NASD News

VOLUME XXXIII NO. 1
MARCH, 1973

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CLEARING EXTENDED TO CHICAGO AND ATLANTA

Automated stock clearing services for over-the-counter securities were extended to Chicago on November 2, 1972, and to Atlanta on March 12, 1973. In Chicago, the connection was accomplished through the cooperative efforts of the National Clearing Corporation and the Midwest Stock Exchange Clearing Corporation. The newly established Atlanta Clearing Center marks the first regional operation of the National Clearing Corporation that is functioning entirely with NCC facilities. The other regional centers (Boston, Chicago and Philadelphia) utilize the clearing facilities and personnel of the clearing corporations of the stock exchanges in those cities.

The National Clearing Corporation, a subsidiary of the NASD, was formed late in 1969 to implement a nationwide automated clearing network for OTC securities. The network now consists of approximately 300 firms in New York City, Boston, Chicago, Philadelphia, and Atlanta. NCC members in any one of these cities can clear trades through NCC with clearing members in the same or any of the other cities. At the end of 1972, NCC was clearing roughly 16,000 trades daily, representing nearly $75 million in securities.

NCC uses the continuous net settlement method of clearing securities transactions as the most efficient and economical system for the OTC market. The principal features of this clearing method are: (1) settlement, receipts, and deliveries of securities are made directly with an NCC clearing center, rather than between clearing members; (2) NCC sends members a daily statement indicating money and securities either owed to NCC or owed to the firm; (3) NCC provides dividend accounting and processing of transfer instructions; and (4) all open securities positions are marked to the market daily. In addition, continuous net settlement enables a broker/dealer to reduce delivery activity by about 65 percent.

Future plans call for the continued expansion of NCC operations to more key cities throughout the country, adding branches to the network for clearing OTC securities. It is hoped that NCC will be able to clear 90 to 95 percent of all OTC transactions in the country by the end of 1973. National totals of OTC transactions are estimated to run as high as 40 to 50,000 trades daily.

Note: The NASD Board of Governors has integrated the functions of the Uniform Practice Committee into the National Clearing Corporation with NCC now performing Uniform Practice rule-making functions. The NCC Board has formed a new committee to deal with Uniform Practice matters.

NASD SUGGESTS NEW RULES FOR NEW ISSUES

Responding to a request of the Securities and Exchange Commission, the Association Board of Governors has approved a package of proposals aimed at strengthening control over new stock offerings. The SEC request grew out of Commission hearings held in 1972 to examine the forces behind sudden fluctuations in prices of some new issues. Briefly, the Association's proposals would: (1) amend the Association's customer suitability rules to cover first time offerings of companies in the promotional or exploratory stage; (2) require written procedures to be established and followed by underwriters in conducting due diligence investigations; and (3) establish a new category of qualification and registration for broker/dealer personnel for "underwriter principals." The package of proposals was recently distributed to the membership and others for comment.

The proposal to amend the Association's customer suitability rules would specifically extend coverage of the rules to companies that don't meet certain standards of operating history and profit. Under the proposal, members would be required to determine the suitability of this type of issue for individual customers and to document the reasoning leading to such a determination.

The second of the Board-approved proposals would require underwriters to establish and follow written procedures in making due diligence investigations of a company before making a stock offering for that company. The proposal provides guidelines and suggested areas of coverage for these investigations to assure that the information distributed to selling group members and investors is accurate. In addition, underwriters would have to keep records documenting that such investigations were made.

Under the proposal to set up a category of registration and qualification for "underwriter principals," an applicant for NASD membership who intended to act as an underwriter would have to register one of its officials as "underwriter principal." This individual would have to have had at least three years experience in underwriting and would also have to pass a qualification examination now being developed by the Association unless specifically exempted by the President of the Association. Current NASD members acting as underwriters would have to designate an "underwriter principal." If this individual had less than three years' experience in underwriting, he, too, would have to pass the qualification examination for "underwriter principal" under the proposal.

NASD concern over hot issues had, prior to the SEC request, resulted in the development of a proposal covering underwritings brought to market on a best efforts basis. In this type of underwriting, the underwriter agrees to distribute to the public as much of the new issue as he can. The Association proposal, which is still under consideration, would limit the possibility of a restricted supply of stock having an undue effect on the market price of the issue. One provision would permit investors to cancel their orders if less than 90% of the offering is placed. Another would set a 60 day limit for the distribution of a best efforts underwriting.

