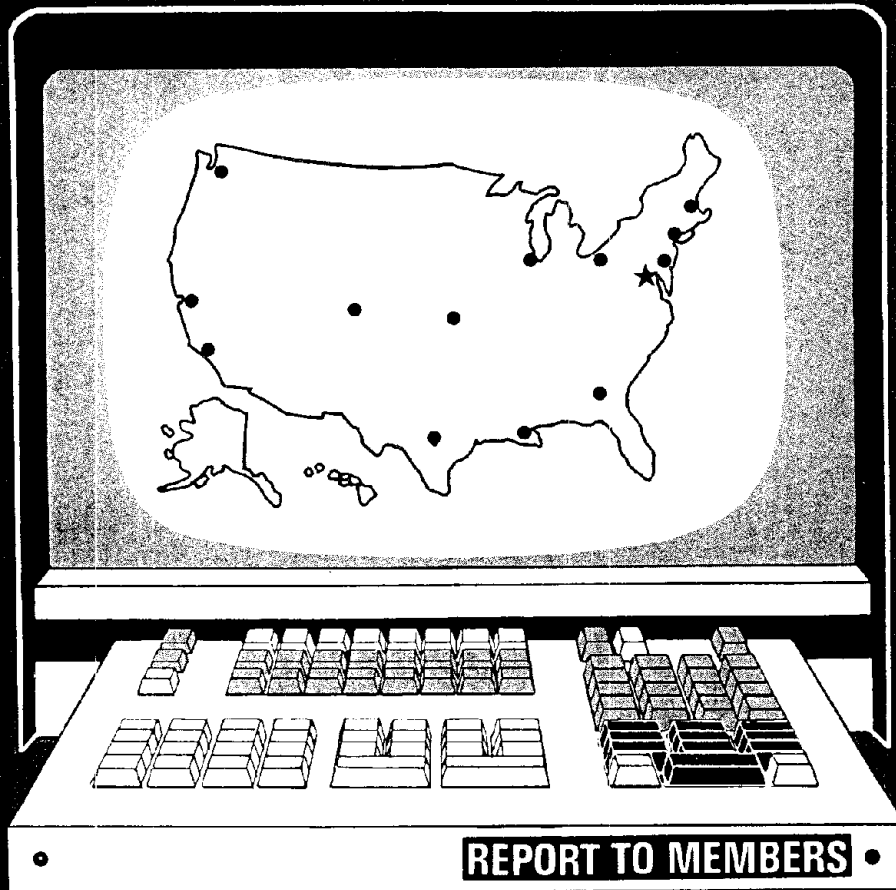


NASD





Chairman's Report

The recovery of the U.S. economy in 1975 enabled the securities markets to rebound to more reasonable levels. Hence the securities industry and the NASD were able to focus on many important issues without the pressures of depressed markets and a low volume of business. Blessed with a better market climate, the NASD during my year as Chairman made the very significant decision to purchase the NASDAQ System, a decision which was technically complex and which constituted a substantial financial commitment for the Association. Beyond that, a major thrust of the Association's endeavors in 1975 was better communications with its own members and with other organizations within the securities industry. We labored long and hard to make sure that all concerned understood the issues we faced, the Association's problems with respect to the issues and the reasons for Association decisions. We were successful, I think, in showing our members that the officers and staff of the Association were there not only to regulate but also to assist them whenever possible. Overall, the NASD in 1975 as in the past combined its regulatory responsibilities to protect the investing public with a series of programs to enhance the marketplace and to assist its members.

Investor Protection

Significant new regulatory work done by the Association in 1975, to increase the protection of the investing public, included:

—Raising standards for the admission of firms to membership in the NASD and for the registration of individuals. These new standards were developed by the Association's Committee on Entry Standards and the Committee on Qualifications.

—Drafting, by the Municipal Securities Committee, of a set of regulatory proposals for broker/dealers and banks who underwrite or trade in municipal securities. These proposals were submitted to the Municipal Securities Rulemaking Board (MSRB), which was appointed by the SEC pursuant to the Securities Acts Amendments of 1975.

—Action in implementation of the new Net Capital Rule, adopted by the SEC.

—Setting of new rules for mutual fund and variable annuity sales charges. This was the culmination of five years of work, following a 1970 legislative grant of authority to the NASD to set such rules.

—Preparation for more stringent regulation of new issues. These proposals, developed by the Committee on Corporate Financing, have been submitted to the Association's membership for vote.

Enhancement of the Marketplace

To enhance the marketplace, the Association in 1975 not only decided to acquire the NASDAQ System facilities from Bunker Ramo Corporation in 1976 but also to merge the National Clearing Corporation with the clearing corporations of the New York Stock Exchange and the American Stock Exchange, into a single entity.

The acquisition of the NASDAQ System will make possible timely and more economical upgrading of the System and reinforcement of NASD performance of the regulatory functions related to the System.

Among the enhancements to the System contemplated under Association ownership are a Composite Quotations Service for NYSE-listed securities, an Options Display Service and a Block Interest Display Service.

Over the longer term, the System's normal revenue flow should be sufficient to cover the acquisition costs within five years. This holds out the prospect that rates to subscribers can eventually be reduced.

Along with these benefits, there will be continuity of System service through the retention of Bunker Ramo, under a new contract, as the System operator.

The forthcoming merger of the NASD's National Clearing Corporation with the clearing corporations of the two New York exchanges should in the future provide more efficient and more uniform service to the securities marketplace. It is also a significant step toward the ultimate goal of a single national clearing and settlement system for all securities trading in the United States.

Assistance to Members

The improvement of investor protection and the enhancement of the marketplace represent valuable assistance to NASD members, since they increase the integrity of the securities business and upgrade the facilities for conducting it.

In addition, the NASD in 1975 provided many kinds of direct, day-to-day assistance to its members. These included:

—Participation in the streamlining of Association and other forms, procedures and requirements, to reduce the administrative burdens of members;

—Closer coordination of the Association's regulatory activities with those of Federal and state regulatory agencies, further reducing members' administrative burdens;

—Upgrading of the Association's information systems, to facilitate services to members; and

—An expansion of the Association's membership communications program, both to keep members abreast of NASD and industry developments and also to increase members' participation in Association affairs.

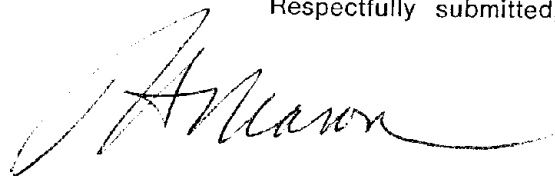
In the whole area of assistance to the NASD membership, members of the Board of Governors, the National Committees and the District Committees gave generously of their time and knowledge, for the benefit of their colleagues in the securities industry. At the same time, many other individuals contributed valuable ideas and insights to the work of the Association, by their formal comments and in informal conferences.

Recognition and Outlook

The caliber of securities industry personnel directing the NASD was recognized in many ways in 1975. Perhaps the most visible recognition was that accorded to two of our Governors. One of our incoming Vice Chairmen, George Rinker, Jr., was appointed, in his private business capacity, to the Municipal Securities Rulemaking Board, established under the Securities Acts Amendments legislation of 1975. The incoming Chairman of our Board of Governors, Robert W. Swinarton, was similarly appointed to the National Market Advisory Board, which also is a result of the legislation.

I am confident that in 1975 the NASD will continue to contribute its knowledge and professional judgment to the integrity and the efficiency of the over-the-counter market. This strengthening of self-regulation will be a valuable service to the securities markets, American industry and the public.

