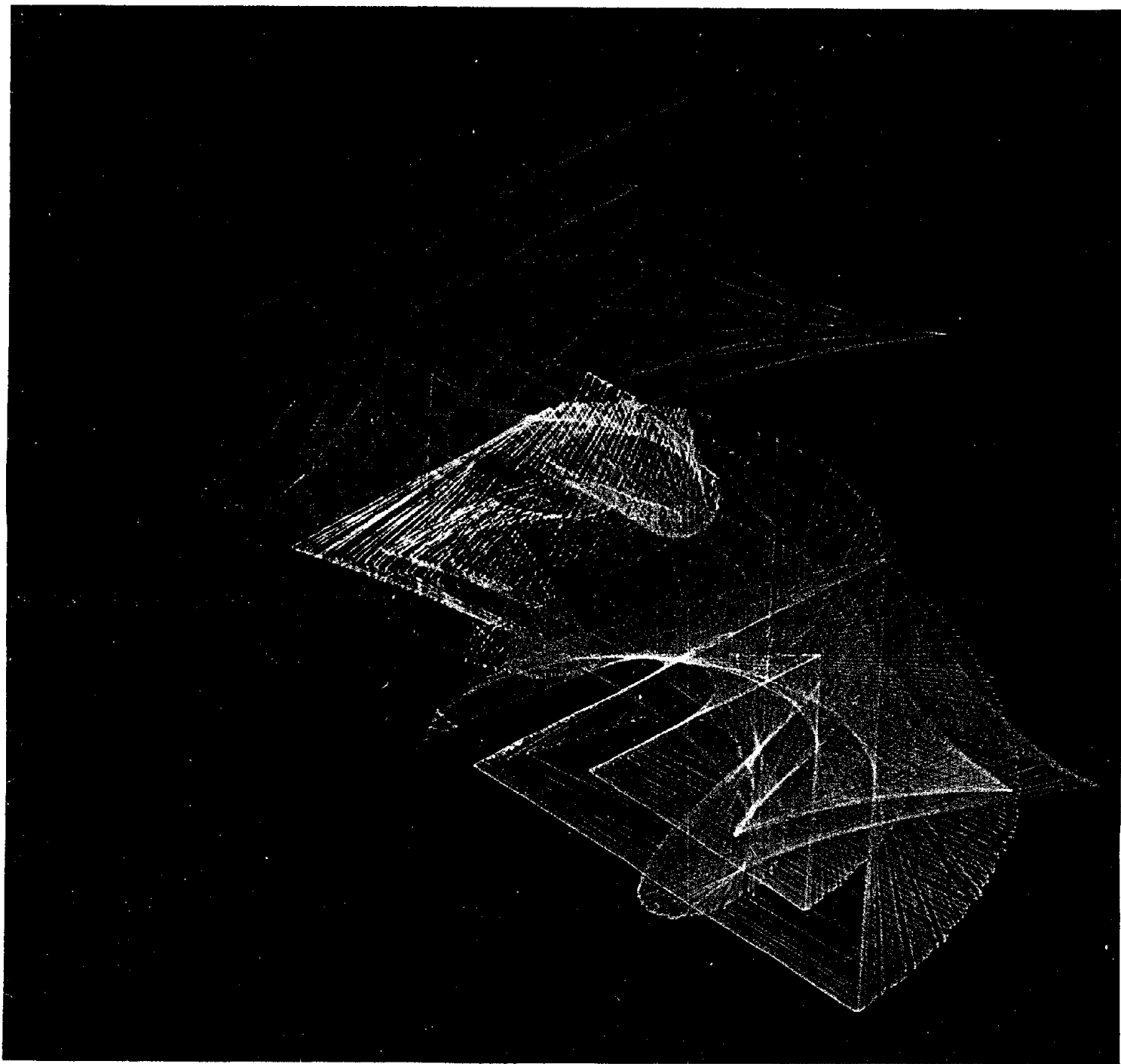


National Association of Securities Dealers, Inc.

1989 Report to Members





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

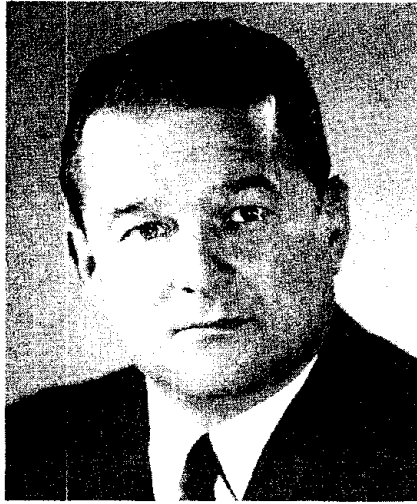
To cooperate with governmental authority in the
solution of problems affecting this
business and investors

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 Report

The year 1969 marked the close of a decade of unprecedented growth for the securities industry. It also heralded the beginning of a turbulent period in which I anticipate we will witness tremendous changes in traditional methods of conducting business.

During the past twelve months, NASD members found themselves caught between escalating costs and declining profits. The government's fiscal tightening was echoed by increased austerity in many brokerage firms. Fortunately, though, bright spots of hope began to show in the last quarter of the year. The decrease in trading volume which accom-

panied the declining market has given the industry and the Association the necessary time to work on operational problems and to formulate plans for the future. The industry must not grow complacent in this area, however. The expectation of increasing volume in all segments of the business in the '70's dictates and demands that we must be prepared to accept even greater challenges in the future.

As 1969 Chairman, I am enthusiastic about the new direction that was put into motion this past year by your Association. In our various committee and staff meetings, the Association recognized the need to move forcefully in two areas: increased *member*

service and long-range planning.

For the past thirty years, the NASD has been primarily a policing force, fulfilling the cherished privilege of self-regulation. With this responsibility, it has played a vital role in promoting ethical conduct and building investor confidence in the securities business. Of course, this paramount responsibility will continue to be the primary motivation for the Association's activities.

However, we have become increasingly aware that regulation is not enough. We intend to expend our energies in the positive direction of member service. The NASDAQ project is an outstanding example of this new determination. This system, started in 1968, financed and built in 1969, will for the first time in 1970 furnish to NASD members an automated quotation system for OTC securities that will rival anything we might conjure in our wildest daydreams.

Paper work and fails problems in the securities industry in 1968 and 1969 often centered in the over-the-counter securities markets. Late in 1968 plans were made to create a National Clearing Corporation. The past year has seen these plans become a reality. Initial funding of the corporation was authorized by the NASD Board of Governors in January 1970, the president of the new corporation was selected and incorporation accomplished. It is anticipated that the year 1970 will see area centers operational for the National Clearing Corporation to coincide with the start-up of NASDAQ. This clearing project will help handle the tremendous growth in the OTC markets which is expected to be generated by NASDAQ.

These projects, NASDAQ and National Clearing, are Association sponsored member services that are also public services and, just as importantly, will result in better member regulation. We see both our regulatory function and member service activities as compatible and complementary efforts to strengthen the industry.

In the past few years, the winds of change have at times had the force of a hurricane gale. To better anticipate the rapid developments in our industry, the Association carefully analyzed and reorganized

its staff structure in 1969. The new office of Executive Vice President was created and an appointment made with the function of this office being to help administer and coordinate the Association's growing activities. In addition, six vice presidents were appointed to head departments of the Association, and staff members were added where needed to assure meeting Association goals.

At mid-year 1969, the Association added an influential committee—the Long Range Planning Committee—to its roster. We now have a thirty-year history of self-regulation. The Committee will look at the past and seek guidance for the future in the effort to better serve Association members. This Committee's recommendations will serve as a touchstone for future Association endeavors.

As I end this year of service to the Association and the industry, I want to thank the members of the Board of Governors, members of District Committees and the dedicated staff of the Association for their part in making self-regulation in the securities industry work. In particular, I want to thank President Dick Walbert, who is leaving the Association to return to his home in Chicago and a new position within the industry. His contribution to the work of the Association has been great and he will be sorely missed.

Personally, I view the last twelve months as a time when the Association managed to get a secure foothold and place of importance in the next decade through concentrated planning by talented industry leaders. Our membership includes all segments of the securities industry—extending now to insurance and variable annuity members. I see the Association's future as one of *leadership* for the entire securities industry.

Respectfully submitted,



Kenneth H. Sayre
1969 Chairman



THE PRESIDENT'S REPORT

Self-Regulation

The cooperative regulatory mechanism in the securities industry, of which the NASD is a critical, central component for the OTC sector, has been severely strained during the past year by both the pressure of a declining market and the persistent awareness that serious operational problems still exist and could again materialize on a broad basis if sharp increases in volume reoccur.

As the securities industry prepares to enter the uncharted 1970's, it would be beneficial for each of us to pause and reflect for an instant on why we have been able to build the most powerful and respected equity marketplace in the world. Regulation, most assuredly, has been a major contributor to a powerful securities market. Not a regulation that inhibits or stifles initiative, but a cooperative, multi-faceted regulatory system that utilizes Congress, the SEC, the industry, the exchanges and the NASD. We are privileged to have a regulatory system that encourages and rewards business creativity, bolsters investors' confidence and is relevant to the times and situations in which we find ourselves. As 1969 Chairman Sayre so aptly stated in his report, the NASD can expect to assume a leading position in the regulatory process in the future simply because the Association embraces all types of firms and products in its growing membership.

In 1969 the membership itself increased for the second consecutive year. By the year end, the Association had 4,348 member firms—a jump of 442 since the end of 1968.

There were 2,123 new branch offices registered with the Association in 1969, the largest number of branch openings in the Association's history. This surpassed the 1,326 branch offices that were opened in 1968. The total number of branch offices registered with the Association by December 31, 1969, was 7,244.

In two short years, the NASD has added 75,000 registered representatives to its ranks—40,794 in 1969 alone. The total on December 31, 1969, stood at 173,499. This upward spiral is indicative of the industry's growth in spite of the market's general downtrend during the year.

Examinations of Member Firms

The examination of books and records of member firms is the heart of the Association's self-regulatory activities. In 1969 the Association conducted 2,903 examinations including 1,975 examinations of main offices. Again in 1969 the Association matched last year's record by examining 45 percent of its total membership. To keep pace with the expanded membership, the Association increased its examiner force by 30 percent and added five people to the executive staff of the Regulation Department.

The number of formal complaints stemming from these examinations totaled 264, nearly a 100 percent increase over 1968. One hundred forty-two of these complaints were closed during the year, including cases carried over from previous years, and two hundred seventy are still pending. The number of summary complaints—the procedure used in minor, technical infractions—decreased to 36 this year as compared to 53 which were filed in 1968.

