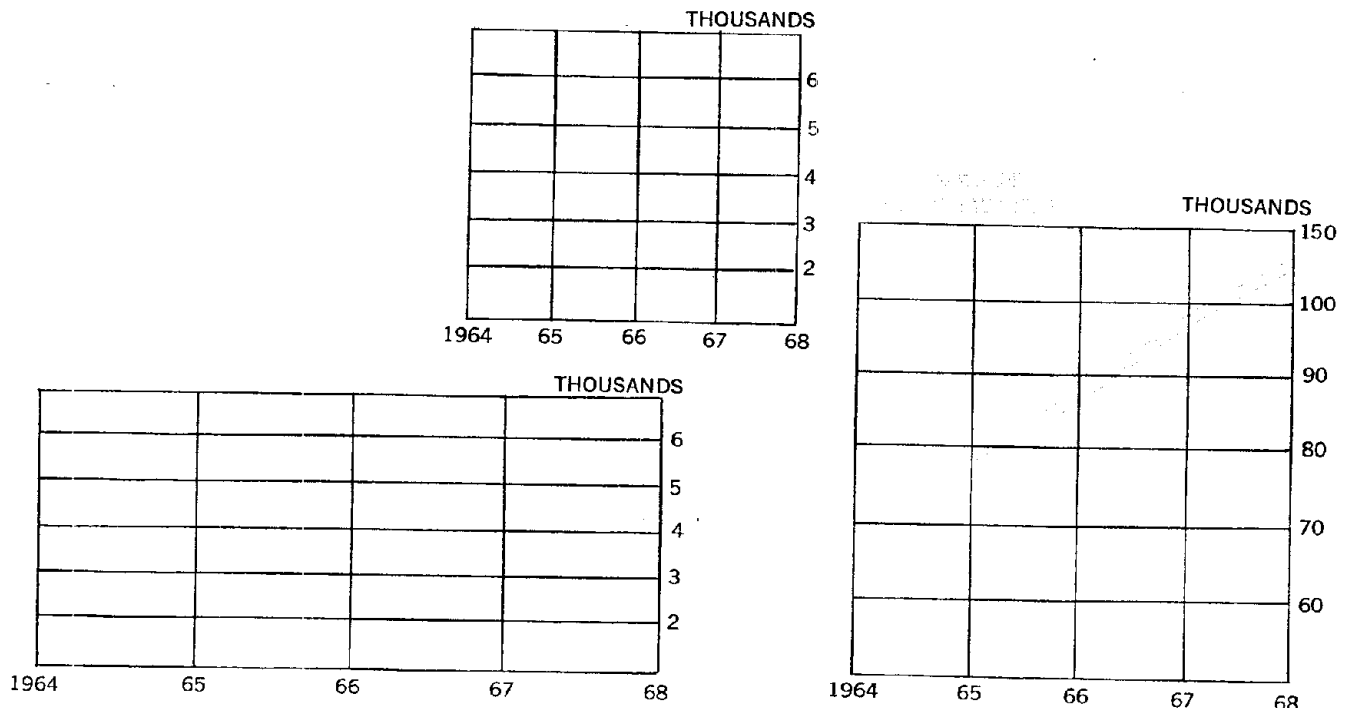
Eugene A. Shurtleff
Blyth & Co., Inc.
San Francisco,
California



J. Raymond Smith***
Weedon & Co.
New York, New York

** Governor-at-Large

*** Elected to a full three year term



MEMBERSHIP STATISTICS—1968

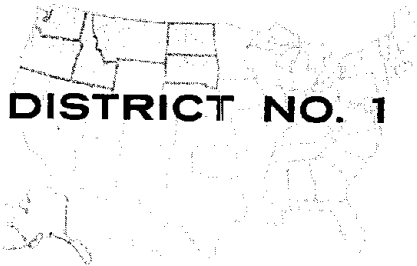
New Members		460
Mergers		3
Terminations		220
Normal Resignations	124	
Death of Sole Proprietor	13	
Retirement or Death of Principal	17	
Absorbed by Another Member	38	
Capital Rule	1	
Not doing OTC Business	3	
Other	2	
For Cause	22	
By SEC	2	
NASD Action	7	
Non-Payment Fines & Costs	1	
Failure to File Assessment Report	9	
Non Payment of Assessment	3	
Total Out		223
Net Gain		237
Membership 12-31-67		3,669
Membership 12-31-68		3,906
Re: Total Out		
Type of Organization		
Corporations	109	
Partnerships	41	
Sole Proprietorships	73	
Length of Membership		
Less One Year	13	
One to Two Years	22	
Two to Three Years	14	
Three to Five Years	23	
Five to Ten Years	54	
Over Ten Years	97	

EXAMINATIONS ADMINISTERED BY THE NASD FOR THE FIVE YEAR PERIOD BEGINNING

January 1, 1964 and ending December 31, 1968

YEARS	QUALIFICATION EXAMS FOR NASD	EXAMS ADMINISTERED FOR OTHER INSTITUTIONS	TOTAL
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
1968	58,561	31,342	99,903

