SPECIAL REPORT TO NASD MEMBERS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. 888 17TH ST. N.W. WASHINGTON, D. C.

SR2, July, 1968

To: All NASD Members and Branch Offices

A real and present danger in today's securities markets is the increase in the speculative fever which appears to be gripping a large number of individual investors and to some extent institutional investors.

Particularly in view of the industry's critical paperwork backlog caused by current high sales volume in both the listed and unlisted markets, any firm policy or operating procedure which adds to or encourages customer speculation is unwarranted and should be reviewed carefully by management.

During this period of high volume and possible speculative abuses, where operational difficulties do exist, such activities as sales contests, special incentive programs and increases in expenditures for advertising or promotional literature are inappropriate.

Since one of our important functions is that of service, it would be equally foolhardy to increase continually sales forces and sales training activities at the same time that your operations department and its personnel, as well as clearing and transfer facilities, cannot handle present levels of securities transactions.

One area of immediate concern is that of new equity issues which increased fourfold in 1967 over 1966 and this rate has accelerated so far this year. This has been accompanied in many instances with substantial premiums in price. It should be pointed out that historically this kind of a new issue market has resulted in excesses that have eventually led to severe readjustments. Therefore, caution should be exercised so that members do not contribute to these excesses in this area.

Some NASD member firms have voluntarily initiated their own measures to help stem reckless or imprudent speculation and excessive volume. A few of these policies are described below for the information and review of all personnel charged with the administration or management of NASD member firms.

1. Limitations on new issue transactions in the period immediately following the offering.
2. The disallowance of commission payments to salesmen on transactions in low price securities.
3. The requirements that registered representatives determine that clients have securities in their possession and ready for delivery before placing sell orders. In addition, some firms have reserved the right to deny commission payments on transactions where the securities are not delivered by the client in an appropriate length of time.
4. Imposing monetary penalties for corrections that must be made on confirmations or other records which are caused by a registered representative error.
5. Client accounts which habitually require extensions in time for payment or delivery should be reviewed frequently.

It should be emphasized that the anti-speculation measures described in this report were voluntarily adopted by some NASD member firms and may not be appropriate for the operations of all firms. However, we feel that management personnel may find the procedures outlined here useful in deciding what steps should be taken in connection with their own operations.

Sincerely,

Richard B. Walbert

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President