The District Committees or the Board of Governors during 1969 expelled seven firms and revoked the registration of nineteen registered representatives. Also, fourteen firms and twenty-one registered representatives were suspended

for varying lengths of time during the past year. One hundred fifteen firms and forty-three registered representatives were penalized by fines during the year in amounts ranging from \$100 to \$35,000. One hundred eighteen member firms and thirty-nine individuals were censured during the year for violations of the Association's Rules of Fair Practice. Disciplinary actions against nine firms and thirteen registered representatives were dismissed during the year after review by the Board of Governors. Total fines and costs collected during the year 1969 totaled \$296,000.

During 1969 the Securities and Exchange Commission rendered decisions on six business conduct cases that had been previously appealed. In five of the cases, the SEC upheld the Association's findings and penalties and in one case it upheld the Association's findings but modified the penalties. Only three of the Association's decisions in 1969 were appealed to the Securities and Exchange Commission.

Qualification Examinations

The Association relies heavily upon the Qualification Examination Program in order to meet its responsibility of determining the competency of new registrants—both principals and registered representatives.

In 1969 the NASD administered more than 102,000 qualification examinations. Over 35,000 of these exams were administered for other agencies such as the New York, American and Pacific Coast Stock Exchanges, the Chicago Board of Trade, many state securities departments and the SEC. Approximately 67,000 tests were administered for the NASD's own qualification program, and with the continued influx of registered representatives there were 640 special examination sessions held during the year in addition to an increased number of regular sessions totaling 2,340.

In addition to the expanded testing schedule in 1969, the Association also put into effect a more stringent examination for registered representatives during the year. In an industry that grows more complex and sophisticated every year, the Association continually reviews its examination program to insure that high standards for the entry of broker/dealers and their registrants are maintained at all times. While covering essentially the same material as the previous examination, the upgraded examination was designed to better measure the preparedness of applicants and to disqualify those whose knowledge of the securities business is inadequate.

Underwriting—Corporate Financing

From the standpoint of investors, one of the most important regulatory activities undertaken by the Association is the review of new offerings to determine whether the overall arrangements entered into by member firms are fair and reasonable to the issuer and the public. This function is particularly relevant in light of the increasingly speculative nature of many new issues coming to the marketplace. This review is accomplished through the Committee on Corporate Financing which is composed of individuals who are experienced in the field of corporate financing and in the distribution of issues of securities.

The objectives of the Committee are to review both inter-state and intra-state public offerings to determine the reasonableness of the underwriting arrangements and compensation. For the calendar year of 1969, 3,908 issues

were submitted for review in comparison to 2,086 for 1968 and 1,104 for 1967. Of the issues submitted for review, 1,193 were sent back to the managing underwriters with unfavorable comments of one form or another as to the fairness of the arrangements. In all but a few of these cases, the underwriters made modifications in order to comply with the Association's guideline of what is fair and reasonable. In those instances where an underwriter fails to make necessary modifications, the firm could then be subject to disciplinary action by the Association.

In September, 1969, the Committee, which was formerly known as the Committee on Underwriting Arrangements, was renamed the Committee on Corporate Financing to reflect expanded duties which have been described in new guidelines to members. Part of this new expansion is to require the filing of (1) all issues offered directly by a company and which are open to NASD member participation and (2) issues which are company offered in which members are receiving some form of monetary value and which are facilitated in some way by a member firm. Also, under the Committee's authority, two special study groups have been formed to examine underwriting arrangements and distribution of real estate and mortgage investment trusts and oil and gas programs to determine if there are abuses in this area and to hopefully formulate guidelines for use by members.

A major project for the Committee, aside from handling the tremendous volume in 1969, was the compilation of new guidelines for use by members in preparation of public offerings. These guidelines, which are primarily a composition of the experience gained by the Committee in its past reviews, are designed to give more direction to members as to what the Committee may determine fair and reasonable underwriting arrangements. In addition to an expansion of filing requirements, the guidelines also require more detailed information, mainly emphasizing transactions prior to the filing of a registration statement and the request for additional documents such as consulting agreements, underwriting agreements and other pertinent facts.

The guidelines also increase the responsibility for fair underwriting arrangements to all members who are to be involved in any way in the preparation or distribution of a securities issue. Each managing underwriter now has the obligation to advise the members of the underwriting syndicate and selling group prior to the offering if the Association has determined that the arrangements are unfair and unreasonable and if satisfactory modifications have not been made. In such a case, it is the obligation of the member firm not to participate in such a distribution until the underwriting arrangements do comply with the Association's standards.

One of the most important points of the guidelines refers to limitations on the amount of stock which can be acquired by the underwriter and related persons in connection with a particular underwriting. The amount of securities which can be acquired by these individuals in relation to an offering must not be more than 10 percent of the number of shares being offered.

The guidelines also reaffirm a policy of the Board of Governors which prohibits a member from underwriting its own securities, directly or indirectly through a parent or subsidiary, or to participate in any way in the distribution of those securities. In turn, a parent or subsidiary of a broker/dealer member is banned from underwriting a public issue of its own or of the member's securities and the member from underwriting a public issue of a parent's or

subsidiary's securities.

In connection with member investment practices, the Association's Board of Governors recently issued a Statement of Policy regarding venture capital and other investments by broker/dealers prior to public offerings. This policy was formulated as a protection to the investor and to assure that a broker/dealer's investment in a company before a public offering is a genuine and true investment. As a result, the Board determined that there should be a suitable length of time that such securities should be held before being offered to investors and that members should take the holding period into account when considering such investments.

The provisions of the policy which follow are interim in nature. The Association will be studying this subject and the results of the policy on a continuous basis. The policy states that:

- 1) All members making such investments and receiving securities in return therefore shall hold such securities for a period of eighteen (18) months from the date of purchase. In the event of an intervening transaction, such as a public offering or some other material transaction, the "Interpretation With Respect to the Review of Corporate Financing" shall prevail.
- 2) If a member, upon termination of the above holding period, elects to sell in a public offering less than all of the securities so acquired, the balance thereof shall be held for an additional period of three (3) months beyond the effective date of the offering.
- 3) A member selling such securities in a public offering cannot act as an underwriter or participate in any way in the stream of distribution of that issue.

A shorter period than the stated holding periods referred to in items 1) and 2) above may be permitted but only upon a proper showing of good cause by the member advocating such.

This policy will be implemented by the Committee on Corporate Financing and will be used to supplement the new Underwriting Guidelines. The policy is expected to provide more guidance to members in the area of public offerings and should benefit both NASD members and the public.

In a related area, the Association is in the process of strengthening and clarifying its Free-Riding and Withholding Interpretation for underwriters and others participating in a public offering of securities. The basic philosophy underlying the NASD Interpretation is that members have an obligation to make a bona fide distribution of any public offering.

The Interpretation is intended to serve as a guideline for the proper distribution of "hot issues". The Interpretation was released to the NASD membership in the spring of 1970.

In 1969, 276 issues were examined by the Association for possible free-riding violations. Complaints filed by the Association that culminated in disciplinary actions totalled 81. As a result of these violations, four NASD members were suspended during the year.

Arbitration

The arbitration program, although still in its formative stages, has already demonstrated the need for a forum of this type where parties in both the

professional and public arena may submit their disputes and have matters speedily resolved with a minimum of expenditure and without the hazards of protractive litigation. Heretofore, the Association lacked a forum which provided the remedy aspects inherent in arbitration and, thus, denied to all an avenue for the arm's length discussion and negotiation of disputes under circumstances whereby neither side is placed in the position of diluting its bargaining stance or in obtaining the prompt disposition of a matter.

The administration of the program has indicated the need for adopting a procedure which would require the submission of present and future disputes involving securities transactions among members to arbitration. To this end, a review and study has been undertaken of the states which have adopted so-called "modern arbitration acts", the Uniform Arbitration Act, as well as the United States Arbitration Act.

Regional presentation programs have been conducted throughout the country and panels of arbitrators have been enrolled in most key geographic areas. The enrollment of arbitrators has met with marked success and particular note and comment has been made to the Association by participants in arbitration hearings complimenting the quality and general excellence of the arbitrators who have served in the conduct of such hearings.

Investment Companies and Advertising

The influx of insurance companies into the mutual fund field has accelerated the work load of the NASD's Investment Companies Department which reviews mutual fund sales literature and advertising to ascertain that this literature falls within the purview of the SEC's Statement of Policy which sets standards for these promotional pieces. As a continuing service to members and investors alike, the Association monitors this literature to determine if it contains any misleading or inaccurate information that would be deceptive to investors.

Under this continuing service, the Association reviewed approximately 13,000 pieces of investment company literature in 1969, an increase of about 1,500 over last year's volume.

The department also reviews general broker/dealer advertising in the light of the Association's General Advertising Guidelines. Approximately 1,800 pieces of general advertising were reviewed for members in 1969.

Last year also saw the formation of a special sub-committee which is now studying uniform practice measures with a view toward standardizing the handling of transactions in mutual funds and which hopefully will minimize the attendant paper work.

Stemming from the Association's concern regarding the "switching" or "churning" of mutual funds shares by securities salesmen to obtain additional commissions, the Board of Governors issued a notice to NASD members advising them of possible ways to increase supervision of mutual fund transactions to negate this problem.

In June of 1969, the department sent a notice to members, again warning them not to use mutual fund performance publications that do not conform to the SEC's Statement of Policy to promote the sale of mutual fund shares to the public. These publications generally specialize in reporting and analyzing mutual fund performance over a short period of time. Use of such material by members or registered representatives is a violation of NASD Rules.

The Investment Companies Department is working closely with the newly formed Variable Annuities Department on areas of special interest to the mutual fund and variable contracts segment of the industry.

Insurance Companies and Variable Annuities

Although insurance companies entering the securities business in 1969 did not match last year's record pace, over 60 major insurance companies joined the NASD this year bringing the total insurance affiliated members to 160. By the end of 1969, the insurance companies had registered approximately 46,000 representatives with 26,000 of them becoming registered in 1969.

In recognition of the growing importance of variable annuities and other equity products, the Association expanded its Board of Governors to include a Governor-at-Large to specifically represent the insurance industry. Peter R. Wilde, vice president of C G Equity Sales, was elected by the Board to fill this important new Governorship.

In May the Association also created a new staff position—Director, Variable Contracts—and filled it with an 18-year veteran of the life insurance and variable annuity business, who will guide and coordinate the Association's variable contract activities.