DISTRICT COMMITTEES



DISTRICT NO. 1

**ALASKA
IDAHO
MONTANA
NORTH DAKOTA
OREGON
SOUTH DAKOTA
WASHINGTON**



E. Richard Larson,
Chairman
Richards, Merrill &
Peterson, Inc.
Spokane, Washington

Donald C. Douglas,
Vice Chairman
Donald C. Douglas & Co.
Seattle, Washington

Burton Gottstein
Blythe & Co., Inc.
Seattle, Washington

H. James Morford
Highbanks Incorporated
Seattle, Washington

Vergil R. Cole
Daugherty, Cole, Inc.
Portland, Oregon

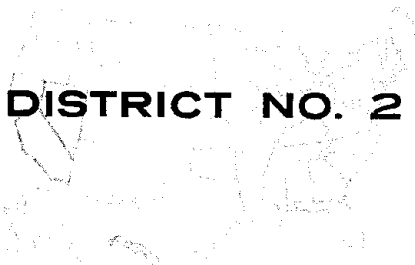
John J. Inskip, Jr.
Rippey, Inskip,
Hess & McFaul, Inc.
Portland, Oregon

William C. Roberts
Kidder, Peabody & Co.,
Incorporated
Spokane, Washington

James E. Snow
Piper, Jaffray & Hopwood
Great Falls, Montana

Theodore F. Schmidt,
Secretary
White-Henry-Stuart Building
Seattle, Washington

• 125 MEMBERS • 296 BRANCH OFFICES • 4628 REGISTERED REPRESENTATIVES



DISTRICT NO. 2

**CALIFORNIA
NEVADA
HAWAII**



B. P. Lester, Jr.
Chairman
Lester, Ryons & Co.
Los Angeles, California

Charles Podorean
Walston & Co., Inc.
Honolulu, Hawaii

Norman T. Rothschild
First California Company
Incorporated
Los Angeles, California

Harry W. Colmery, Jr.
Glore Forgan,
Wm. R. Statts Inc.
Los Angeles, California

Harvey J. Franklin
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
San Francisco, California

Robert P. Mann
Davis, Skaggs & Co.
San Francisco, California

Ralph E. Rollins, Jr.
E. F. Hutton & Company,
Inc.
Los Angeles, California

Jackson Cherry
Shearson, Hammill & Co.,
Inc.
Los Angeles, California

Donald W. Crowell
Crowell, Weedon & Co.
Los Angeles, California

Joseph F. Edelstein
Edelstein, Campbell & Co.
San Francisco, California

William C. Richardson
Birr, Wilson & Co., Inc.
San Francisco, California

William J. Radding, Jr.,
Secretary
Russ Building
San Francisco, California

James H. Resh,
Secretary
606 Olive Street
Los Angeles, California



Gerard J. Ehler,
Co-Chairman
Shuman, Agnew & Co.
San Francisco, California

• 443 MEMBERS • 1014 BRANCH OFFICES • 19847 REGISTERED REPRESENTATIVES

DISTRICT NO. 3

**ARIZONA
COLORADO
NEW MEXICO
UTAH
WYOMING**



Edmund Y. Bennion,
Chairman
Goodbody & Co.
Salt Lake City, Utah

Cletus E. Byrne, Jr.,
Vice Chairman
Dempsey-Tegeler & Co.,
Inc.
Denver, Colorado

Stanley L. Gromek
Quinn & Co.
Albuquerque, New Mexico

Ronald H. MacDonald III
Founders Mutual Depositor
Corp.
Denver, Colorado

Calvin P. Gaddis
Dean Witter & Co.
Salt Lake City, Utah

James P. Fellows
Boettcher and Company
Denver, Colorado

Randolph E. Soranson
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Phoenix, Arizona

Allen Runyan
Arco Securities
Cheyenne, Wyoming

Philip M. Young
Young, Smith &
Peacock, Inc.
Phoenix, Arizona

Kenneth W. Cole,
Secretary
Boston Building
Denver, Colorado

• 127 MEMBERS • 261 BRANCH OFFICES • 4660 REGISTERED REPRESENTATIVES

DISTRICT NO. 4

**KANSAS
MISSOURI
NEBRASKA
OKLAHOMA**



Peter C. Barnes,
Chairman
H. O. Peet & Co.
Kansas City, Missouri

John J. Bohrer,
Vice-Chairman
J. Cliff Rahel and Co., Inc.
Omaha, Nebraska

Julian M. White, Jr.
White & Co., Inc.
St. Louis, Missouri

Arthur A. Hassenflu, Jr.
Hassenflu-Morgan &
Company
Kansas City, Missouri

Harold I. Josey
Stifel, Nicolaus &
Company, Inc.
Oklahoma City, Oklahoma

Harry W. Newhard
Newhard, Cook, & Co.
St. Louis, Missouri

Roger E. Birk
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Kansas City, Missouri