Respectfully submitted,



Raymond A. Mason



Investors, issuers and the securities industry had a much better year in 1975 than in 1974 and 1973. So did the NASD. The significant cost-cutting and other important budget-related steps taken in 1974 helped to produce a material improvement in the Association's financial condition by the end of fiscal 1975. During the year, as in the past, the Association worked hard toward the combined goals of professional performance and efficient use of resources

Regulatory Activities

In accordance with the primary responsibility of the NASD, the great bulk of the Association's work in 1975 continued to be in the regulatory area. This work involved thousands of examinations of members' main and branch offices, and, as a consequence, a series of disciplinary actions. It involved market surveillance, anti-fraud investigations, corporate financing reviews, advertising reviews and the administration of tens of thousands of qualifications examinations for individuals seeking to enter the securities business. Further, the Association's regulatory work involved constant cooperation with Federal and state regulatory agencies.

A good measure of the effectiveness of these regulatory efforts was the continuing decline in Securities Investor Protection Corporation (SIPC) liquidations, among securities firms for which the NASD is the designated examining authority for purposes of financial reporting. The number of such firms placed in SIPC trusteeship was 39 in 1972, 24 in 1973, 13 in 1974 and 4 in 1975. These 4 firms joined 4 more, not the responsibility of the NASD, in the liquidation process. But the 4 firms for which the Association was the designated agency accounted for only 17% of the customer claims and for only 23.6% of the SIPC cash advances to settle claims against all 8 firms.

These statistics indicate that the NASD's regulatory efforts played a significant part in decreasing the overall exposure of investors, and in limiting the impact of cases in which losses were sustained. Recently both SIPC and the SEC expressed their appreciation to the Association for its work.

NASDAQ and NCC Activities

In addition to carrying out the exhaustive studies which led to the decision to acquire the NASDAQ System, the Association in 1975 saw to the efficient operation of the System and to the enhancement of its services. System performance was excellent, a heavy load of calls was handled

President's Report

smoothly, and the average response time per call was short indeed. Among the services added to the System was the capability to receive Third Market transactional reports and to transmit them to the Consolidated Tape.

During the year the Association conducted seminars in five cities across the country, for more than 250 executives of companies whose issues are carried on the NASDAQ System. The seminars gave the Association the benefit of NASDAQ companies' points of view, as well as letting the companies hear from representatives of the NASD and the SEC.

The Association in 1975 continued its assistance to the press, radio and television in their coverage of NASDAQ quotations. More than 50 major metropolitan newspapers now regularly publish the National NASDAQ/OTC List of the 1,410 most active stocks; many other papers carry some national NASDAQ data; and over 225 newspapers across the country publish quotations of NASDAQ/OTC issues of interest to local investors. Radio and TV coverage of NASDAQ information is now substantial in nine major cities, and more such coverage is expected in 1976.

The forthcoming merger of the National Clearing Corporation (NCC) with the clearing entities of the New York Stock Exchange and the American Stock Exchange has been facilitated by much work to make the NCC a more desirable merger partner. This work included major improvement of NCC's financial condition, opening of new regional clearing centers, the development of interfaces with other clearing entities, full implementation of the National Envelope Settlement System, and of a Collateral Loan Program to go along with it.

Membership Communications

The Association in 1975 expanded its Membership Communications program on both special and general matters. On special subjects, 11 seminars were conducted in major cities to explain the municipal securities regulation provisions of the Securities Acts Amendments of 1975, and 36 seminars, attended by 2,130 persons, were organized to clarify broker/dealers' obligations under the SEC's new Net Capital Rule. To review general regulatory matters, the Association held many "get acquainted" sessions with individual member firms and group discussions with a number of members. Moreover, as an innovation, a series of membership meetings dealt with non-regulatory, operational issues of the securities industry. The Membership Communications program was well received, and will be actively pursued in 1976.

Increased Automation

The NASD is increasing the application of automation to its work in several ways.

By early 1976 the Association's Automated Registered Representative System will include the computerized records of some 300,000 registered representatives and principals. In time, the System will include virtually all persons and firms in the securities industry, past and present.

The National Early Warning System report will go from its 1975 pilot stage to extensive implementation in 1976. This is a report that signals when a broker/dealer firm breaks one or more of 16 parameters, in a way which indicates financial or operational problems. The use of this report will help the Association to identify trouble spots in member firms before they reach serious proportions.

Also under development is the Financial Early Warning System, which will try to predict the future viability of Association members through sophisticated, computerized analysis. The Financial Early Warning System will establish composite profiles of both the typical "failed" and the typical "active" securities firm. It will then compare NASD member firms with these profiles, in order to estimate whether the NASD firms are in danger or in good health.

Much of the Association's work described in the following pages is designed to make the over-the-counter securities market more efficient and attractive. The beneficial results of this activity will become increasingly evident as market conditions improve.

Respectfully submitted,



Gordon S. Macklin

1975 REPORT TO MEMBERS

Membership

The number of Association members was 2,893 at the end of 1975, a decline of 9% from 1974. New members totaled 151, almost the same as in 1974, and there were 422 terminations, or less than $\frac{2}{3}$ the terminations in 1974.

The number of branch offices at year end was 5,949, a decline of less than 1% from a year earlier. 885 new branch offices were opened, and 929 were closed.

The number of registered representatives at the close of 1975 was 195,674, a decline of 2.7% from the year before.

Total qualifications examinations administered during the year were 40,299. Of these, 21,487 were administered for acceptance by the NASD, a decline of 19.8% from 1974, and 18,812 were administered for acceptance by other institutions, a drop of 10.7% from the preceding year.

In accordance with the regulation of the municipal securities market, pursuant to the Securities Acts Amendments of 1975, the Association received approximately 250 membership applications from municipal securities firms.

Regulatory Activities

Summary

Important events affecting the regulatory activities of the NASD in 1975 included the Securities Acts Amendments of 1975, the SEC's new Net Capital Rule and the SEC's new FOCUS Report.

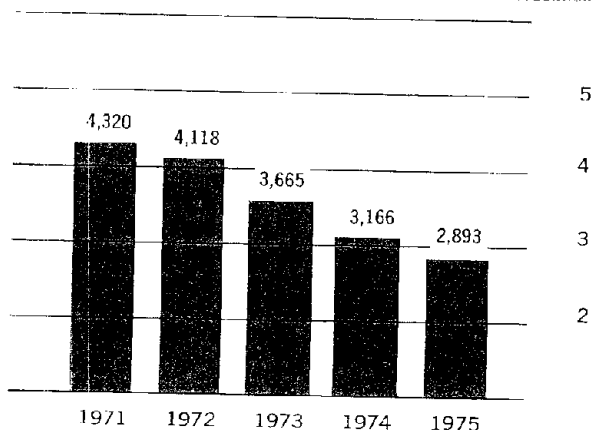
Important new elements in the NASD's own regulatory activities in 1975 included:

- Action on the municipal securities regulation required by the Securities Acts Amendments of 1975
- Action on the SEC's new Net Capital Rule
- New rules for mutual fund and variable annuity sales charges
- Planning for a NASDAQ options market
- Higher NASD admission standards