During the year, the name of the Variable Annuities Committee was changed to the Variable Contracts Committee. This recognized the fact that new equity-based life insurance products are being developed. For example, although possibly two years away, the sale of variable life insurance is under active consideration by several major life insurance companies. The Variable Contracts Committee is now a permanent standing Committee of the Association and nine of the eleven members are from life insurance companies writing variable annuities. New Section 29 of the Rules of Fair Practice which will regulate the sales of variable contracts of insurance company members has received considerable attention during the year from the industry, the staff of the SEC and the NASD.

At their December, 1969, meeting, the National Association of Insurance Commissioners passed a resolution which provided that they would no longer prepare questions for Part I of the variable annuities agents licensing examination for individual states. This part of the examination covers general securities. This move was recommended because the NASD examination is readily available and is being used by most applicants. This means that, in the near future, the facilities of the Association will be used by all affiliated persons of insurance companies who are being examined for their knowledge of the general securities business.

Operational Problems

In 1968, an unprecedented volume of trading caused unprecedented problems in handling transactions by the operational staffs of member firms. The result was an increase in late deliveries, lost stock certificates, and late receipt of certificates.

As these problems increased in dimension, an ongoing emergency program was initiated by the NASD to quell the number of "fails to receive" and "fails to deliver" experienced by brokerage firms and their customers.

A sample group of 81 members with the largest number of "fails" has been tracked by the Association since January 31, 1968, to ascertain the effect of

corrective measures on this problem. In this sample group, by December, 1969, fails to deliver had dropped 60 percent from December of 1968. This is an encouraging figure, although it also demonstrates that the problem has not yet been totally solved.

Admittedly, some of the drop can be attributed to a lessening of trading volume. However, efforts of the Association and its members are also contributing importantly to closing the gap.

The NASD program has included such measures as shortening trading hours to stem the volume of transactions; scheduling advisory meetings with executive personnel in firms besieged by paper work; monitoring individual members' fails trends; establishing emergency rules which have subjected members to disciplinary actions and trading restrictions if their "fails" status is excessive; as well as special inspections of member books and records.

The strongest of these weapons in returning to nearly normal back office conditions was the Association's enactment of emergency rules to alleviate the paper work problem.

In 1968, a series of regulations was passed to close brokerage firms for securities transactions on specified Wednesdays and also to close all NASD firms for transactions after 3:30 p.m. on other business days of the week. These closings were in effect from early summer to the end of the year. During the additional time gained in this manner, brokerage firm personnel made a concerted effort toward reducing the load of paper work.

Early in January, 1969, the Association returned the OTC market to a five-day work week, but shortened trading hours to 10:00-2:00 EST. These hours remained in effect until July when the closing was extended to 2:30. In September, 1969, the closing time was extended an additional half hour. The trading hours were lengthened because of the improvement in the overall paper work situation.

Another rule was passed in 1968 which restricted trading in securities by members with fails to deliver 60 days old or older under certain conditions. In all cases, members with a fail to deliver 120 days old or older were prohibited from trading that security for their accounts and from buying it for customers. In addition, the rule required that monthly reports be filed with the Association on all fails over 120 days in age. September of 1969 saw a tightening of this rule by the Association. Members were prohibited from trading in any security in which they had fails 90 days or older and were required to file a list of all such securities with the NASD. This modification of the rule will be in effect for six months unless conditions warrant its removal.

A related emergency rule was passed in 1969 which stated that members who had fails to deliver or receive that were 120 days old or older and did not clear these transactions within the next 30 days would be held liable for a violation of Association Rules of Fair Practice. In the spring, this rule was tightened further by requiring members to clear 90 day "fails" in 30 days or be held in violation of Association rules.

In 1969 the Association also made use of a temporary rule which allowed for the use of a special form for confirming brokers. The contra-broker was required to respond to this form within a short amount of time with the understanding that no response would be the equivalent of a "don't know" answer and that the transaction could be eliminated from the confirming member's books. The Association also devised a method that the contra-broker could use to show that a transaction had taken place before the rule was

formulated. This regulation was in effect from January 27, 1969, through May 26, 1969.

Under the emergency program from June 1, 1968, through December 31, 1969, 3,110 inspections were made to determine currency of member records, their net capital position and their fails status. Three hundred and ninety-one conferences were held with principals of member firms regarding their back office problems. A total of 134 firms were put under operating restrictions during this period. One hundred and eighty-five complaints were filed for records, capital or fails violations; seven members were expelled and six registered representatives lost their registration; four firms and four registered representatives were suspended; and a total of \$163,850 was levied in fines. Under the emergency rules alone, seven members and one registered representative were censured by the Association; \$46,000 in fines were meted out; and 650 cautionary letters were sent.

A National Clearing Corporation for OTC Securities

The most promising solution for the back office paper work problem is to eliminate or simplify time-consuming steps now necessary in the routine handling of securities transactions. The Association has directed many of its efforts in 1969 toward that goal.

Paramount in importance in the reduction of "fails" is the National Clearing Corporation, which was developed as a subsidiary of the NASD during the year. Now in its infancy, the NCC is expected to become a major force in solving the industry's problems when it becomes fully operational.

This automated system will by-pass the traditional manner in which brokerage firms clear securities transactions. With few exceptions, brokers in the over-the-counter market must now settle their trades for the day directly with many individual firms across the country. This necessitates preparing individual accounting records and delivering certificates to a variety of firms—involved and time consuming activities.

The clearing system, on the other hand, will enable firms to settle all trades through NCC facilities. Under this plan, both sides of a trade—the buyer and the seller—will report the transaction to the NCC, which will then match the trade. A daily trade blotter will be sent to each participating member. All settlements, as shown on daily activity and settlement reports, will be made with the NCC, not with another firm.

Plans for the NCC include establishing three area clearing centers in 1970 using the clearing facilities of the Pacific Coast, Midwest and American Stock Exchanges. They will serve as the first operational centers in a system for reporting, clearing and settling over-the-counter securities transactions on a nationwide scale. Further plans also call for the establishment of a national center to be operated by the NCC. To date, the NASD has authorized \$2 million for this project.

Basically, the system will benefit broker/dealers in the following ways: (1) A daily transaction blotter will be substituted for individual confirmations prepared by brokers; (2) The constant merging and flexible settlement formula used by the system will tend to absorb fails daily rather than isolating them for a later day of reckoning; (3) Each firm will carry one net position for each security and will maintain one clearing account with one net money position,

whether "due to" or "due from"—a feature which will eliminate many subsidiary or detailed clearing accounts and the attendant accounting requirements. (4) At settlement time securities will be received from and delivered in bulk to one location, reducing messenger time and eliminating the preparation of individual broker envelopes; (5) The NCC will assume the responsibility for dividend payment, eliminating check preparation and parallel accounting procedures; (6) The system has been designed to include a transfer service which will monitor securities being transferred at the request of the clearing members, thus cutting down on physical handling of certificates; (7) The NCC will borrow securities from member firms at current market prices to meet the settlement requirements of firms which otherwise might be failing to receive certificates. Borrowing and loaning securities from this central point will minimize broker clerical requirements.

A pilot operation to speed clearing OTC securities transactions between selected East and West Coast brokers has proved highly successful since its beginning in September. Results from this trial program indicate that the NCC, through a continuous net settlement system, may cut down on the number of "fails to deliver or receive" in the industry by as much as 50 percent. The pilot project alone has resulted in a 68 percent reduction of receipts and deliveries for trades processed through the system by participating firms.

In late 1969, a Board of Directors was selected for the NCC. Members of this Board will set policy, operational goals and rules for the Corporation and will ultimately be responsible to the NASD Board of Governors and the SEC.

Members are: Richard B. Walbert, NASD President; David H. Morgan, President of the NCC; James J. Barbi, Partner of W. E. Hutton & Co., New York, New York; Watson B. Dabney, Partner of J. J. B. Hilliard, W. L. Lyons & Co., Louisville, Kentucky; Allan C. Eustis, Jr., Senior Vice President, Spencer Trask & Co., Inc., New York, New York; Robert M. Gardiner, Managing Partner of Reynolds & Co., New York, New York; W. Stewart Storie, Vice President and Treasurer, First Southwest Company, Dallas, Texas.

A set of comprehensive rules for the NCC was formulated in 1969 and circulated to appropriate industry and regulatory groups for comment.

Several changes in the NASD By-Laws are expected to be made to accommodate the NCC. The By-Law changes, which must be approved by the NASD membership, are expected to require that over-the-counter transactions in securities between members must be cleared through the NCC unless the security involved has not been qualified for clearance under the rules of the NCC or one or more of the members involved is not qualified as a clearing member under NCC regulations.

When the NCC becomes operational, the problem of lost and stolen securities will be minimized. The reduction of physical handling and the central control of the settlement operation will reduce opportunity for theft and eliminate much misplacing of certificates. Thus, it will partially solve a problem of great magnitude and concern within the industry.

The leadership the Association has assumed in establishing this national clearing system is designed not only to answer the immediate paper work and fail to deliver problems, but also to better serve the needs of investors in the future as the over-the-counter market continues to expand.

NASDAQ

During 1969, plans for the Association's automated quotations system (NASDAQ) were translated into action.

Under a seven-year contract signed with the Bunker-Ramo Corporation, the Association will implement this new system which will provide instant access to accurate bid and asked quotations on a wide range of over-the-counter securities.

NASDAQ is a culmination of five years of intensive work by the Association to bring the most current pricing information on OTC securities to brokerage firms and investors while still retaining the special characteristics of a negotiated market. The resultant system will be a revolutionary breakthrough in helping to effect securities transactions. For the first time, at the push of a button, highly current information will be disseminated to investors and broker/dealers.

NASDAQ will also enable the Association to provide newspapers with bid and asked prices that are instantaneous and hence will serve as a more reliable guide. Another first that will be made possible by NASDAQ is the publication of an over-the-counter stock index. This index coupled with volume figures and other statistical information gleaned from NASDAQ will provide an overview of trends and operations of the OTC market never before available to the industry or the investing public.

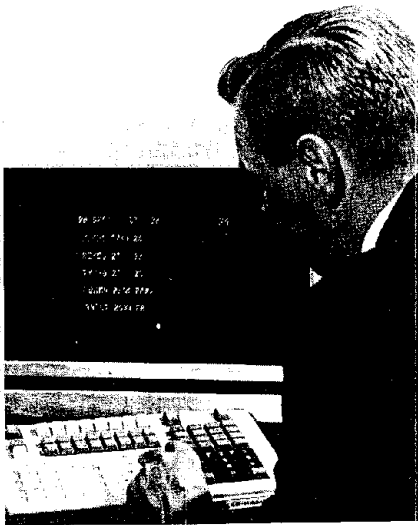
Here's how the system will work: Market makers will enter their bid and asked quotations into the NASDAQ computers which will instantly record each quote on each issue. A retail trader can then query the computer from a terminal located in his firm and, in turn, all of the market makers' bid and asked quotes in the securities the trader specifies will be flashed on the screen of his terminal. He, then, can contact the firm he chooses to arrange a transaction. It is expected that registered representatives and investors will be able to obtain median bid and asked prices on any security listed with NASDAQ through desk top sets offered by Bunker-Ramo, Scantlin Electronics, and Ultronic Systems. The median quotations are instantly recomputed each time a market maker enters new figures into the system.