John D. Cleland
Security Distributors, Inc.
Topeka, Kansas

Elvin K. Popper
I. M. Simon & Co.
St. Louis, Missouri

Richard M. Coster,
Secretary
911 Main Street
Kansas City, Missouri

• 148 MEMBERS • 327 BRANCH OFFICES • 6579 REGISTERED REPRESENTATIVES

DISTRICT NO. 5

**ALABAMA
ARKANSAS
LOUISIANA
MISSISSIPPI
WESTERN TENNESSEE**



Robert P. Howard,
Chairman
Howard, Weil, Labouisse,
Friedrichs and Co.
New Orleans, Louisiana

Frank B. Frazer,
Vice-Chairman
Shropshire, Frazer &
Company
Mobile, Alabama

George H. Davis
Dabbs Sullivan, Trulock
& Co., Inc.
Little Rock, Arkansas

Edward S. Lewis, III
Lewis and Company
Jackson, Mississippi

William J. Chase
M. A. Saunders &
Company, Inc.
Memphis, Tennessee

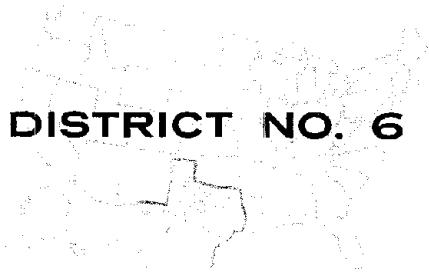
Herman S. Kohlmeyer, Jr.
Kohlmeyer & Co.
New Orleans, Louisiana

Tunstall B. Perry, III
Berney Perry &
Company, Inc.
Birmingham, Alabama

Edward J. Newton,
Secretary
Richards Building
New Orleans, Louisiana

• 125 MEMBERS • 219 BRANCH OFFICES • 2267 REGISTERED REPRESENTATIVES

DISTRICT NO. 6



TEXAS



C. Robert Sledge,
Chairman
First Southwest Company
Dallas, Texas

Gaston A. Shumate, III
Shumate & Company, Inc.
Dallas, Texas

Jonathan C. Calvert
Rotan, Mosle-Dallas
Union, Inc.
San Antonio, Texas

James S. Carroll
Rauscher Pierce
Securities Corp.
Dallas, Texas

Roger C. Stotler
Rowles, Winston & Co., Inc.
Houston, Texas

Harry E. Newman
Dittmar & Company, Inc.
San Antonio, Texas

Harry C. Webb, Jr.
Goodbody & Co.
Houston, Texas

William M. Mahany,
Secretary
Metropolitan Federal
Savings Building
Dallas, Texas

• 154 MEMBERS • 310 BRANCH OFFICES • 5256 REGISTERED REPRESENTATIVES

DISTRICT NO. 7



**FLORIDA
GEORGIA
SOUTH CAROLINA
EASTERN TENNESSEE
PUERTO RICO
CANAL ZONE
VIRGIN ISLANDS**



William M. Courtney,
Chairman
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Jacksonville, Florida

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Vice-Chairman
Frost, Johnson, Read
& Smith, Inc.
Charleston, South Carolina

John E. McClelland
Bache & Co., Incorporated
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Courtenay Q. Nelson
Investment Securities
Corporation
Chattanooga, Tennessee

Milton F. Eisenberg
Milton F. Eisenberg and
Company, Inc.
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First National Bank
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Fenner & Smith, Inc.
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City Securities Corporation
Indianapolis, Indiana

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Blunt Ellis & Simmons
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Walston & Co., Inc.
Milwaukee, Wisconsin

R. Marshall Barnes
Howe, Barnes &
Johnson, Inc.
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Buys, MacGregor and
Company
Grand Rapids, Michigan

Alfred B. Moran
Waifang, Lerchen & Co.
Detroit, Michigan

George C. Bermingham
Boettcher and Company
Chicago, Illinois

Robert G. Dickinson
R. G. Dickinson & Co.
Des Moines, Iowa

Francis C. Farwell
William Blair & Company
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Woodard-Elwood & Co.
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Connecticut Mutual Life
Building
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Murch & Co. Inc.
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Alden & Co. Incorporated
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W. D. Gradison &
Company
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Theodore Floridis
W. E. Hutton & Co.
Dayton, Ohio

John M. Grayell
Saunders, Stiver & Co.
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Company, Inc.
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Benjamin D. Bartlett &
Company
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Wheat & Co. Inc.
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Merrill Lynch, Pierce,
Fenner & Smith, Inc.
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Robert Garrett & Sons, Inc.
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Plans, Inc.
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DISTRICT NO. 11

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Baker, Weeks & Co.
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Hopper, Soliday, Brooke,
Sheridan, Inc.
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Robert G. Deakins
Reed, Lear and Company
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Moore, Leonard & Lynch,
Inc.

Pittsburgh, Pennsylvania
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New York, New York

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DISTRICT NO. 13

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225 Franklin Street
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