1975 STATISTICAL REVIEW

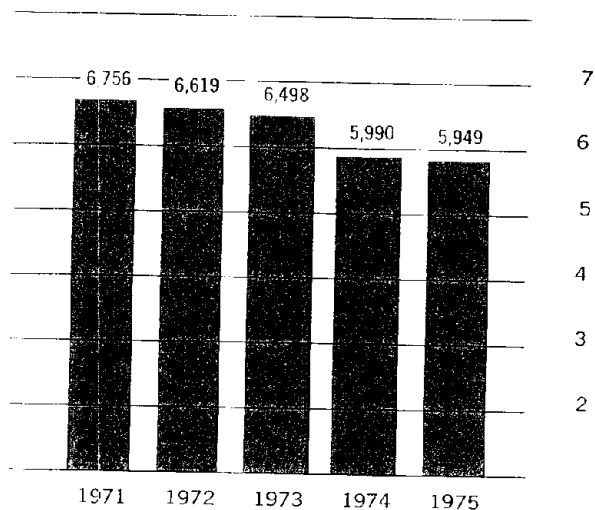
MEMBER FIRMS

Thousands



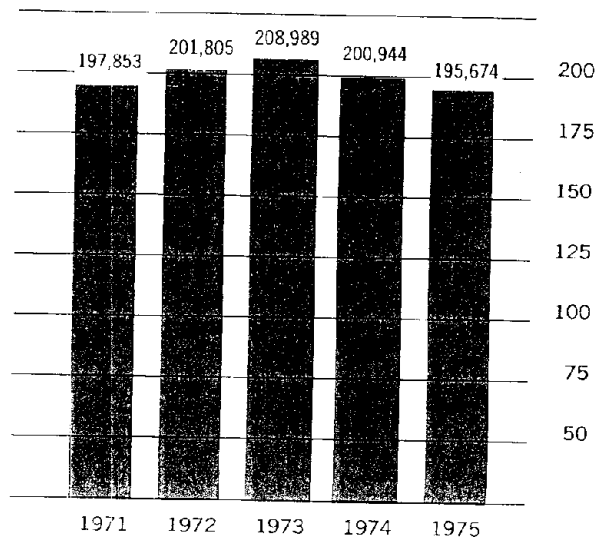
BRANCH OFFICES

Thousands



REGISTERED REPRESENTATIVES

Thousands



--New industry-wide uniform registration forms
--Pending changes in new issues regulation
Ongoing NASD activities in the regulatory field included:

- An expanded membership communications program
- Examinations of member firms
- Work with SIPC
- Market surveillance
- Anti-fraud programs
- Corporate financing reviews
- Advertising reviews
- Administration of qualifying examinations for registered representatives and principals
- Automation of procedures for processing applicants for registration

Securities Acts Amendments of 1975

The Securities Acts Amendments of 1975, the bill signed into law by President Ford on June 5, 1975, contains provisions with important effects on the regulatory activities of the NASD. These provisions include:

- *Municipal Securities Regulation*—The NASD is given responsibility for enforcing the regulations of the new Municipal Securities Rulemaking Board (MSRB), created by the Securities Acts Amendments legislation. The Association is authorized to examine municipal securities dealers who are members of the NASD, and to administer qualification examinations to persons associated with those members.
- *Disciplinary Powers*—New authority is granted to the Association to suspend summarily a member or person associated with a member, or limit or prohibit a member's access to services offered by the Association, if the member is in such financial or operating difficulty that the Association determines and so notifies the SEC that the member cannot be permitted to continue to do business with safety to investors, creditors and other members.
- *Entry Standards*—The NASD is granted new authority to deny membership, or to condition membership, or to bar a person from becoming associated with a member, if the person has engaged, and where the Association determines that there is a reasonable likelihood he will again engage, in acts inconsistent with just and equitable principles of trade.
- *National Market Advisory Board*—The SEC is directed to form a National Market Advisory Board, which is to make recommendations for the creation of a National Market System. The Board is to study adaptation of the existing scheme of securities industry self-regulation to the needs of a National Market System. It is also to examine the advisability of a new self-regulatory organization to administer the National Market System. The Board is to submit its study and recommendations to the Congress by December 31, 1976.

• *Creation of a National Market System*—The legislation authorizes the SEC to oversee the implementation, operation and regulation of a National Market System, and it makes the SEC responsible for the development and operation of the System, in accordance with goals and obligations determined by Congress.

Action on Municipal Securities Regulation

Work with MSRB

The Association worked closely with the MSRB, appointed in October 1975, pursuant to the Securities Acts Amendments legislation. The MSRB is responsible for the rules for regulating the municipal securities marketplace, including all broker/dealers and banks underwriting or trading municipal securities.

On the basis of its background and experience as a self-regulator, the Association, through its Municipal Securities Committee, developed a comprehensive package of regulatory proposals and submitted them to the MSRB for its consideration. These proposals, presented to assist the Board in its rulemaking deliberations, included Rules of Fair Practice, a Uniform Practice Code, Qualifications and Entry Standards and procedures for the arbitration of disputes.

Eleven Seminars for Municipal Securities Firms

The Securities Acts Amendments legislation required municipal securities dealers to take steps to register with the SEC by December 1, 1975. Pursuant to this requirement, many non-bank securities firms contemplated membership in the NASD. For these firms, and for other interested persons in the law and in accounting, the Association conducted eleven seminars in major cities across the U.S. to explain the municipal securities regulation provisions of the legislation.

SEC Net Capital Rule Amendments and NASD Actions

The Amendments

As part of its efforts to effect more uniform regulation, the Securities and Exchange Commission on September 1, 1975 adopted major amendments to Rule 15c3-1 (the Net Capital Rule). By the amendments, the exemptions previously allowed members of designated national securities exchanges, with the exception of certain specialists, were discontinued and, in a break with past practice, the rule's applicability was extended to broker/dealers engaged in municipal securities transactions. Subsequently, the SEC announced the adoption of certain amendments, temporary amendments and interpretations which would modify the impact of the rule on broker/dealers effecting transactions in municipal securities.

The amended rule continues the basic net capital concept of requiring securities firms to have at all times sufficient liquid assets to cover current indebtedness. The rule further provides a new alternative method of calculating net capital, with a new requirement based upon the Reserve Formula contained in Rule 15c3-3 (Customer Protection Rule), which replaces the traditional ratio requirement.

The amended Net Capital Rule does not alter the minimum dollar net capital requirements previously set for most types of brokerage activity. However, the rule does alter the treatment accorded certain categories of assets and liabilities when calculating net capital and aggregate indebtedness. In addition, changes in the manner of calculating the capital ratio may reduce the net capital of some existing broker/dealers and consequently reduce the amount of business they can transact unless additions of capital are made.

NASD Actions

Under the new Net Capital Rule, the Association was required as of September 1, 1975 to review and find acceptable the form of all subordination agreements filed by those members for whom it is the examining authority, pursuant to Appendix D of the Rule. To meet this obligation and to serve its members, the Association developed standard forms for optional use in the filing of subordination agreements. The Association has reviewed 251 agreements and accepted, as to form, 146 of them.

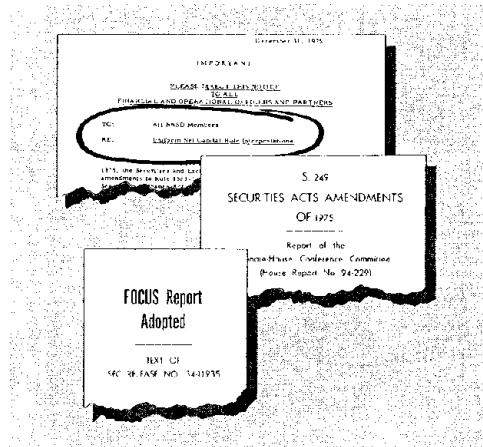
Certain provisions of the new rule did not become operational until January 1, 1976 so that broker/dealers would have several months' time to become familiar with the new obligations they imposed. To explain these obligations, the NASD in the latter part of 1975 conducted 36 seminars throughout the U.S. The 2,130 persons who attended included NASD members, SECO members, non-registered municipal securities dealers and representatives of the accounting and legal professions.