Basically, the system will consist of three levels: Level I, designed primarily for the public and registered representatives, which allows retrieval of median bid and asked quotations; Level II, which allows retail traders to retrieve current quotes of all market makers and Level III, which permits market makers to enter their quotations into the NASDAQ System, as well as providing the retrieval service designated for Level II.

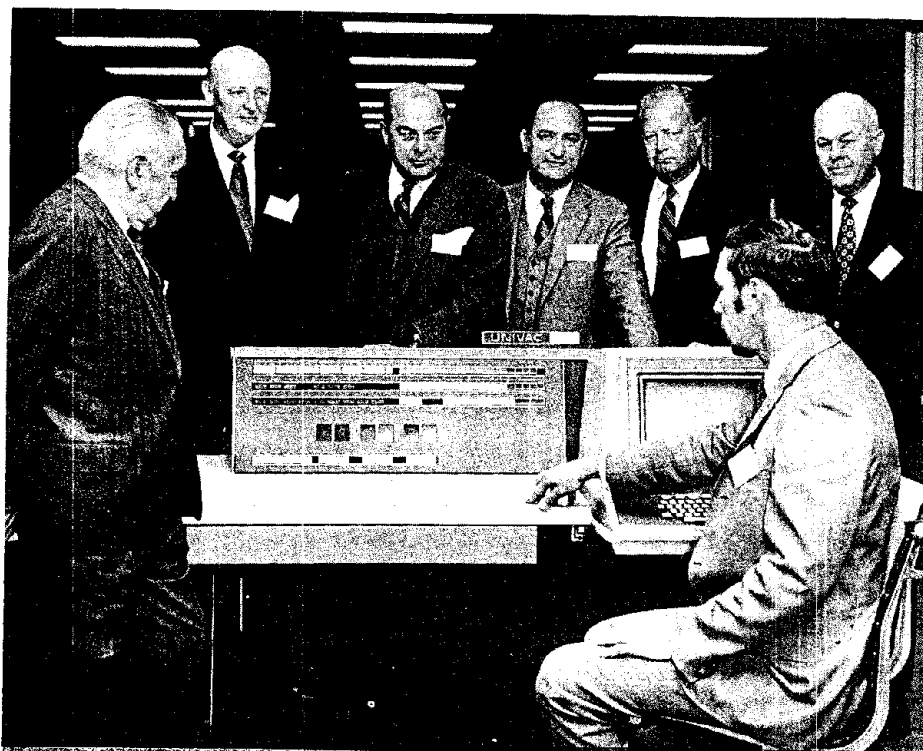
In 1969, the NASD arrived at a detailed price schedule for the system, including a special economic plan for those firms with a low level of usage. The Association is in the process of developing a special plan for those firms with high level usage.

Target date for the initial operation of the system is December, 1970; and implementation of the system is proceeding on schedule. The building in Trumbull, Connecticut, that will house the NASDAQ computers and related equipment was completed in 1969, and most of the equipment has been installed. Programming for the system is underway by Bunker-Ramo, and the NASDAQ schedule calls for the terminal units designed for the input and output of information to be installed in trading rooms starting in the spring of 1970.

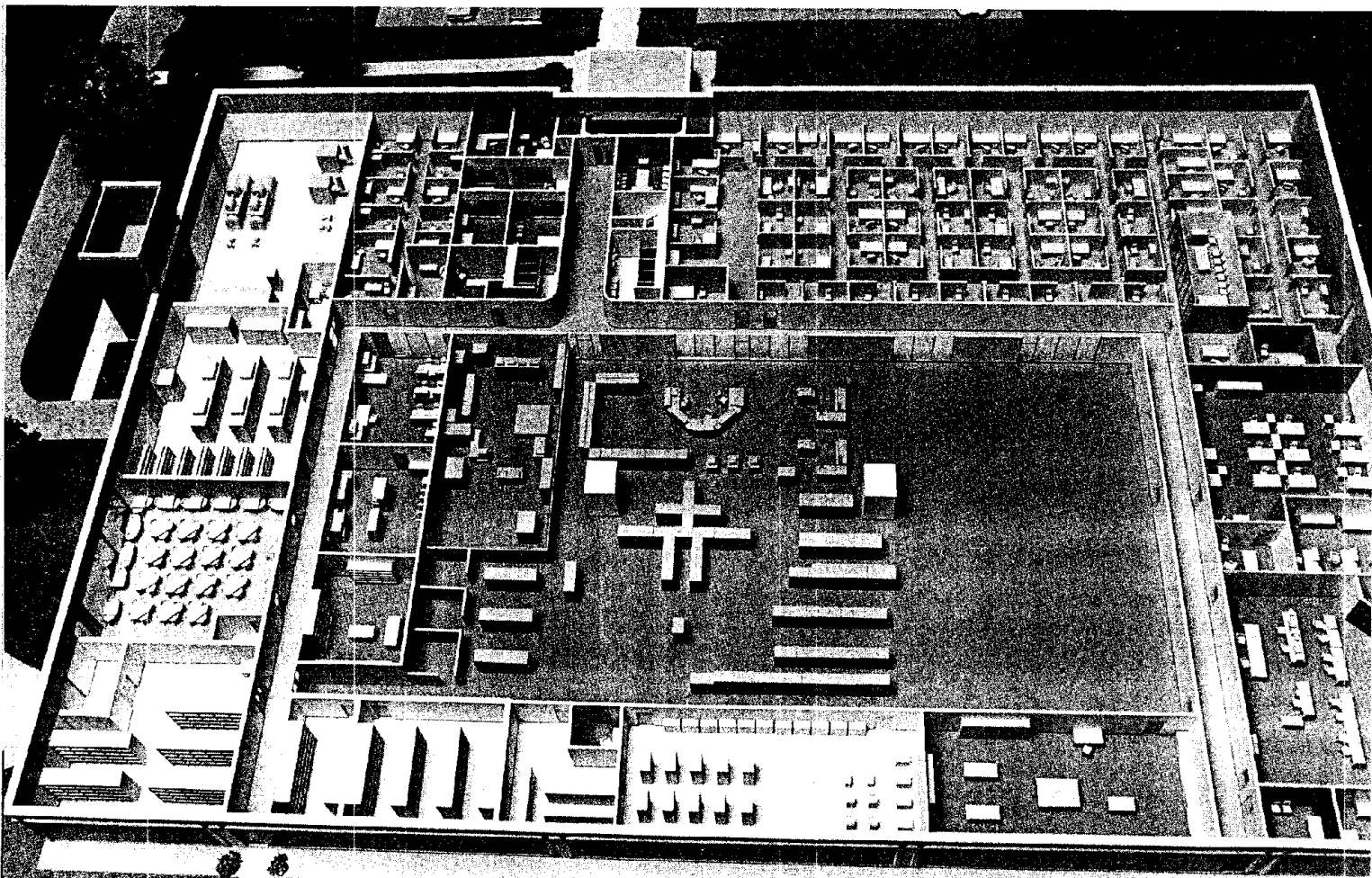
Recognition of the importance that NASDAQ will play in providing instant and accurate quotation information prompted approximately 750 firms to subscribe to the service in 1969—a figure which far surpassed Association



Level III NASDAQ equipment which is now being manufactured by Bunker-Ramo.



In the top picture, Gordon L. Teach, NASD's 1970 Chairman of the Board of Governors (third from left) and Richard B. Walbert, President of NASD (second from right) join Bunker-Ramo and securities industry executives in a demonstration of NASDAQ equipment. In the picture below, Bunker-Ramo personnel explain the role the UNIVAC 1108 computer will play in the NASDAQ system to NASD's 1969 Chairman, Kenneth H. Sayre (third from right), John S. R. Schoenfeld, Executive Vice President of NASD (standing far right) and other representatives of the securities industry.



The nerve center of the NASDAQ system will be housed in this Bunker-Ramo computer complex in Trumbull, Connecticut.

projections. Of this number, there were 410 contracts signed for Level II equipment and 772 for Level III. In the state of New York alone, there were 209 contracts signed for Level II and 327 for Level III of this service.

In fact, demand for NASDAQ has been so overwhelming that it was found necessary to establish a cut-off date for subscribers of January 15, 1970, after which Bunker-Ramo could promise only to obtain service for new subscribers on a best-efforts basis for the beginning of the service. Moreover, the Association set an April 1, 1970, cut-off date for final subscriber decision on the number of terminals to be ordered for each location when NASDAQ becomes operational. The equipment designated at that time will become final under the Bunker-Ramo contract, and additional equipment after that date will again be available only on a best-efforts basis.

In the initial planning stages of NASDAQ, the Association intended to have 1,500 to 2,000 securities listed when service begins. At this writing, these plans have been expanded to include quotations on more than 3,000 securities. Requirements for the securities that will be listed are currently being determined by the Association. It has been estimated that NASDAQ will eventually be capable of handling information on about 20,000 securities.

The Bunker-Ramo Corporation is completely designing, constructing and financing all of the facilities necessary for NASDAQ Level II and III service prior to the cutover date. The Association, however, will own the information in the network, will control the qualification of market makers that will receive the service, and will determine which securities will be available through the system.

Annual Financial Reporting Requirements

On February 9, 1970, the Securities and Exchange Commission announced adoption of an amended Form X-17A-10 pursuant to SEC Rule 17a-10.

The NASD will require each of its members to file a suitable Form 17A-10 directly with the NASD. All NASD members will be required to fill out designated sections of the form with the exception of those members that also belong to another self-regulatory agency and file a similar report, approved by the SEC, with that agency. To date, only the New York Stock Exchange has indicated that it intends to follow this procedure.

As pointed out in last year's annual report, the form is divided into an Introduction and three parts. Every member required to file a report with the NASD will file the Introduction. It is estimated that at least 700 members will file only the five-page Introduction. The other members will file one of the three parts with the Introduction.

To date only incomplete statistics have been available pertaining to financial operations of NASD members. The data will provide a valuable basis for NASD policy formulation in the future and will furnish material for the development of management reports and guides for the benefit of NASD members. Economic analyses will be conducted through the use of computer programs. The data assembled by the NASD must be transmitted to the SEC, however only on an unidentified basis.