NEWSPAPER COVERAGE OF OTC STOCK QUOTES

The over-the-counter stock quotations tables that are carried in the financial sections of many newspapers across the country have undergone a significant revision. Under the revision, geographic stockholder criteria for listing companies in the National OTC Stock Tables were replaced on January 3, 1973, by inclusion standards reflecting investor and reader interest. The new list is, therefore, composed of the most actively traded issues of the approximately 3,500 securities in the NASDAQ system.

The NASD supplies the major wire services each day with closing quotations and volume information on all the securities in NASDAQ, which are then edited by the wire services into a National List of issues for distribution to approximately 40 large metropolitan newspapers.

Many newspapers have been faced with increasing space limitations on tabular material. Therefore, the new plan was designed to relate reader interest to the activity in a particular issue so that companies with a demonstrated, sustained high volume of trading would receive broad exposure. In addition, current, accurate shareholder distribution data has become increasingly harder to obtain because of large amounts of stock being held by broker/dealers in "street name" for their customers.

In order to accomplish this change in the composition of OTC tabular information, the Association used its NASDAQ computers to rank all 3,500 securities in the system in order of their weighted average weekly volume. The 1400 stocks with the highest average weekly volume have been designated as the "Most Active National List." These 1400 stocks generally have a minimum weekly volume of 6,000 shares or more. To gain entry to this Most Active List a security must first be on NASDAQ, have a bid price of $5.00 or more and maintain at least a $2.00 bid price while it is in the 1400 list. NASDAQ stocks under $2.00 bid that were in the old tables were not included in the restructured list. Those issues of $2.00 or over, which were quoted in the old National List are maintained in the restructured list if they meet the average weekly volume criteria. Securities that fall below $1.00 bid will continue to be droppd from the NASDAQ system.

The list of 1400 most active stocks in NASDAQ will be redrawn every six months so that other qualified NASDAQ companies will be able to gain inclusion in the National List. The Most Active List is arrayed in alphabetical order with volume, closing representative bid and ask quotations and net change from the previous day's bid, and is released daily by the wire services.

Also available is a second "Supplementary National List," composed of the next 900 stocks in the volume ranking, because these issues are also of interest to large numbers of readers. This list was designed to be carried by newspapers with only bid and ask quotations so that they can be set in a half column measure to accommodate space limitations. For this Supplementary National List, the average weekly volume ranking will be computed every two months. In addition to the share volume criterion, these securities all have a minimum weighted weekly dollar volume of $10,000 or more. The price requirements are the same as for the Most Active List.

As a result of the revision of the stock quotations tables, newspaper coverage of the OTC market has expanded. *The Wall Street Journal* now publishes daily quotations for 2,300 NASDAQ issues with volume information supplied for the 1400 most active issues. The New York *Times,* the Los Angeles *Times* and the Cleveland *Plain Dealer* carry daily quotations and volume for 1400 issues and also supply daily quotations alone for an additional 450 issues. The Washington *Post* and the Baltimore *Sun* carry the national list of 1400 quotations with volume for the first time on a daily basis. In addition 32 other major metropolitan newspapers are carrying the national list of quotations for 1400 OTC issues on either a daily or weekly basis.

As in the past, the NASD will continue to supply daily volume and closing representative quotations to the wire services on substantially all 3,500 securities in NASDAQ. Every effort is being made to add to local newspaper lists those securities which have been deleted or moved from the old National List in the revision.

NEW GOVERNORS ELECTED IN JANUARY

Nine men, representing seven districts and one at-large seat, have been elected to the NASD Board of Governors. All will serve three-year terms except Bernard Weissman, who will serve the remaining two years of the term of his predecessor. The new Governors took office at the meeting of the Board held in January at the Ocean Reef Club, Key Largo, Florida. As Governors, these men will aid in directing Association activities and formulating Association policy.

John F. Guion, Chairman of the Board and President of American Republic Assurance Company, Des Moines, Iowa, as well as Chairman of the Board of American Republic Equities, Inc., also of Des Moines, Iowa, was elected by the

NASD Board to be Governor-at-Large, representing insurance company members of the Association. Prior to his election as Governor, Mr. Guion had been active in the NASD as Chairman of the Variable Contracts Committee since 1970 and a member of the Board of Trustees of the NASD Group Insurance Trusts since 1971.