The SEC's FOCUS Report

As another part of its efforts at more uniformity of regulation, and also to reduce the reporting burdens of the industry, the SEC in 1975 adopted the Financial and Operational Combined Uniform Single report (FOCUS). The report is the result of the work of the SEC's Report Coordinating Group, an advisory committee which was established on May 1, 1974, with the NASD as a member, to assist the SEC in streamlining the reporting system for the securities industry.

Part I of the FOCUS Report is for monthly summary reporting, by specified broker/dealers, of the Form M type; Part II is for quarterly reporting of the Form Q or Joint Regulatory Report type; Part IIA, a shorter version of Part II, is for intro-

ducing broker/dealers and for firms conducting a limited type of business. With the adoption of the FOCUS Report, the SEC also announced that Forms X-17A-10 and X-17A-20 had been substantially amended to conform to the format of the FOCUS Report, and to reduce the amount of income and expense information required.



Mutual Fund and Variable Annuity Sales Charges

In November 1975, the Association declared effective as of June 1, 1976 new rules governing sales charges on mutual fund shares and variable annuity contracts. The implementation of these rules was the culmination of many years of testimony, negotiation, study, and the exercise of authority specifically granted the Association by the 1970 Amendments to the Investment Company Act of 1940. Since the 1970 Amendments, the Association's development of the new rules involved an independently-commissioned economic study, several public comment periods, testimony at public hearings held by the SEC, member approval and, finally, approval by the SEC.

The rule changes prohibit members from making excessive sales charges when offering or selling shares of a mutual fund or a single payment contractual plan.

For open-end investment companies and single payment contractual plans issued by unit investment trusts, the rules set a ceiling on sales charges of 8.5%. The member's right to charge this maximum for mutual funds depends upon the services offered to investors. To this end, the rules impose deductions from the maximum for failure to provide rights of accumulation, volume discounts and/or dividend reinvestment at net asset value. In the absence of all of these services, the maximum sales charge is reduced to 6.25%.

The new rules also provide maximum sales charges ranging from 8.5% down to 6.5% on single payment variable annuities, and a maximum sales charge of 8.5% of the total purchase payments made during the first 12 years of multiple payment variable annuity contracts.

The effective date of the new rules was set as June 1, 1976 in order to give Association members time to make changes in prospectuses, record-keeping and computer systems.

Planning for a NASDAQ Options Market

A plan for a NASDAQ options market was submitted to the Board of Governors for its consideration in early 1976. The plan was developed by the Options Committee in response to interest shown in a NASDAQ options market by NASD members using Level II and Level III NASDAQ terminals and others reporting options trading income. If the Board of Governors approves, the plan will be submitted to the Association membership for comment and vote. It could be operational in 1976.

Initially the NASDAQ options market would be limited to certain of the OTC securities currently displayed on NASDAQ. The options would have standardized expiration dates and exercise prices. They would be issued by and cleared through the Options Clearing Corporation. The options would be displayed on the NASDAQ System as NASDAQ stocks are displayed, so that access to the best market in any option would be available to all participants in the System.

Higher NASD Admission Standards

Higher standards for admission to membership in the NASD and for the registration of individuals were proposed in late 1975, by the filing with the SEC of extensive amendments to Schedule C of the Association's By-Laws. These changes, some of the most significant ever made by the Association, were the work of the Committee on Entry Standards and the Committee on Qualifications.

New admission standards for firms are spelled out in Part I of the amended Schedule C. Part I specifies, among other things, the number of principals a firm must have, including at least one Financial and Operations Principal; requirements in the specialized area of underwriting; pre-membership procedures including due process standards; the criteria to be used by District Committees and the Board of Governors for determining acceptance or rejection of applicants; provisions for limiting the business operations of new members in accordance with their capabilities; and provisions for removing such limitations when appropriate.

New standards for the registration of individuals associated with a NASD member as principal or representative are established in Part II of the amended Schedule. It covers *Principals* for General Securities, Financial and Operations, Underwriting and Limited-Direct Participation Programs, and *Representatives* for General Securities, Securities Trading, Investment Company and Variable Contracts Products, Direct Participation Programs,

and Real Estate Securities. Part II also covers qualification examinations, exemptions from registration and special situations.

New Uniform Registration Forms

In October, 1975, the NASD adopted two new uniform registration forms: (1) Form BD for the registration of broker/dealers as Association members and for the amendment of previous registrations, and (2) Form U-4, the "Uniform Application for Securities and Commodities Industry Representative and/or Agent", for the registration of individuals under Schedule C.

The adoption of these two forms reduces the reporting burdens of the securities industry, since they are acceptable to the SEC and to the majority of state jurisdictions, as well as to the NASD.

Form BD will lead to a special streamlining. When broker/dealers registered with the SEC submit it to the SEC in 1976, as required by the amended Rule 15(b)3-1, the SEC will deliver all the Form BD information on computer tape to the NASD. The NASD will use this information to verify and update its own records and thus spare broker/dealer members from having to make a duplicating report to the Association.

Pending Changes in New Issues Regulation

In April 1975, the Board of Governors submitted to the membership for comment significant new regulatory proposals which resulted from the "Hot New Issues" hearings held by the SEC in 1972 and from certain Commission directives calling for more stringent regulations in the new issues field. Included in the proposals were recommendations for regulation in the areas of underwriter inquiry, due diligence and distribution of new issues of securities to the public. Additional proposals dealt with the use of discretionary accounts for purchasing securities that were part of a public offering of a new issue, the reservation or direction of shares by an issuer in a public offering of securities, and the distribution of a "best efforts" offering to the public.

Two new important features of the regulatory package were implemented. One dealt with guidelines for due diligence obligations, while the other required the escrowing of funds in most "best efforts" offerings, and also required that the NASD and purchasers of such issues be notified before trading commences in the shares of such offerings.

The proposed new regulations were revised after considering members' comments, and the revised regulations were subsequently approved by the Board of Governors. The portions of such regulations concerned with rule changes have been submitted to the membership for vote, while the amendments to the Board of Governors' interpretations have been filed with the SEC for approval.

Membership Communications Program

During 1975, the Association substantially expanded its communications with the membership through a large number of individual visits and group meetings with member firms throughout the U. S. The summary of these visits and meetings (exclusive of the special educational seminars on municipal regulation and on the new Net Capital Rule) is as follows:

District Number	Number of Individual Visits	Group Meetings	
		Number Held	Attendees
1	69	5	221
2N	62	2	225
2S	81	1	240
3	81	—	—
4	3	4	87
5	70	1	150
6	51	7	58
7	56	1	75
8	—	13	232
9	15	2	146
10	6	3	36
11	80	1	184
12	—	1	2
13	220	1	191
Total	794	42	1847

To these meetings, the Association brought members of the Board of Governors, the District Committees, Executive and District office staffs and, on some occasions, government officials and special representatives of the securities industry. The individual meetings were "get acquainted" sessions and permitted members to ask about and comment on Association activities. The group meetings discussed new regulatory and other developments in the securities field. In addition, as an innovation, group meetings in several Districts dealt with non-regulatory, operational issues in the industry.