Mutual Fund Legislation

During 1969 the Association again went on record in support of the mutual fund legislation now awaiting action by Congress. In the Association's view, the legislation will be an effective preventive measure in protecting investors from possible future abuses in the burgeoning mutual fund field. However, the Association also is aware that instances of unfair practices in the mutual fund field have been rare within the industry.

The current mutual fund legislation is an outgrowth of a bill first introduced before the Senate by Senator John Sparkman (D.-Ala.) in 1967. The current version of the Sparkman bill (S. 2224) was passed by the Senate in 1969. An identical bill (H.R. 11995) sponsored by Representative John Moss (D.-Calif.) is awaiting action by the House.

The main provisions of the bill are concerned with contractual plans, management fees, mutual fund sales charges and the entry of banks into the mutual fund field.

The legislation seeks to alter the current front-end load plans through two alternatives: (1) No more than 20 percent per year could be deducted in sales commission for the first three years, and the total commission would be limited to 64 percent of the total payments made in the first four years. (2) A 50 percent sales commission could be charged during the first year. But— if the shareholder decided to redeem his shares during the first three years, he would receive a refund of his payments minus a 15 percent commission.

Under the legislation, commissions charged in mutual fund transactions will be subjected to rules established by the NASD. If the NASD does not

establish guidelines within 18 months after the legislation becomes law, the responsibility would then revert to the Securities and Exchange Commission. Guidelines established by the Association would require SEC approval before becoming effective.

In testimony before congressional representatives, it was stressed that the NASD has no preconceived idea of what a fair mutual fund sales commission would be. The Association would only reach such a definition after a comprehensive and objective study. If and when the legislation is passed by Congress, the Association is fully prepared to devote the necessary time and money to implementing this provision.

The proposed legislation would also provide that the SEC or a shareholder may bring suit to test whether fund managers had met their fiduciary duty in establishing management fees.

In addition, savings and loan associations, as well as banks, would be allowed to establish commingled investment accounts under the provisions of the bill. The Association contested this provision from the standpoint that it is contrary to the intent of the Glass-Steagall Act which separates the banking and the securities business. This point is also being contested in the courts by the Association in a current case involving the Association and the First National City Bank of New York City. Details are mentioned later in this report.

The NASD as a self-regulatory body is concerned that the mutual fund field be competently and fairly regulated by laws which protect the consumer from isolated unfair practices without unfairly impairing or restricting the operation of the industry. It is the Association's opinion that the Moss and the Sparkman bills generally fulfill this requirement with the exception of those provisions directed at allowing banks and savings and loan associations to enter the security business.

Federal Broker/Dealer Insurance Bill

In early June, Senator Edmund Muskie (D.-Maine) introduced a bill before the Senate (S. 2348) which would establish a Federal Broker/Dealer Insurance Corporation which would be similar in purpose to the Federal Deposit Insurance Corporation which insures bank and savings and loan customers from loss in case of business failure. A parallel bill (H.R. 13308) was later introduced in the House by Representative John Moss (D.-Calif.).

The bill would provide that (1) Holders of insured customer accounts or insured liabilities would be reimbursed by the Corporation if necessary in the case of a brokerage firm's being closed; (2) One-half of one percent each year multiplied by an amount equal to the net capital of a broker/dealer would be assessed to provide funds for the Corporation; and (3) Members of the SEC would comprise the Board of Directors of the Corporation.

In a meeting with Senator Muskie, Association staff members expressed their agreement with the philosophy underlying the bill—the protection of investors in the event of failure of a brokerage firm. In comments and suggestions to Senator Muskie, the Association pointed out that statistics are not readily available on the amount of "net credit balances" held by NASD members. Also doubt was expressed that "net capital" would be the most effective and equitable base for financing the insurance program.

An alternate possibility entertained by the Association is that the FBDIC, in common with most forms of insurance, should be based on the degree of risk involved. This would vary depending on the brokerage firm. For example, many NASD members do not keep any customer's funds or securities on

deposit, so the degree or risk for customers of these firms would be minimal. The basis for determining this degree of risk has not yet been arrived at by the Association.

As a first step, a pilot questionnaire was sent to a selected group of NASD members asking for statistics on net credit balances, the percentage of firms that hold customer funds for securities, and other pertinent statistics relating to the Muskie and Moss bills.

Another similar questionnaire is being prepared for distribution to either a broad segment of the membership or to the membership as a whole to collect in-depth information to serve as background for the proposed legislation.

A Special Trust Fund Committee appointed by the Association is studying the bills with the intention of formulating constructive comments and suggestions for the benefit of the Congressional committees that will be concerned with this legislation.

Institutional Investors Study

The Institutional Investors Study being conducted under the Securities and Exchange Commission to determine the impact of institutional investing on the securities market was originally slated for completion by the fall of 1969. However, problems in hiring personnel and a delay in appropriating funds made a time extension necessary by Congress.

The study, which was authorized by Congress through an amendment to the Securities and Exchange Act of 1934 is being undertaken to determine the effect of institutional investors on: (1) The maintenance of fair and orderly securities markets; (2) The stability of such markets; (3) The interests of the issuers of such securities, and (4) The interests of the public. The study will aid Congress in determining if any legislative action should be taken in this area.

The study is now expected to be completed in the fall of 1970.

Supreme Court Case

In July of 1969, the United States Court of Appeals for the District of Columbia handed down the decision that banks be allowed to enter the mutual fund field.

One of the cases affected by this ruling involved the NASD vs. the Securities and Exchange Commission. The central question in the cases resolved by the decision revolved around the legality of a bank's being able to sell commingled investment accounts under the provisions of the Glass-Steagall Act and the Investment Company Act of 1940. The introduction of a mutual fund by the First National City Bank of New York was the catalyst for the cases that were jointly decided by the U. S. Court of Appeals.

It is the Association's contention that the separation between the banking and securities industries provided through the above acts would preclude a bank from engaging in selling commingled investment accounts. Furthermore, the court decision brings up the question of the way these funds would be sold to the public. Under NASD regulations, mutual funds can only be sold by representatives who have qualified for registration under the Association's rules. Naturally the Association is concerned about maintaining the same high standards for any salesman selling securities to the public in any organization.

Later in the year, the Association filed a petition with the Supreme Court asking review of the case. The Supreme Court has notified the Association that it will grant the petition for review.

OTC Marginability

Amendments to Regulations G, T, and U which broadened the Federal Reserve Board's control of credit on OTC securities, were adopted by the FRB in July of 1969.

The Association worked closely with the FRB in determining the qualifications that OTC securities must meet to be traded on margin. To date, only a few hundred of the thousands of OTC stocks traded nationally have qualified under these rules.

Listed below are the final criteria adopted by the FRB for OTC stocks to be eligible under its new margin provisions.

1. The stock must be registered with the SEC and the company must have one million dollars of capital and surplus.
2. There must be five or more market makers.
3. There must be 1,500 or more stockholders who are not officers, directors, or beneficial owners of 10 percent or more of the stock.
4. The company, or a predecessor, must have been in existence for at least three years.
5. The stock must have been publicly traded for at least six months.
6. Bid and asked quotations must be continuously available to the public.

The stock must also meet three of the following criteria:

1. There must be 500,000 or more shares of stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock.
2. The 500,000 shares described above must have an aggregate market value of at least ten million dollars.
3. The minimum average bid price in the last month, as determined by the FRB, must be at least \$10.
4. The issuer must have at least five million dollars of capital surplus and undivided profits.

Partially through Association efforts, the FRB amended Regulation U to exempt broker/dealers from margin requirements on bank loans when the credit is used to make a bona fide market in these securities.

New York Stock Exchange Proposals

Early in October, the New York Stock Exchange presented its long anticipated proposal to the Securities and Exchange Commission which established conditions under which member firms could issue their own securities to the public.

Among the conditions set forth by the proposal were the following limitations: (1) Public ownership would be limited to 49 percent of a member's outstanding securities; (2) All member corporations would continue to be required to be mainly engaged in securities transactions; and (3) Member corporations would not be allowed to have non-members as customers who owned more than a 5 percent interest in the member firm.

These particular provisions sparked controversy from securities industry and government groups. Institutional investors saw the provisions as an attempt to eliminate them from possible Big Board membership. The United States Justice Department echoed similar sentiments and raised the question

of possible anti-trust complications stemming from these provisions.

The SEC recently disapproved the first and third provisions mentioned above, and the NYSE has deleted those provisions from its proposal. The Exchange is currently awaiting a decision from the SEC regarding the main purpose of an NYSE member before implementing rules in the public ownership area.

The Association, which has been highly interested in the proposal, submitted a November statement to the SEC which voiced cautious acceptance of public ownership accompanied by several reservations. The Association agrees that ways must be found to provide new capital for brokerage firms, and supports pioneering efforts in this area. The Association is particularly in favor of the Big Board's exercising regulatory control in the public ownership area.

However, the Association is aware that there are potential difficulties, including the possibility of conflict of interest, inherent in members' underwriting and distributing their own securities. Generally, NASD policy has been to discourage its members from engaging in these activities as is pointed out in the section on corporate financing in this report.

The Big Board also submitted a proposed commission rate plan to the SEC early in 1970. In May of 1969, Robert Haack, President of the NYSE, had suggested that non-member brokers be given direct access to the Big Board through a commission discount. He later suggested a discount of 33 percent on listed securities.

However, the NYSE's commission rate structure now before the SEC has whittled this discount down to 25 percent on orders up to 500 shares and a 20 percent discount on larger orders.

The Association, which advocates a 50 percent discount, has stated publicly that it is disappointed in the proposal and intends to file corresponding comments with the SEC.

As President of the Association, I expect our many-faceted programs to dramatically contribute to the successful operation of the industry and to the public's renewed confidence in both the ability and fairness of our member firms.

Our membership, which is the most diverse of any self-regulatory body serving the securities business, allows us to comprehensively gauge the pulse of the industry and to serve as a catalyst for positive action. Because of this diversity we are able to act as a clearing house for ideas, and from our expansive knowledge of the business, to serve as an effective liaison between various segments of the industry, other self-regulatory agencies, the Securities and Exchange Commission, and the Congress.

Through constant re-evaluation and long-range planning, the Association will continue to grow in stature and effectiveness within the securities field. The NASD has made impressive strides during the past year in formulating much needed programs for the industry, and we are totally committed to the continuation of this forward direction until the industry and the Association fulfill their extraordinary potential.

