

E. Eideberg

MEMORANDUM

June 13, 1968

To: Mr. Arthur Goldman
Mr. David Bliss
Mrs. Roberta Karmel ✓
Mr. William Moran
Mr. Robert Berson
Mr. Donald Malawsky
Mr. Mortimer Garber
Mr. Howard Bernstein

From: Mahlon M. Frankhauser

The attached memorandum may be useful in your enforcement cases in exchange member firms as to whether they did the enumerated things.

Attachment

AMERICAN STOCK EXCHANGE
Membership Services Division

MEMORANDUM

June 3, 1968

To: Members and Member Organizations
Subject: Member Firm Efforts to Control Speculation

In January, the Board of Governors of the Exchange issued a directive to member organizations in an effort to help them discourage unwarranted, uninformed speculation. The directive asked member organizations to

- review recent transactions for unusual concentration,
- consider the adequacy of their sales policies,
- review sales procedures with their registered representatives with a view to dissuading unwarranted speculation and cautioning customers of the risks involved, and
- review the use of purely technical or market factors as the sole basis for recommendations to customers.

In an effort to maximize the effect and benefits of the survey, the Exchange is summarizing below the key responses received with the view that all member organizations will be interested in studying the ideas and measures being used to guide customers and protect them against uninformed and unwise participation in the market.

(Over)

The increasing activity in the securities markets makes this summary particularly appropriate and helpful at this time. In forwarding this material, the Exchange urges each member organization to review its surveillance and compliance procedures and to adapt to its own use any of the steps listed below which it is not using and which may appear useful and feasible.

Methods and procedures employed by member firms to counter unwarranted speculation may be generally summarized as follows:

Transaction Reviews

Member firms are taking a number of steps to review transactions in order to detect unusual concentration in low-priced or volatile issues and to determine the reasons for concentration, including:

- . A daily review of the blotter to detect unusual activity.
- . Daily and periodic review of transactions, by security and by branch office, for signs of concentration.
- . Daily or periodic review of activity in each customer account, with emphasis on very active accounts and new accounts.
- . A detailed review, in the case of clearing firms, of the weekly and monthly Concentration Summaries provided by the Exchange.
- . Prompt investigation by the responsible partner, sales manager or branch office manager of any and all unusual and unexplained activity and concentration of transactions:

Sales Policies Oriented to Excessive Speculation

Some or all of the following measures are being employed by firms in efforts to help control excessive activity and interest on the part of customers in low-priced or volatile stocks:

- . Imposing more stringent margin requirements on volatile and low-priced issues, supplementing the Exchange's program of special 100% initial margin requirements on selected issues.
- . Limiting or eliminating commission credit to registered representatives on low-priced issues (listed and/or over the counter), some firms, for example, on issues selling under \$2, some on issues below \$3 and others on issues under \$5 per share.
- . Prohibiting solicitation of orders in low-priced or particularly volatile issues; marking of such orders as unsolicited; requiring that customers indicate in writing that such orders are unsolicited; requiring partner approval of solicited orders in low-priced or very volatile issues.
- . Prohibiting solicitation of any orders not reasonably based on proper evaluation of investment merit or not appropriate to the circumstances and objectives of the customer.
- . Requiring partner approval and initialling of all orders in low-priced or highly volatile issues.
- . Refusal of all orders in low-priced issues.

- . Refusal to open new accounts for orders in low-priced issues.
- . Efforts to dissuade customers from speculative or ill-advised transactions and to caution them explicitly of the risks involved.
- . Limiting or prohibiting speculative transactions by firm employees.

Supervision, Instruction and Cautioning of Sales Personnel

In assuring that branch managers and registered representatives are thoroughly and currently conversant with Federal and Exchange rules and regulations and firm policies respecting the handling of customer accounts, and that there is proper compliance, firms are:

- . Conducting training programs, publishing internal sales and operating manuals, holding frequent meetings of sales personnel at the main office, in geographical areas or via telephone conferences.
- . Issuing regular cautionary memoranda to sales personnel with respect to firm sales policy.
- . Insisting on compliance with the "Know Your Customer" rule.
- . Undertaking periodic partner or compliance director inspections of branch offices to determine effectiveness of sales supervision.

Basis for Recommendations to Public Customers

To be sure that recommendations to customers are soundly based and appropriate, firms are following:

- . A policy that registered representatives may solicit orders only in issues recommended by or approved by their research departments.
- . A policy that technical or purely market factors may not serve as the sole basis for recommendations but must be used only to complement fundamental research.

A review of this list of policies and procedures, and effective use of any which may be appropriate, should assist member firms in strengthening their efforts to assure proper handling of customer accounts in the face of heightened speculative interest and possible excesses.

Questions regarding this circular may be directed to the undersigned, telephone 964-3200, extension 201, or to Mr. James E. Bacon, Vice President, Surveillance Division, extension 357.

A handwritten signature in cursive script, appearing to read "J. Bacon". The signature is written in dark ink and is positioned in the lower right quadrant of the page.