Membership participation in this expanded communications program was very lively, and membership response to it was highly favorable. As a result, the Association intends to continue the program in 1976.

Examinations of Members

Since 1973 the Association has been engaged in a program involving examination categories and frequency cycles based on a determination that certain categories of members have higher examination and surveillance priorities than others. Factors such as a member's type of business, method of operation, product mix, whether or not the Association is the designated examining authority, etc. were taken into consideration

when the entire membership was divided into these examination categories and the examination frequency cycles assigned. For example, members designated to the NASD who conduct a retail, market making, options or municipal securities business and clear transactions for themselves or carry customers' funds and securities are subject to two examinations per year, one routine and the other a financial and operational examination.

In 1975 the Association conducted a total of 2,658 routine and financial and operational examinations of members' main offices, as well as 22 routine examinations of branch offices. Also, 430 "cause" or "special" examinations were completed during the year.

As a result of this examination program, 218 Formal and Summary Complaints were filed, and 101 Letters of Admission, Waiver and Consent were accepted. Disciplinary actions during 1975 resulted in the expulsion of 43 firms, the barring of 194 individuals, and the suspension of 25 firms and 99 individuals.

Work with SIPC

As a result of the Association's examination and surveillance programs, the downward trend in the number of Securities Investor Protection Corporation (SIPC) liquidations over the last several years has continued. The number of sole NASD members placed in SIPC trusteeship was 39 in 1972, 24 in 1973, 13 in 1974 and 4 in 1975.

During 1975, there was a total of 8 firms placed in SIPC trusteeship, accounting for approximately \$3,637,000 in SIPC advances. Of this, only \$858,000 or 23.6% was attributed to the four sole NASD firms, and they accounted for 606 of the 3,550 claims filed against all 8 firms.

The total overall customer exposure of sole NASD members referred to SIPC under Section 5(a) of the SIPC Act as being in or approaching financial difficulty decreased by \$3.2 million during 1975.

Furthermore, the Association successfully monitored the self-liquidation of 33 of its members during 1975 whose overall exposure to public customers and the industry totaled \$20,800,000. All but 5 of these liquidations have been completed with a remaining exposure of \$220,000.

Market Surveillance

With the help of its computer facilities, the Association conducts surveillance of the NASDAQ marketplace for unusual price or volume activity, among other things. Whenever computer reports signal such unusual activity, specially-trained analysts investigate it further.

During 1975, the Association's Market Surveillance Section conducted 709 routine reviews and pursued 90 investigations. This work resulted in 5 substantive referrals to the Association's Anti-

Fraud Section and to District offices, 15 to state securities commissions and the SEC.

The SEC took official action on at least 7 NASD referrals made in 1975 and prior years, and formal orders of investigation followed on 9 other referrals. Active informal investigations were pursued in a number of other cases.

Besides uncovering possible wrongdoing, the Market Surveillance Program also serves as a deterrent to potential manipulations, insider trading and other fraudulent activity in the NASDAQ marketplace.

Anti-Fraud Programs

The Anti-Fraud Section of the Association's Department of Enforcement in 1975 conducted 32 field examinations and reviewed 40 cases referred to it by the District offices. This work led to the referral of 4 cases to the SEC for further action, the referral of 37 cases to the Districts, and the referral of 5 cases to a state government. The Section also cooperated with state officials in connection with investigations of securities frauds, and is continuing to investigate fraudulent activities of firms in SIPC liquidation.

Corporate Financing Reviews

The Corporate Financing Section of the Association in 1975 continued to review new offerings of securities in which NASD members intended to participate, to assure that the distribution arrangements were fair and reasonable. 730 offerings were submitted to the Association for review, representing a registered gross dollar value of \$13.7 billion; this was a small increase over the number of submissions in 1974. 242 tax shelter offerings were filed with the Association; this number fell below 1974's because of economic conditions and changes in tax laws.

The Association in 156 cases advised that the distribution arrangements were unacceptable under its rules. In all instances, the arrangements were brought into conformity with NASD regulations before the securities were distributed to the public.

Advertising Reviews

The Advertising Department of the Association continued to review members' advertising and sales literature for compliance with SEC and NASD rules. Some 8,600 pieces of such literature were reviewed and commented on during the year, representing a slight decline from the volume reviewed in 1974. The literature reflected, among other things, more securities industry efforts to

market retirement plans, promote options, and experiment with the recently-liberalized advertising rules of the SEC with respect to investment company securities.

Administration of Qualifying Examinations

The Qualifications and Examinations Section of the Association's Membership Department in 1975 administered a total number of 40,299 examinations, both for the NASD and other institutions. This number showed a decline from 1974, due to the declining number of broker/dealers and to general market conditions.

Examinations administered by the NASD for the five-year period beginning January 1, 1971 and ending December 31, 1975 were as follows:

Year	Qualification Exams for NASD	Exams for Other Institutions	Totals
1971	32,366	21,696	54,062
1972	38,519	26,262	64,781
1973	46,312	26,286	72,598
1974	26,783	21,059	47,212
1975	21,487	18,812	40,299

Automation of Procedures for Processing Applicants

During 1975, the NASD's Automated Registered Representative System was expanded to include computerized records of more than 220,000 registered representatives and principals, and by early 1976 the System will include approximately 300,000 of them on such records. This will cover all individuals currently registered with the Association; it will also cover all those whose most recent registration has been terminated for less than two years and who are therefore allowed to re-register with the Association without a new qualification examination. The System will accelerate the processing of registration applications and will permit automatic checking of applications against the Association's disciplinary files to discover any potential restrictions on registration with the NASD.

The Association intends to expand the System still further, to include firm applications for membership and histories of all disciplinary actions against individuals and firms currently or formerly registered with the NASD. In time, the automated system will cover virtually all individuals and firms in the securities industry, past and present.

NASDAQ Activities

The principal developments relating to the NASDAQ System in 1975 were:

1. A continued high level of NASDAQ System performance, with enhanced System services;
2. Preparations for NASD acquisition of the NASDAQ System facilities from Bunker Ramo Corporation;
3. Planning for new System services; and
4. An information program for NASDAQ companies.

The NASDAQ System: Performance and Enhancement

The NASDAQ System in 1975 continued to provide, on every business day, accurate and up-to-the-minute quotations and volume information on some 2,600 OTC issues to OTC traders, registered representatives and institutions throughout the U. S. It also provided representative quotations on NASDAQ securities to interested parties throughout the world through several foreign financial information services. The NASDAQ System further continued to bring to the OTC

market increased visibility, wider publication of market information, advanced market surveillance techniques and greater public awareness and confidence.

Quotations for 2,598 securities were in the System at the end of 1975, compared with 2,593 at the end of 1974. Trading volume averaged 5,495,700 shares per day, as against 4,622,935 per day in 1974. Total aggregate volume for the year reached 1.4 billion shares and continued to be greater than the combined volume of all national exchanges, other than the New York Stock Exchange.

The average number of market makers per NASDAQ security rose to 5.7, up from 4.9 in 1974. The total number of NASDAQ market makers was 372 at year's end, compared with 391 in 1974, and their market-making positions totalled 14,815.