Respectfully submitted,

Richard B. Walbert
President

Committees for 1969

Executive Committee

Kenneth H. Sayre
Chairman
R. S. Abernethy, Jr.
W. Scott Cluett
C. Rader McCulley
A. Paul Ogilvie
Gordon L. Teach
Richard B. Walbert
(Ex Officio or all committees)
(All Governors)

Finance Committee

C. Rader McCulley
Chairman (Governor)
R. S. Abernethy, Jr.
(Governor)
Edward J. Costigan
(Governor)
Preston E. Macy
(Governor)
Kenneth H. Sayre
(Governor)
Jack A. Schindel
(Ex Officio)

National Business Conduct Committee

Gordon L. Teach
Chairman
Francis S. McComb
Vice Chairman
Edmund Y. Bennion
J. Coleman Budd
Francis J. Cunningham
Arthur Horton
Louis A. Lanford
Eugene A. Shurtleff
J. Raymond Smith
(All Governors)

National Uniform Practice Committee

Gerard J. Ehler
Chairman
John H. Kirvin
Vice Chairman
Francis J. Cunningham
(Governor)
Victor G. Dugal
Gerland J. Foucha, Jr.
Raymond J. Kalinowski
Anthony A. LaCroix
Thomas P. Lynch
Irwin H. Menchel
J. A. Nemeth
Richard A. Parker
Junius W. Peake

National Quotations Committee

John M. Bleakie
Chairman (Governor)
Glen A. Darfler
Phillip Hettleman
(Governor)
Milton F. Lewis
C. Rader McCulley
(Governor)
John K. Roney
William S. Thompson

Investment Companies Committee

S. Whitney Bradley
Chairman
Herbert R. Anderson
John C. Bogle
Edward B. Burr
Robert L. Cody
(Governor-at-Large)
David D. Grayson
Arthur H. Haussermann
Franklin R. Johnson
D. George Sullivan
Peter R. Wilde
(1970 Governor-at-Large)

Foreign Committee

Henri L. Froy
Chairman
John A. Nevins
Vice Chairman
Henry H. Arnhold
Ned B. Ball
Ernest M. Grunebaum
Townsend Hornor
Edwin S. Marks
Charles McKelvie
Kenneth G. Murton
Rudolf F. Nager
Alexander C. Schwartz, Jr.
J. Raymond Smith
(Governor)
Hans A. Widenmann

Trading Committee

James F. Jacques
Chairman
Grant A. Feldman
(Governor)
Joe E. Hutton
Eugene A. Shurtleff
(Governor)
Louis P. Singer
John Wasserman
Donald E. Weeden
Morton N. Weiss
Nicholas H. Witte

Information Committee

A. Paul Ogilvie
Chairman
Edmund Y. Bennion
John M. Bleakie
Watson B. Dabney
Louis A. Lanford
J. Raymond Smith
(All Governors)

Insurance Trustees

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

National Arbitration Committee

Charles E. Grary
Chairman
Glenn E. Anderson
William H. Claffin, III
Gordon B. Duval
Carl K. Erpf
Julian L. Gumbiner
Gus G. Halliburton
Robert V. H. Harned
W. Lewis Hart
Arthur N. Honig
Julian A. Kiser
Gordon S. Macklin, Jr.
Kurt H. Olsen
Phil E. Pearce
Arthur Stansel

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 J. Kelly
John A. McCue
John D. Ohlandt, Jr.
Phil E. Pearce
Kenneth H. Sayre
(Governor)

Committee on Qualification Examination Program

Preston E. Macy
Chairman (Governor)
Phillip Hettleman
(Governor)
Robert R. Miller
Cornelius Roach

Committee to Consider Financial Reporting to the Securities and Exchange Commission

Gordon S. Macklin, Jr.
Chairman
Edmund Y. Bennion
(Governor)
John M. Bleakie
(Governor)
Watson B. Dabney
(Governor)
Francis S. McComb
(Governor)
Anton G. Stepanek

Committee to Study Proposed Marginability for OTC Securities

R. S. Abernethy, Jr.
Chairman
John M. Bleakie
J. Howard Carlson
Edward J. Costigan
Francis J. Cunningham
Grant A. Feldman
Preston E. Macy
(All Governors)

Variable Contracts Committee

A. Paul Ogilvie
Chairman (Governor)
Herbert R. Anderson
Newell Blair
J. Coleman Budd
(Governor)
John J. Byrne
John F. Guion
Robert M. Powell
Arthur Stansel
Alan M. Thaler

Long-Range Planning Committee

Kenneth H. Sayre
Chairman (Governor)
C. Pharr Duson
Gordon S. Macklin, Jr.
Phil E. Pearce
Avery Rockefeller, Jr.
John S. R. Schoenfeld

Committee on OTC Clearance

Robert M. Gardiner
Chairman
J. Coleman Budd
(Governor)
Watson B. Dabney
(Governor)
Allan C. Eustis, Jr.
G. Shelby Friedrichs
C. Rader McCulley
(Governor)
Phil E. Pearce
Kenneth H. Sayre
(Governor)

NASD Executive Organization

BOARD OF GOVERNORS

Richard B. Walbert
President

Donald H. Burns
Assistant to
the President

John S. R. Schoenfeld
Executive
Vice President

Frank A. Holman
Personnel Director

Priscilla Howe
Office Manager

Lee C. Monett
Vice President,
Member Operations

John H. Hodges, Jr.
Vice President,
Member Services

Bruce J. Simpson
Vice President,
Membership

Lloyd J. Derricksun
Vice President
and
General Counsel

Jack A. Schindel
Vice President
and
Treasurer

**14 DISTRICT
SECRETARIES**

Charles R. Justice
Director—Automation
Department

Louis A. Korahais
Director—Arbitration

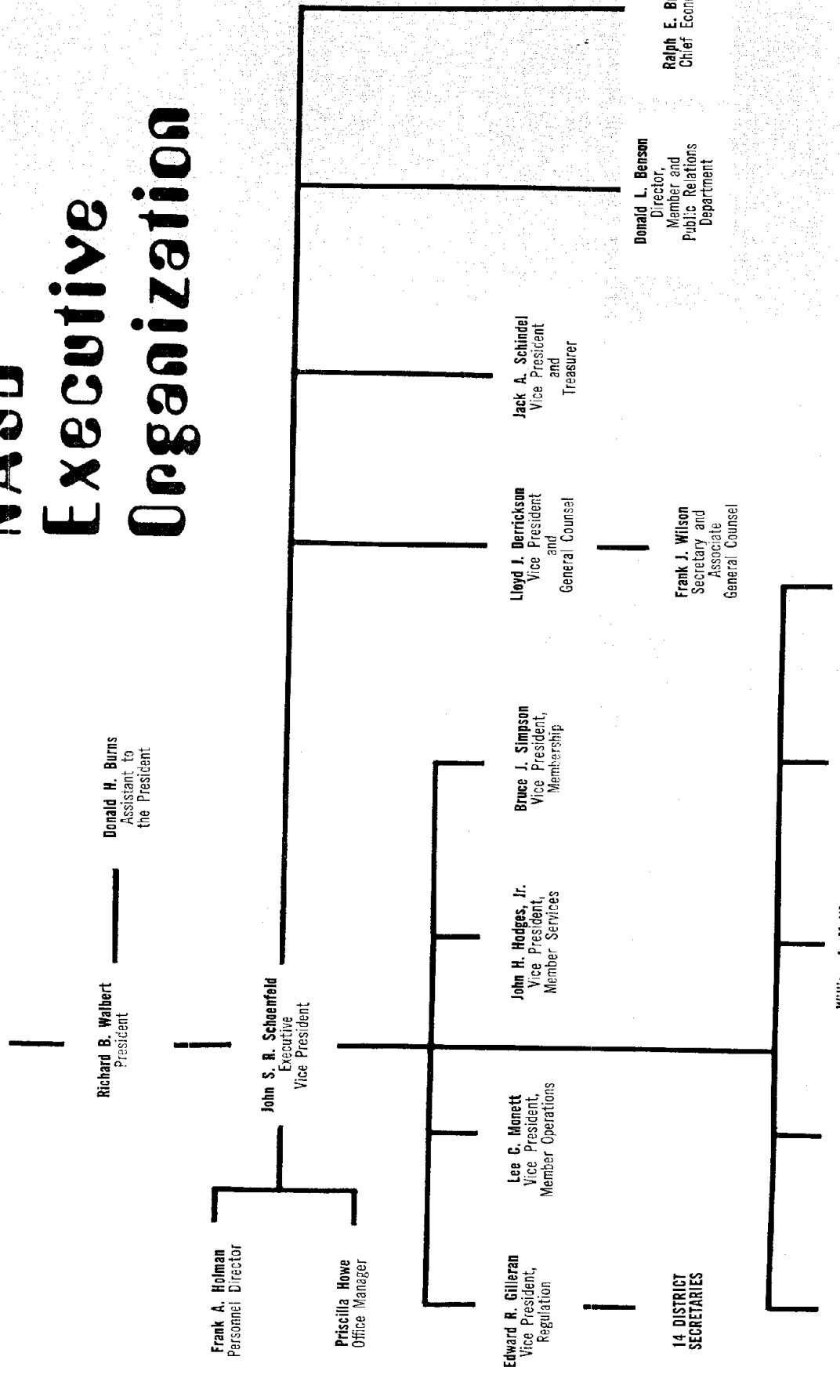
William A. Matthews
Director,
Investment Companies
and Advertising
Department

A. John Taylor
Director,
Variable Contracts
Department

George E. Warner
Director,
Corporate Financing
Department

Donald L. Benson
Director,
Member and
Public Relations
Department

Ralph E. Burgess
Chief Economist



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

	<u>Year ended September 30</u>	
	<u>1969</u>	<u>1968</u>
Income:		
Assessments	\$2,040,242	\$1,610,102
Registered representatives' fees:		
Applications	2,524,220	1,656,550
Examinations	1,998,387	1,451,622
Branch office fees	230,040	190,215
Fines and costs	167,598	128,834
Interest	285,237	155,392
Admission fees and other income	123,390	72,045
	<u>7,369,114</u>	<u>5,264,760</u>
Expenses:		
Salaries and office services	2,847,235	2,058,305
Travel and meetings—Board of Governors, District Committees and other, except for staff investigators	374,641	276,676
Travel of staff investigators, transcripts and miscellaneous expenses of investigations and complaints	172,592	137,557
Publications, printing and stationery, net	255,959	184,659
Postage	106,422	74,961
Fees—research and consulting, legal, administration of qualification examinations, compilations of quotations and other	657,549	465,170
Rent	311,263	238,997
Furniture and equipment	94,022	50,061
Office and miscellaneous	258,501	197,835
Insurance and taxes	187,621	134,394
Retirement plan	97,724	92,815
	<u>5,363,529</u>	<u>3,911,430</u>
Excess of income over expenses	2,005,585	1,353,330
Net assets, beginning of year	<u>3,771,665</u>	<u>2,418,335</u>
Net assets, end of year	<u>\$5,777,250</u>	<u>\$3,771,665</u>

COMPOSITION OF NET ASSETS

	<u>September 30</u>	
	<u>1969</u>	<u>1968</u>
Cash	\$ 241,061	\$ 242,094
Investment securities, principally United States government obligations at cost (approximate market value \$5,396,000 and \$3,540,000, respectively)	5,597,563	3,545,169
Deferred organizational and pre-operating costs of National Clearing Corporation (Note)	154,522	
Special investment account (marketable securities at cost, cash and accrued interest)	87,364	62,254
Other assets	170,137	97,511
Accounts payable, accrued and withheld taxes	(467,044)	(173,986)
Assessments collected in advance	(6,353)	(1,377)
	<u>\$5,777,250</u>	<u>\$3,771,665</u>

NOTE

The Board of Governors has authorized \$2,000,000 for establishing a national clearing system. Certain costs, primarily consulting fees, incurred through September 30, 1969, relating to the organization and pre-operational planning and research of a subsidiary for these purposes have been deferred and will be transferred to the new corporation.