The members of District 2 have elected Joseph F. Edelstein, General Partner of Edelstein, Campbell & Co. in San Francisco, to represent them on the Board. Mr. Edelstein has previously served on the District 2 Business Conduct Committee and was Chairman of that committee in 1970. He is a member of the Financial Analysts Federation and the Security Analysts of San Francisco, serving as President from 1960 to 1961.

John D. Cleland, Vice President and Director of Security Distributors, Inc. and Security Management Company, Inc., both of Topeka, Kansas, was elected to represent District 4. Mr. Cleland was a member of the District 4 Business Conduct Committee from 1968 to 1970, serving as Chairman in 1970. He is a member of the Financial Analysts Society and the National Security Traders Association. Previously he has served as a member of the Executive Committee of the Southwestern Group of the former Investment Bankers Association.

Elected to represent District 6 is Harry C. Webb, Jr., Executive Vice President of Underwood, Neuhaus & Co., Inc., Houston, Texas. Mr. Webb was a member of the District 6 Business Conduct Committee in 1968 and 1969 and chaired that committee in 1970. He is currently a member of the Houston Society of Financial Analysts and the Stock and Bond Club of Houston.

District 8 members have chosen Robert G. Dickinson as their Board representative. Mr. Dickinson is President of R. G. Dickinson & Co., Des Moines, Iowa, a firm he founded in 1955. Because of the sudden death of his predecessor, J. Robert Doyle, President of Doyle, O'Connor & Co., Inc., Chicago, at the September meeting of the NASD Board, Mr. Dickinson assumed his responsibilities as Governor in November of 1972. He has served the Association as a member of the District 8 Business Conduct Committee from 1969 through 1971 and as Chairman of that committee in 1971. He is currently a member of the Board of Governors of the Midwest Stock Exchange and the Midwest Governing Council of the Securities Industry Association.

The new Governor representing District 10 is Raymond A. Mason, President of Legg, Mason & Company, Inc., Washington, D.C. From 1968 to 1971, Mr. Mason was a member of the District 10 Business Conduct Committee, serving as Chairman in 1970. He is a member of the Marketing Committee of the Securities Industry Association and the Metropolitan Board of Trade of Washington, D.C.

District 12's new Board representative is Lewis M. Weston, Partner of Goldman, Sachs & Co., New York, New York. Mr. Weston's Association activities include: membership on the District 12 Business Conduct Committee from 1970 through 1972, chairing that committee in 1972; and membership on the Committee on Corporate Financing. He is a member of the New York Society of Security Analysts, the Bond Club of New York, and the Executive Committee of the New York Group of the Securities Industry Association.

Brent D. Baird, General Partner of Trubee, Collins & Co., in Buffalo, New York, is the new Governor representing District 13. When the NASD transferred most of New York State from District 12 to District 13 in January of 1972, the Association By-Laws were changed to permit District 13 an additional representative on the Board. Mr. Baird was elected, effective January 25, 1972, to a one-year term to fill this newly created position. Mr. Baird has also served the Association as member of the District 12 Business Conduct Committee from 1968 to 1971.

Bernard Weissman, Chairman of the Board of Gold, Weissman & Frankel, New York City, has been elected to the Board of Governors to represent members in District 12. He is serving the remaining two years of the term of Edward B. deSelding, who resigned from the Board, effective January 16, 1973. Mr. deSelding's resignation, regretfully accepted by the NASD, was due to an unexpected increase in the demands on his time by his firm. Prior to his election as a Governor, Mr. Weissman was a member of the Business Conduct Committee for District 12 from 1970 to 1972, serving as Vice Chairman of that committee in 1972. Currently, he is a member of the National Security Traders Association as well as the Security Traders Association of New York. In 1968 he was president of the New York traders group. He is also a member of the American Stock Exchange Arbitration Panel (non-member group) and the Security Industry Task Force.

YEAR-END NASDAQ FIGURES

Trading in securities carried on NASDAQ averaged more than 8.5 million shares a day in 1972. A record 14.3 million shares were traded on December 29, the final trading day of the year. A total of 2.2 billion NASDAQ shares were traded in 1972, approximately twice the volume on the American Stock Exchange and half the volume on the New York Stock Exchange.