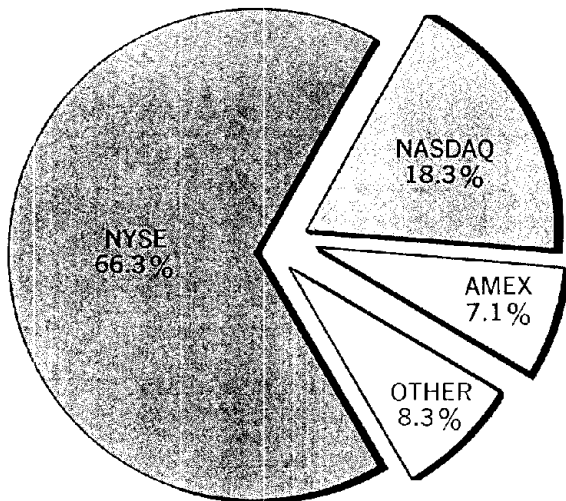
The NASDAQ/OTC Composite Index ended 1975 at 77.62, up 29.8% from year-end 1974.

The performance of the NASDAQ System facilities continued to be excellent. The average number of calls processed per day was 768,373, and the peak number of calls was 966,117. The average response time per terminal call was less than 3 seconds. Average downtime per terminal due to equipment failure was 3 hours.

New services provided by the NASDAQ System in 1975 included:

- Monthly high/low bid and asked prices for each quoted security. This information assists NASDAQ companies in filing quarterly quotations data, as required by SEC Rules 14a-3 and 14c-3.
- Utilization of the System to report Third Market transactions to the Consolidated Tape. This was made possible by modifying the Level III terminals of NASD market makers in listed securities to permit the entry of Third Market transactional information and by adaptation of the NASDAQ System to accept such information on a real-time basis.

TRADING ACTIVITY ON NASDAQ AND EXCHANGES



1975 Share Volume

New York Stock Exchange	5,050,736,000
NASDAQ	1,390,412,000
American Stock Exchange	539,348,000
Other exchanges	629,492,000

Preparations for NASD Acquisition of the NASDAQ System

The expiration, in February 1976, of the NASD's contract with Bunker Ramo Corporation for the operation of the NASDAQ System required, during 1975, a full analysis of arrangements for NASDAQ in the future. The NASD had contracted with Bunker Ramo in 1968 to finance, build and operate the System because it did not wish its members to assume undefined financial risk, and because it did not have sufficient in-house automation expertise. However, the operating agreement with Bunker Ramo provided that the NASD could buy the System, or that Bunker Ramo could request the NASD to buy it in February 1976 for its undepreciated value.

After intensive study of the alternatives, the NASD's Board of Governors in mid-1975 approved the purchase of the System. At the same time, the Board authorized the negotiation of a new agreement with Bunker Ramo for the operation of the System.

The Board's decision was based on:

- (1) the financial soundness of the System;
- (2) the consideration that NASD ownership would allow more economical upgrading of the System, and reinforcement of the NASD's ability to perform regulatory functions related to the System; and (3) the probability that System rates to subscribers can be reduced after the loan for buying the System is repaid.

Plans called for acquisition from Bunker Ramo and ownership of the System by NASDAQ, Inc., a wholly-owned subsidiary of the NASD, with the Executive Committee of the NASD serving as the Board of Directors of NASDAQ, Inc.

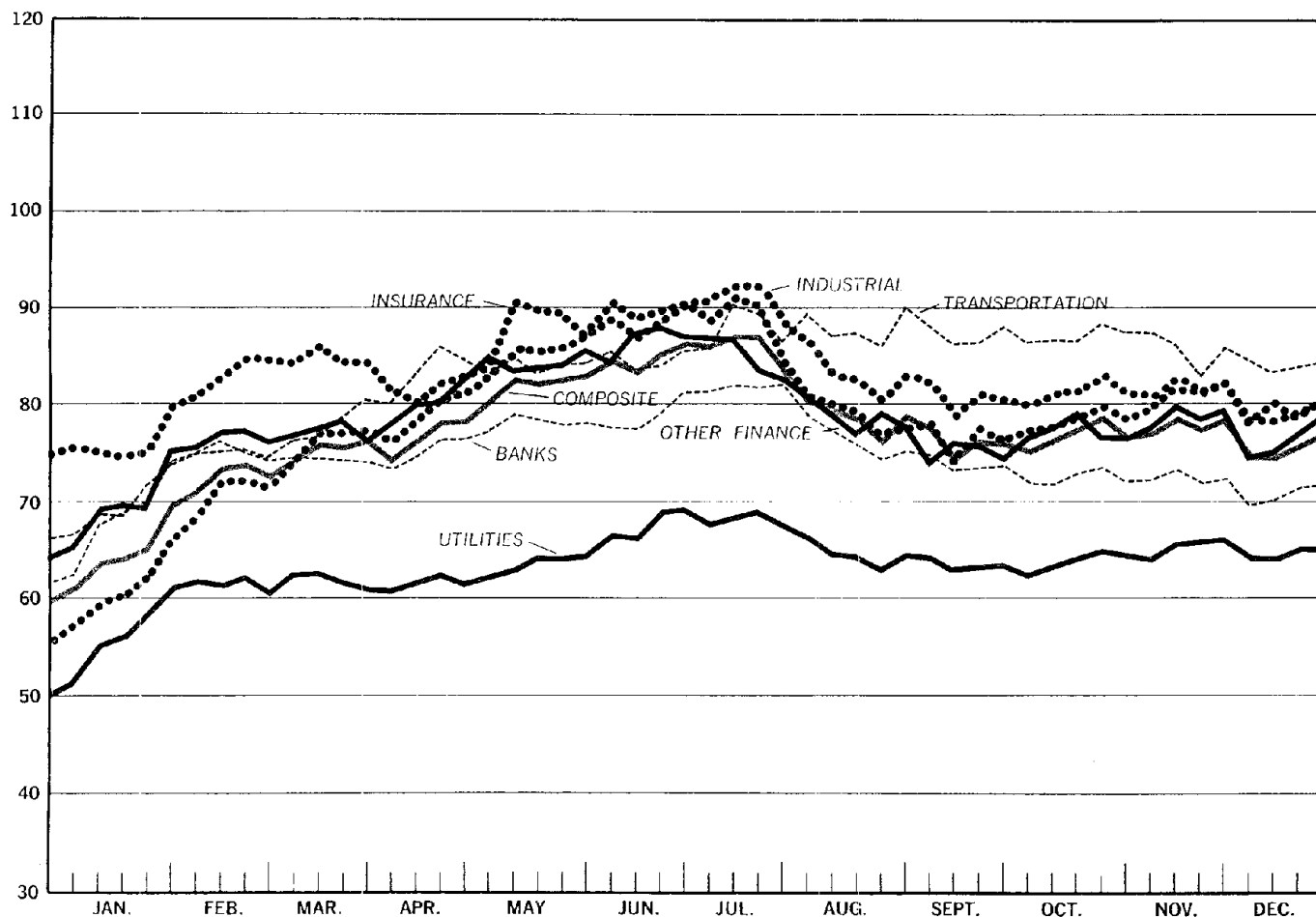
The new operating agreement with Bunker Ramo calls for:

- Bunker Ramo to provide, for a fixed fee during the next four years, services similar to those stipulated under its previous operating contract, including operation of the System and maintenance of subscriber terminals;
- NASDAQ, Inc., as owner of the System hardware, to pay for all major repairs or replacements;
- Bunker Ramo to provide a dedicated staff of programmer/analysts to make changes or developments specified by NASDAQ, Inc.;
- Major changes or developments in the System to be let out for competitive bids at NASDAQ, Inc. option; and
- Bunker Ramo to continue to handle subscriber billing, but revenue to flow directly to NASDAQ, Inc.