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, 1969 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 12, 1969

PRICE WATERHOUSE & CO.

1969 STATISTICAL REVIEW

MEMBERSHIP STATISTICS—1969

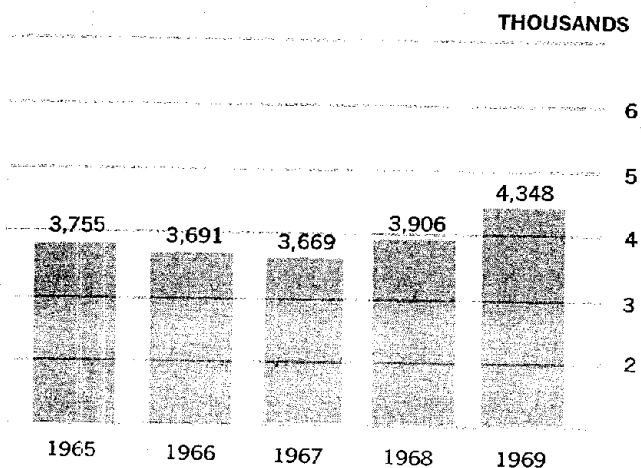
New Members		672
Mergers		15
Terminations		215
Normal Resignations	119	
Death of Sole Proprietor	14	
Retirement or Death of Principal	18	
Absorbed by Another Member	31	
Not doing OTC Business	9	
Other	2	
For cause	22	
By SEC	6	
NASD Action	5	
Non-Payment Fines & Costs	3	
Failure to File Assessment Report	5	
Non-Payment of Assessment	3	
Total Out		230
Net Gain		442
Membership 12/31/68		3,906
Membership 12/31/69		4,348
Re: Total Out		
Type of Organization		
Corporations	119	
Partnerships	38	
Sole Proprietorships	73	
Length of Membership		
Less than One Year	22	
One to Two Years	30	
Two to Three Years	18	
Three to Five Years	26	
Five to Ten Years	44	
Over Ten Years	90	

EXAMINATIONS ADMINISTERED BY THE NASD FOR THE FIVE YEAR PERIOD BEGINNING

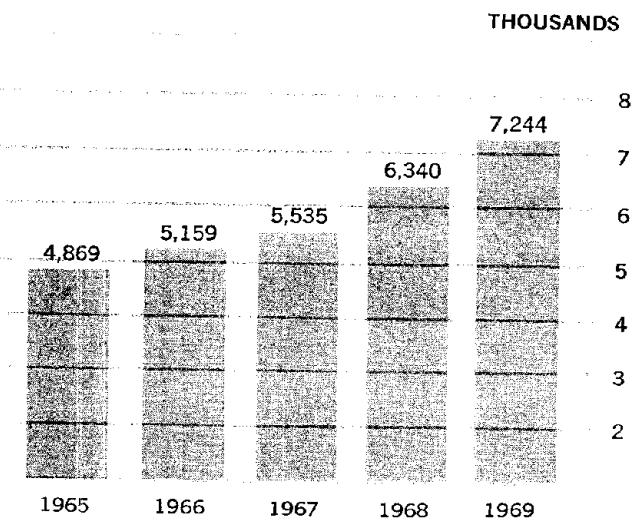
January 1, 1965 and ending December 31, 1969

YEARS	QUALIFICATION EXAMS FOR NASD	EXAMS ADMINISTERED FOR OTHER INSTITUTIONS	TOTAL
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	89,903
1969	66,748	35,288	102,036

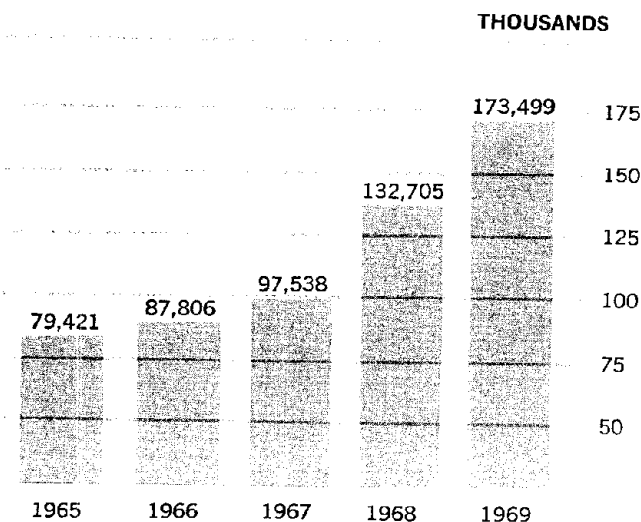
MEMBER FIRMS



BRANCH OFFICES



REGISTERED REPRESENTATIVES





Richard B. Walbert
President and
member of the Board

**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

**Officers and
Board of Governors**

1970-1971



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

**TO SERVE
UNTIL
JANUARY 1971**



Gordon L. Teach
Shearson, Hammill &
Co., Incorporated
Chicago, Illinois
Chairman 1970



J. Howard Carlson
Loeb, Rhoades & Co.
New York, New York
Vice Chairman 1970



Francis S. McComb
Wagenseller & Durst, Inc.
Los Angeles, California
Vice Chairman 1970



John M. Bleakie
W. E. Hutton & Co.
Boston, Massachusetts
Chairman, Finance
Committee 1970



Robert L. Cody*
American Funds
Distributors, Inc.
Los Angeles, California
*Governor-at-Large



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

**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



R. Ron Heiligenstein
Mid-America Bond &
Share Co., Inc.
Decatur, Illinois



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

**TO SERVE
UNTIL
JANUARY 1973**



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



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



Kenneth M. Crosby
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Washington, D. C.



J. Robert Doyle
Doyle, O'Connor & Co.,
Inc.
Chicago, Illinois



Robert S. Driscoll
Lord, Abbett & Co.
New York, New York



A. B. Fox
Stern, Frank, Meyer &
Fox, Incorporated
Los Angeles, California

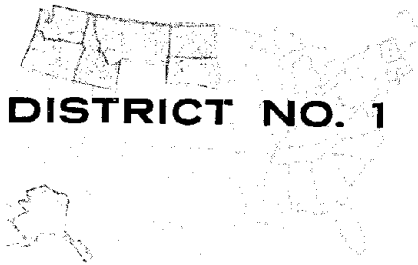


Peter R. Wilde*
C G Equity Sales -
Company
Hartford, Connecticut

* Governor-at-Large

* Governor-at-Large

DISTRICT COMMITTEES 1969



DISTRICT NO. 1

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



J. Jerry Inskip, Jr.
Chairman
Riphey, Inskip, Hess &
McFaul, Inc.
Portland, Oregon

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

Duane Berentson
Duane Berentson
Investments
Burlington, Washington

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

Edward K. Easter
Dean Witter & Co.,
Incorporated
Seattle, Washington

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

Sidney J. Sanders
Foster & Marshall Inc.
Seattle, Washington

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

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

• 130 MEMBERS • 363 BRANCH OFFICES • 5708 REGISTERED REPRESENTATIVES

DISTRICT NO. 2

**CALIFORNIA
NEVADA
HAWAII**



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



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

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

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

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

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

Hideo Kawano
H. Kawano & Co., Inc.
Honolulu, Hawaii

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

John R. Pierce
Roberts, Scott & Co., Inc.
Los Angeles, California

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

Norman P. Rothschild
First California Company
Los Angeles, California

Theodore F. Seton
Sutro & Co.
San Francisco, California

William J. Radding, Jr.
Secretary
425 California Street
San Francisco, California

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

• 541 MEMBERS • 1194 BRANCH OFFICES • 26621 REGISTERED REPRESENTATIVES

DISTRICT NO. 3

**ARIZONA
COLORADO
NEW MEXICO
UTAH
WYOMING**



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

Philip M. Young
Vice-Chairman
Young, Smith & Peacock,
Inc.
Phoenix, Arizona

Kenneth P. Burbidge
Blyth & Co., Inc.
Salt Lake City, Utah

John M. Butler
Financial Programs, Inc.
Denver, Colorado

James P. Fellows
Boettcher and Company
Denver, Colorado

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

Arnold L. Greenberg
Birkenmayer & Co., Inc.
Denver, Colorado

George P. Phillip
Rauscher, Pierce & Co., Inc.
Albuquerque, New Mexico

Allen Runyan
Arco Securities, Inc.
Cheyenne, Wyoming

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

Kenneth W. Cole
Secretary
909 17th Street
Denver, Colorado

• 145 MEMBERS • 320 BRANCH OFFICES • 6769 REGISTERED REPRESENTATIVES

DISTRICT NO. 4

**KANSAS
MISSOURI
NEBRASKA
OKLAHOMA**



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

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

Frederic A. Arnstein, Jr.
Stix & Co.
St. Louis, Missouri

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

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

L. C. Petersen
Kirkpatrick, Pettis, Smith,
Polian Inc.
Omaha, Nebraska

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

Bill T. Wall
Stern Brothers & Co.
Kansas City, Missouri

Joseph J. Weinrich
Dempsey-Tegeler & Co., Inc.
Kansas City, Missouri

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

• 165 MEMBERS • 336 BRANCH OFFICES • 9000 REGISTERED REPRESENTATIVES

DISTRICT NO. 5

**ALABAMA
ARKANSAS
LOUISIANA
MISSISSIPPI
WESTERN TENNESSEE**



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

Edward S. Lewis, III
Vice-Chairman
Lewis and Company
Jackson, Mississippi

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

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

Godfrey R. Parkerson
Waters, Parkerson &
Company
New Orleans, Louisiana

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

Philip A. Sellers
First Alabama Securities,
Inc.
Montgomery, Alabama

Edward J. Newton
Secretary
1124 Richards Building
New Orleans, Louisiana

• 126 MEMBERS • 249 BRANCH OFFICES • 3004 REGISTERED REPRESENTATIVES

DISTRICT NO. 6



TEXAS



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

James S. Carroll
Rauscher Pierce Securities
Corporation
Dallas, Texas

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

David J. Powell
Eppler, Guerin & Turner,
Inc.
Dallas, Texas

D. Gordon Rupe, III
Dallas Rupe & Son, Inc.
Dallas, Texas

Rodger G. Stotler
Rowles, Winston & Co.,
Incorporated
Houston, Texas

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

William M. Mahany
Secretary
1610 Metropolitan Federal
Savings Bldg.
Dallas, Texas