Six of the seven NASDAQ-OTC Price Indices rose during 1972, five of them showing gains of between 13 and 27%. The biggest gainer was the Other Finance Index which closed the year at 148.95, up 27% over last year's closing of 116.91. The Insurance Index was up 22% at 149.03; the Banks Index gained 16%, closing at 119.11; and the Industrials rose 13%, closing at 132.41. Utilities rose 4%, while the Transportation Index closed the year off 2% from last year. The Composite Index, which includes essentially all domestic common stock in NASDAQ, rose 17%, closing at 133.73. The NASDAQ Price Indices have, however, dropped since the first of the year.

The indices were established on February 5, 1971 (the Friday before the start-up of NASDAQ) at a base of 100.00.

The following is a tabular record of each of the indices from the close of 1971 through the close for each quarter of 1972:

Index: Issues:*	COMPOSITE (2,707)	INDUSTRIALS (1,859)	BANKS (92)	INSURANCE (147)	OTHER FINANCE (453)	TRANSPORTATION (57)	UTILITIES (99)
12/31/71	114.12	116.53	101.82	121.33	116.91	120.12	94.37
3/31/72	128.14	136.51	106.76	135.79	129.47	127.39	97.30
6/30/72	130.08	139.48	105.88	132.71	135.80	121.55	92.27
9/30/72	129.61	130.08	118.38	136.38	144.41	119.78	94.28
12/31/72	133.73	132.41	119.11	149.03	148.95	117.50	98.60
High	135.15	144.14	120.75	152.41	151.45	133.21	99.02
1972	(12/8)	(5/26)	(10/10)	(12/6)	(11/13)	(3/6)	(11/28)
Low	113.65	115.97	100.60	120.45	116.31	115.56	91.84
1972	(1/3)	(1/3)	(1/26)	(1/4)	(1/3)	(10/19)	(6/26)

* As of December, 1972.

NASD PROPOSES LIMIT FOR FUND SALES CHARGES

Since early February, the Securities and Exchange Commission has been holding hearings to consider the repeal of price maintenance rules in the distribution of mutual funds. Testifying at these hearings, the NASD pointed out that while these rules were in effect, the average effective sales charge for funds had declined 30%

in the ten-year period from 1960 to 1970. "Because of this decline pattern, as well as other information which has come to light in recent studies," the Association said it was opposed at this time to repeal of Section 22(d) of the 1940 Investment Company Act, where the price maintenance provisions are contained.

Appearing at the hearing was John C. Bogle, President of Wellington Management Company and Chairman of the Association's Investment Companies Committee. Accompanying Mr. Bogle were Gordon S. Macklin, NASD President, and Stephen L. Sherwin, consultant to the NASD and Vice President of Foster Associates, Inc.

"As a self-regulatory agency," Mr. Bogle told the Commission, "the NASD seeks the continuation of competition through the development of a mutual fund sales charge structure designed to guard against higher than necessary charges so that fund purchases can be made at a level and price structure that is consistent with the standard of effective competition."

A current Association proposal reflects this theory, Mr. Bogle noted in his testimony. Designed to improve the terms on which investors may purchase mutual funds, a proposed NASD rule would fix the maximum sales charge on fund shares at 6% if the fund does not offer three specified services to investors: (1) rights of accumulation (cumulative quantity discounts); (2) reinvestment of dividends with no sales charge; and (3) discounts for large purchases. From the 6% base, the sales charge would be permitted to increase, depending on the combination of services offered, to a maximum of 8½%.

Each service specified in the proposal is assigned a value, expressed in terms of percentage points of the maximum sales charge. These services are:

1. **Reinvestment of dividends at net asset value**—the fund agrees to reinvest dividends with no sales charge, provided the investor requests the reinvestment within 20 days before the dividend payment date. The fund may limit this service to holders of shares of $1,200 or more and may apply a reasonable service fee against each reinvestment. Value: 1¼ percentage points.

2. **Quantity discounts**—the fund makes available lower sales charges on large single purchases in accordance with one of two alternative schedules: (1) a maximum sales charge of 7.75% on purchases of $10,000 or more and a maximum of 6.25% on purchases of $25,000 or more; or (2) a maximum sales charge of 7.50% on purchases of $15,000 or more and a maximum of 6.25% on purchases of $25,000 or more. Value: ¾ percentage point.

3. **Rights of accumulation**—the fund allows investors to obtain shares at a lowered sales charge on additional purchases when these, added to previously purchased and still held investments, exceed a specified minimum amount. This service must be made available to the investor for a period of ten years from the date of the first purchase in accordance with one of the alternative discount schedules outlined under quantity discounts. Value: ½ percentage point.