NASDAQ STOCK PRICE INDEXES
(WEEKLY CLOSING VALUES)

1975

INDEX: February 5, 1971 = 100



Planning for New System Services

As noted, one of the major reasons for NASD acquisition of the NASDAQ System is to allow new services to be added to the System more efficiently and more economically. A number of such additions have been planned. Among the most important ones are:

- *Composite Quotation Service*

The Composite Quotation Service will display, in a montage, markets in listed securities for the various exchanges and for the Third Market. The service will be available to NASDAQ subscribers on the same terminals on which they now receive OTC quotation information. It is expected to be in operation in 1976.

The Composite Quotation Service is a second step, after the Consolidated Tape, toward a National Market System. It has its origins in the SEC requirement that all exchanges release their quotations information and in SEC encouragement of the vendors of such information to assemble it in composite form.

- *Options Display Service*

A second development, also targeted for implementation in 1976, is the Options Display Service.

As indicated under "Regulatory Activities" in this Report to Members, broker/dealers in OTC issues have become very much interested in a NASDAQ market for standardized options on OTC securities ever since the standardized system for

options on listed issues has generated substantial trading in them. The NASD Options Committee is doing extensive work on the development of rules and regulations for the OTC options system and is studying NASD participation in the Options Clearing Corporation.

The proposed Options Display Service will allow users to query the NASDAQ System for option quotations in the same way that they now query it for quotations in OTC stocks. Each option quotation will have a unique symbol and will show the expiration date of the contract and the striking price. Market maker identifiers will appear in the System as they now do, and market maker quotations will be ranked by best bid or asked, as required by the interrogator.

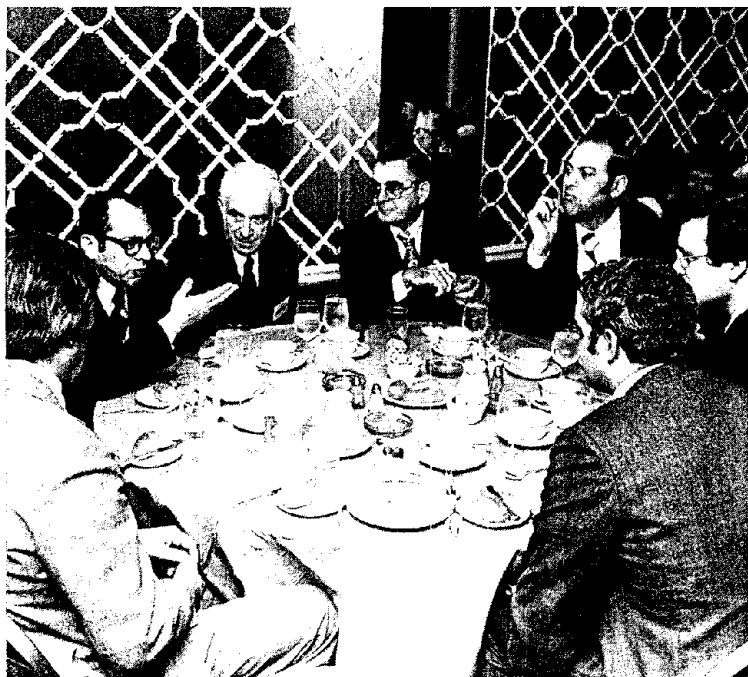
- *Block Interest Display Service*

A subcommittee of the NASDAQ Committee and NASD staff have under study a Block Interest Display Service. Preliminary analysis and specification development indicate that, using NASDAQ System facilities, it may be possible to offer NASD members a Block Interest Display Service which provides the best features of existing or projected systems, and at substantially lower cost. During 1976, there will be a definitive study of the costs of building and operating a high-quality service. It is expected that such a service can be made operational within twelve months after formal commencement of work.

NASDAQ Company Seminars

In response to strong expressions of interest from companies whose securities are quoted in the NASDAQ System, five one-day information seminars were conducted in December 1975 and January 1976. (Three such seminars were held in 1974.) The seminars on "The NASDAQ Company and the NASDAQ Market" took place in Atlanta, Dallas, New York, Chicago and San Francisco. Some 250 corporate executives attended, participated actively in the proceedings and corroborated the usefulness of the seminars as an ongoing NASD program.

Speakers at the seminars were NASD President Gordon S. Macklin; John H. Hodges, Jr., Senior Vice President, Member Services Division, NASD; Robert A. Mackie, Jr., Executive Vice President, Singer & Mackie, Inc., and Chairman of the NASDAQ Committee of the NASD; SEC Commissioner Irving M. Pollack; Robert W. Swinarton, Vice Chairman, Dean Witter & Co. Incorporated, and 1976 Chairman of the Board of Governors of the NASD; and Eric W. Anderson, Vice President and Treasurer, Friendly Ice Cream Corporation, and member of the NASDAQ Committee of the NASD.



SEC Commissioner Irving M. Pollack answers question during luncheon at a NASDAQ company seminar.

Public Information

Transmission of NASDAQ Data

A great deal of NASDAQ data is available to the media—press, radio and television. Thus NASDAQ makes it possible for the media to keep the general public closely informed about the OTC market.

For the press, NASDAQ transmits its data to the Associated Press and United Press International newswires. Beginning at 11:00 a.m. on every trading day, there are hourly transmissions of quotations, indexes, advance-decline figures and new yearly highs and lows; at the end of the trading day, average prices and changes for the day, volume figures and the list of the 10 most active stocks are transmitted. The information is published in various newspapers in two major categories (1) the National NASDAQ/OTC List, which consists of the 1,410 issues which rank highest by dollar volume of shares traded, and (2) the Additional List of 990 issues. These two Lists are revised twice a year, according to the activity in NASDAQ issues.

For radio and TV, with their time constraints, there are less voluminous transmissions of NASDAQ data.

Newspaper Coverage

The pattern of NASDAQ transmissions for the press was worked out in consultation with key newspapers, who indicated what they could most readily take from the wire services, in accordance with their reader interest, space limitations and deadlines.

During 1975, more than 50 major metropolitan newspapers regularly published the National NASDAQ/OTC List. These papers included *The Wall Street Journal*, which carries the Additional List as well, the *New York Times*, the *Los Angeles Times*, the *Washington Post* and the *Cleveland Plain Dealer*. Many other newspapers published the NASDAQ list of the 10 most active stocks, price indexes and volume figures. *The M/G Financial Weekly* printed detailed tables and charts on 700 selected NASDAQ issues, as well as quotations and volume data on the complete NASDAQ list. Francis Emory Fitch Publishers daily provided quotations and volume data on the entire list. *The Market Chronicle* and the *Commercial and Financial Chronicle* carried the whole NASDAQ list weekly. *Barron's* published the National List, as well as quotations for NASDAQ bank and insurance company securities.

In addition, over 225 newspapers throughout the United States carried information on NASDAQ and other OTC stocks which was of particular interest to local investors. This coverage was largely a result of the cooperation of more than 135 NASD local Quotations Committees with the newspapers.