• 166 MEMBERS • 374 BRANCH OFFICES • 7251 REGISTERED REPRESENTATIVES

DISTRICT NO. 7



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



John E. McClelland
Vice-Chairman
Bache & Co. Incorporated
Atlanta, Georgia

David D. Bush
Vance, Sanders &
Company, Inc.
Fort Lauderdale, Florida

Milton F. Eisenberg
Milton F. Eisenberg and
Company, Inc.
Savannah, Georgia

David R. Murphey, III
Pierce, Wulbern, Murphey,
Inc.
Tampa, Florida

William K. Stephenson
V. M. Manning & Co., Inc.
Greenville, South Carolina

Bennett Whipple
Secretary
First National Bank Tower
2 Peachtree St., N.W.
Atlanta, Georgia

Courtenay Q. Nelson
Chairman
Investment Securities
Corporation
Chattanooga, Tennessee

• 191 MEMBERS • 637 BRANCH OFFICES • 9302 REGISTERED REPRESENTATIVES

DISTRICT NO. 8



**ILLINOIS
INDIANA
IOWA
MICHIGAN
MINNESOTA
WISCONSIN**



R. Marshall Barnes
Chairman
Howe, Barnes & Johnson,
Inc.
Chicago, Illinois

Alfred B. Moran
Vice-Chairman
Watling, Lerchen & Co.
Detroit, Michigan

Joseph N. Austrup
Walston & Co., Inc.
Milwaukee, Wisconsin

George C. Bermingham
Boettcher and Company
Chicago, Illinois

William E. Chambers
Fulton, Reid & Staples, Inc.
Indianapolis, Indiana

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

Francis C. Farwell
William Blair & Company
Chicago, Illinois

James D. MacGregor
Buys, MacGregor and
Company
Grand Rapids, Michigan

S. Jay Marsh
Woodard-Elwood & Co.
Minneapolis, Minnesota

Howard V. O'Connell
John G. Kinnard and
Company, Incorporated
Minneapolis, Minnesota

Fred T. Rahn
The Illinois Company Inc.
Chicago, Illinois

William M. Witter
Dean Witter & Co.,
Incorporated
Chicago, Illinois

Herbert S. Sheidy
Secretary
Connecticut Mutual Life
Building
33 North Dearborn Street
Chicago, Illinois

• 425 MEMBERS • 1083 BRANCH OFFICES • 20812 REGISTERED REPRESENTATIVES



DISTRICT NO. 9

KENTUCKY & OHIO



Fred F. Leustig
Chairman
Murch & Co., Inc.
Cleveland, Ohio

Theodore Floridis
Vice-Chairman
W. E. Hutton & Co.
Dayton, Ohio

A. Edgar Aub, Jr.
A. E. Aub & Co.
Cincinnati, Ohio

Gerald B. Brenzel
Stifel, Nicolaus &
Company, Incorporated
Louisville, Kentucky

Powhatan M. Conway
Stein Bros. & Boyce, Inc.
Louisville, Kentucky

John M. Grayell
Saunders, Stiver & Co.
Cleveland, Ohio

Edward T. Kennedy
Benj. D. Bartlett &
Company
Cincinnati, Ohio

Edward D. Newton
Hayden, Miller & Co.
Cleveland, Ohio

George H. Rinker, Jr.
The Ohio Company,
Columbus, Ohio

P. William Hotchkiss
Secretary
Superior Building
815 Superior Avenue
Cleveland, Ohio

• 119 MEMBERS • 353 BRANCH OFFICES • 5065 REGISTERED REPRESENTATIVES

DISTRICT NO. 10

DISTRICT OF COLUMBIA MARYLAND VIRGINIA NORTH CAROLINA



Kenneth M. Crosby
Chairman
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Washington, D.C.

Jack A. Kolscher
Vice-Chairman
Robert Garrett & Sons, Inc.
Baltimore, Maryland

Patteson Branch
Branch & Company
Richmond, Virginia

Louis M. Davis
Carolina Securities
Corporation
Charlotte, North Carolina

Lawrence S. Everett, Jr.
Selected Investments
Wilmington, North Carolina

Stephen Hartwell
Washington Investors Plans,
Inc.
Washington, D.C.

Raymond A. Mason
Mason & Company, Inc.
Newport News, Virginia

Paul A. Yates
Stein Bros. & Boyce, Inc.
Baltimore, Maryland

Richard Peters
Secretary
888 Seventeenth Street,
N.W.
Washington, D.C.

• 166 MEMBERS • 389 BRANCH OFFICES • 8641 REGISTERED REPRESENTATIVES

DISTRICT NO. 11

DELAWARE PENNSYLVANIA WEST VIRGINIA SOUTHERN NEW JERSEY



Robert G. Deakins
Co-Chairman
Reynolds & Co.
Pittsburgh, Pennsylvania

Eugene Arnold, Jr.
Hopper, Soliday, Brooke,
Sheridan Inc.
Philadelphia, Pennsylvania

Harry K. Hiestand
Baker, Weeks & Co.
Philadelphia, Pennsylvania

John W. Hoy, Jr.
Parrish & Co.
Pittsburgh, Pennsylvania



Norman T. Wilde, Jr.
Co-Chairman
Janney, Battles & E. W.
Clark, Inc.
Philadelphia, Pennsylvania

Douglas K. Porteous
Provident Management
Corporation
Philadelphia, Pennsylvania

G. Pearson Rhodes, Jr.
McKelvy & Company
Pittsburgh, Pennsylvania

Wallace H. Runyan
Hornblower & Weeks -
Hemphill, Noyes
Bala-Cynwyd, Pennsylvania

Edward F. Ryan
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Philadelphia, Pennsylvania

Joseph P. Short
Arthurs, Lestrangle & Co.
Pittsburgh, Pennsylvania

Joseph E. Smith
Newburger & Co.
Philadelphia, Pennsylvania

Gerald D. Wyatt
Butcher & Sherrerd
Pittsburgh, Pennsylvania

E. Craig Dearborn
Secretary
Philadelphia National Bank
Building
Broad & Chestnut Sts.
Philadelphia, Pennsylvania

• 282 MEMBERS • 490 BRANCH OFFICES • 12895 REGISTERED REPRESENTATIVES

DISTRICT NO. 12

NEW YORK CONNECTICUT NORTHERN NEW JERSEY



J. Logan Burke, Jr.
Chairman
W. E. Hutton & Co.
New York, New York

Robert J. Humphrey, Jr.
Vice-Chairman
Shearson, Hammill & Co.,
Inc.
New York, New York

E. Nelson Asiel
Asiel & Co.
New York, New York

Brent D. Baird
Common, Dann & Co., Inc.
Buffalo, New York

William N. Bannard, III
American Securities
Corporation
New York, New York

Charles G. Crump
Chas. W. Scranton & Co.
New Haven, Connecticut

Edward B. deSelding
Spencer Trask & Co.
Incorporated
New York, New York

James C. Dudley
Cyrus J. Lawrence & Sons
New York, New York

James T. Gahan
E. F. Hutton & Company,
Inc.
New York, New York

Walter W. Hess, Jr.
L. F. Rothschild & Co.
New York, New York

Raymond J. Kiernan
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
New York, New York

A. Peter Knoop
Auchincloss, Parker &
Redpath
New York, New York

Thomas A. Larkin
Goodbody & Co.
New York, New York

Junius W. Peake
Shields & Co.
New York, New York

Louis P. Singer
Troster, Singer & Co.
New York, New York

Philip C. Smith
National Securities &
Research Corporation
New York, New York

Charles H. Symington, Jr.
G. H. Walker & Co.
New York, New York

John J. Unkles, Jr.
Nugent & Igoe
East Orange, New Jersey

George J. Bergen
Secretary
25 Broad Street
New York, New York

• 1648 MEMBERS • 1085 BRANCH OFFICES • 43499 REGISTERED REPRESENTATIVES

DISTRICT NO. 13

MAINE MASSACHUSETTS NEW HAMPSHIRE RHODE ISLAND VERMONT



Victor G. Dugal
Chairman
J. B. Maguire & Co., Inc.
Boston, Massachusetts

Clifford H. Sinnett
Vice-Chairman
Charles H. Gilman & Co.,
Inc.
Portland, Maine

James P. Elder
Miller & George
Providence, Rhode Island

Dayton P. Haigney
Dayton Haigney & Co., Inc.
Boston, Massachusetts

Wesley E. Horton
Colonial Distributors, Inc.
Boston, Massachusetts

John H. Powers
Gage-Wiley & Co., Inc.
Springfield, Massachusetts

Chenery Salmon
Advest Co.
Boston, Massachusetts

Francis V. Ward
H. C. Wainwright & Co.
Boston, Massachusetts

Reginald M. Whitcomb
Spencer Trask & Co.
Incorporated
Boston, Massachusetts

William S. Clendenin
Secretary
75 Federal Street
Boston, Massachusetts

• 244 MEMBERS • 371 BRANCH OFFICES • 13320 REGISTERED REPRESENTATIVES

FRONT COVER

Automation can be used for many purposes—from the practical to the aesthetically pleasing. The aesthetic "Compu-photo" on the cover of this report is the work of Malcolm Malm, a photographer for Sperry Rand's Univac Division. After a computer was randomly programmed, Malm photographed the resultant patterns through colored filters as they were projected onto a television-like screen.

Sperry Rand's UNIVAC 1108 computers will be used for the more practical, but even more impressive, purpose of coordinating and transmitting the data for the Association's nationwide automated quotations system—NASDAQ—which will begin in early 1971.



NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

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