The proposed rule, which was distributed to members last November, is based on conclusions drawn from a year and a half study of the distribution of mutual funds conducted by Booz, Allen and Hamilton, Inc., and Foster Associates, Inc. The study and the concomitant rule were mandated by the 1970 Amendments to the Investment Company Act which gave the NASD the task of preventing excessive sales charge while providing reasonable compensation for sales personnel, broker/dealers and underwriters.

Reviewing the distribution of funds under Section 22(d), the study indicated that Section 22(d) had not precluded competition among mutual funds. The existence of competition is reflected in the lowering of the average effective sales charge, from 6.3% to 4.4% during the 1960's, as well as such classical economic measures as widely-shifting sales leadership among underwriters, competition for service and performance, concentration ratios that compare favorably with those of other financial institutions, and ease of entry into the industry.

In addition, the study showed that mutual fund salesmen do not receive excessive compensation, that mutual fund distribution is not a high profit business for underwriters and dealers and that the value of the mutual fund product generally exceeds the acquisition costs, particularly for the small investor.

In his testimony, Mr. Bogle also told the Commission of the results of an additional study conducted to determine the impact of the proposed NASD rule on the mutual fund industry. "The general level of sales charges would probably decline further by 10% under our rule," he commented. "In addition, the study indicated that two-thirds of all mutual funds (charging sales charges) would have to make some downward adjustment in their sales charge structure."

SALES CHARGE LIMIT PROPOSED FOR VARIABLE ANNUITIES

Concurrent with the release of proposals setting maximum sales charges for the distribution of mutual funds, the Association announced a companion proposal which would set the maximum sales charge for the purchase of a variable annuity contract at 8½ percent of the total payments made during the first 12 contract years. If the contract is for a shorter period, the maximum would remain at 8½ per cent of the total payments.

Variable annuities were included in the comprehensive economic study conducted by Booz, Allen & Hamilton, Inc., on the distribution of investment company shares at the request of the Securities and Exchange Commission shortly after the study began. Variable annuities, because of the equity nature of the product, are registered under the Investment Company Act of 1940—and, therefore, are covered by the 1970 Amendments to that Act which charge the NASD with the responsibility of making and enforcing rules preventing "excessive" sales charges.

In addition to the overall 8½ percent rule, the proposal stipulates that if a contract provides for a single purchase payment, quantity discounts on sales charges must be made available on terms at least as favorable as the following:

First $25,000—sales charge of 8½ percent of purchase payment
Next $25,000—sales charge of 7½ percent
Over $50,000—sales charge of 6½ percent

According to the proposal, if a contract does not separate sales charges from other deductions, the total deductions from purchase payments would be considered the sales charge for the purposes of the rule.

Booz, Allen & Hamilton, Inc., evaluated variable annuity sales charges using the same standards applied to mutual fund sales charges. However, consideration was given to the "infant industry" status of the variable annuity business; the complex regulatory framework which involves the SEC, State Insurance Commissioners and the NASD; and the substantial differences between variable annuities and mutual funds.

In essence, a variable annuity is a contract issued by a life insurance company which provides an annuitant with lifetime monthly payments, the amount of each payment varying in accordance with the investment experience of the insurance company's equity portfolio (separate account). Typically, purchase payments are deposited periodically for a number of years prior to the annuity startup and are invested in a professionally managed equity portfolio (separate account), with dividends being automatically reinvested.

An important conclusion of the study was that "the general level of existing sales charges is not excessive." Further, the study concluded that salesmen's compensation "does not appear to be excessive in relation to the alternative compensation opportunities available."

"BUSINESS DAY"— PER REGULATION T

Each year there are several days when the various securities markets are open while the banks observe a holiday. Examples of this type of situation would be Veterans Day, Columbus Day, or Lincoln's Birthday. Members are reminded that such days are defined as "business days" under Regulation T.

The Federal Reserve Board has interpreted "Business Day" for Regulation T purposes to mean any day on which a broker is open for business. Therefore, when a customer purchases a security shortly before a bank holiday on which the securities markets are open, that holiday must be treated as a "business day" in determining the number of days in which the customer must make payment. The fact that the NASD may adjust the days on which contracts between brokers settle does not change the customer's obligation to pay wihin the time prescribed by Regulation T.