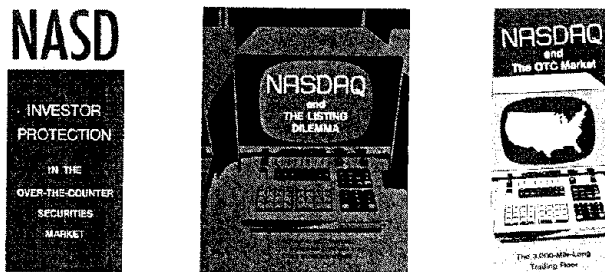
Radio and TV Coverage

For radio and TV coverage, NASDAQ/OTC market information was transmitted to the AP Radio Wire, to NBC Radio Network News and to the UPI Radio and TV Wire. In addition, NASD Quotations Committee Chairmen and NASD staff personnel called on radio and TV stations in a dozen major cities to encourage them to broadcast NASDAQ data. This campaign led in 1975 to substantial new radio and TV reporting in Atlanta, Dallas, Denver, Kansas City, Los Angeles, San Francisco, Seattle and Washington, D. C. Also, NASD member broker/dealers in a number of cities included NASDAQ/OTC information in broadcasts which they sponsored.

Plans are underway to promote expansion of electronic media coverage of the NASDAQ/OTC market, especially on the part of TV.

The NASD Newsletter

In 1975, the Association redesigned the *NASD Newsletter*, its general circulation publication, which goes to more than 90,000 readers. In its new format, the *NASD Newsletter* covered legislative developments, testimony before Congressional hearings, highlights of securities industry conferences, key court cases affecting the industry and summaries of important statistics. Issues of the *NASD Newsletter* were published in April and August.



Three New Booklets

To increase public awareness and understanding of the NASDAQ/OTC market, the NASD in 1975 prepared three new booklets:

- NASD Investor Protection in the Over-the-Counter Securities Market*
- NASDAQ and the Listing Dilemma*
- NASDAQ and the OTC Market—The 3,000-Mile-Long Trading Floor*

Some 15,000 copies of each of these booklets went to NASD members, members' branch offices, NASDAQ companies, public officials and the press. Additional copies were made available at cost to NASD members, their branches, NASDAQ companies and others. By the end of 1975, a substantial number of copies had been ordered by interested parties, generally for distribution to the investing public.

Government Relations and Legal Activities

The NASD's Office of General Counsel is responsible for legal advice and assistance to the Association in all its areas of activity, including analysis of proposed legislation, compliance with effective legislation, changes in Association rules, policies and interpretations, disciplinary proceedings, and the conduct of litigation involving the Association.

Legislation

Securities Acts Amendments of 1975

The Securities Acts Amendments of 1975 have important consequences for the Association, as already described in the "Regulatory Activities" section of this Report to Members. The legislation was the result of Congressional consideration over the past few years of bills introduced by Senator Harrison A. Williams, Jr., Representative John E. Moss and other members of Congress. The Association, represented by President Gordon S. Macklin, was among the organizations which had testified in prior years on the proposed legislation.

With respect to the original bill, the NASD had expressed concern at a proposal requiring the SEC to publish all Association disciplinary actions to the public at large. The legislation as finally passed does require the NASD to file with the SEC notice of all disciplinary actions, but the SEC is required only to make these notices available for public inspection. Further, the NASD had expressed concern at a proposal requiring at least one-half of the Association's Board of Governors to be "public representatives", and had pointed out that, as a matter of policy, the NASD Board already included a representative of NASDAQ companies and two other non-industry Governors. The legislation as finally passed provides that at least one member of the Board of Governors must be representative of issuers of securities and the public.

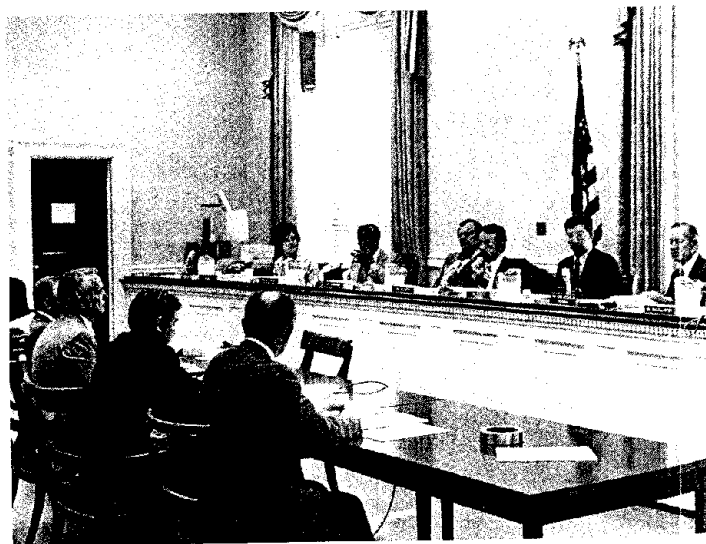
The Securities Acts Amendments make important modifications in the procedures and standards governing SEC approval of NASD rule changes. As to procedures, the SEC must now publish the NASD's proposed rule changes for public comment. As to standards, both the Association and the SEC are now specifically required to consider whether proposed Association rule changes impose a burden on competition and, if so, whether that burden is necessary and in furtherance of the purposes of the Securities Exchange Acts of 1934, as amended.

The Association, in its testimony on the original proposal to create a new self-regulatory organization for municipal securities dealers, expressed

the view that this would appear to duplicate already effective self-regulation and place an unnecessary financial burden on the securities industry. In the legislation as finally passed, the original proposal was changed. The Municipal Securities Rulemaking Board (MSRB) was established, with an equal number of representatives of the securities industry, the banking industry and the general public. The MSRB was given authority to adopt, subject to SEC approval, rules governing transactions in municipal securities and establishing qualification requirements for persons engaged in such transactions. At the same time, the legislation specifically gave the NASD the authority and the responsibility to enforce rules and to administer qualification requirements with respect to all broker/dealers who are members of the Association.

Amendments to Securities Investor Protection Act of 1970

In October 1975, NASD President Macklin testified on the Association's general support of H. R. 8064, a bill introduced by Representative Harley O. Staggers, which would amend the Securities Investor Protection Act of 1970 to provide for expedited procedures for handling SIPC trusteeships and to increase the overall coverage afforded to investors who deal with SIPC members. However, President Macklin expressed the NASD's opposition to a provision of the bill which would require broker/dealers distributing only mutual funds and variable contracts to become members of SIPC, because such firms had not occasioned losses of any kind by failures. The



NASD President Macklin (front, second from right) testifies on SIPC bill before a Congressional Subcommittee, chaired by Representative Stuckey (rear, third from right).

NASD also opposed, as unnecessary and costly, a provision of the bill requiring SIPC members to display the SIPC symbol and to use it in certain advertising material.

Study of Other Legislative Developments

The Association's Office of General Counsel continues to follow significant legislative developments relating to the securities industry. One of the most important of these is the study on "The Securities Activities of Commercial Banks", which has been undertaken by the Subcommittee on Securities of the Senate Banking, Housing and Urban Affairs Committee.

Litigation

The United States Supreme Court on June 26, 1975 ruled in favor of the NASD and other defendants in a suit instituted by the Department of Justice in 1973, alleging violations of the antitrust laws. The Justice Department's complaint had alleged that the Association and other defendants, including mutual funds underwriters and dealers, had conspired to prevent shares of mutual funds from being sold at other than the public offering prices. The United States District Court for the District of Columbia dismissed the complaint, and the Justice Department appealed the matter to the Supreme Court. In affirming the decision of the lower court, the Supreme Court referred to the price maintenance provisions of Section 22(d) and 22(f) of the Investment Company Act of 1940, and stated, "The antitrust laws must give way if the regulatory scheme established by the Investment Company Act is to work."

In addition, there were approximately 50 separate suits by private litigants against the Association and mutual funds underwriters, making allegations similar to those made by the Justice Department. After the Supreme Court's decision in the Justice Department case, these suits were all disposed of by court rulings in favor of the Association and other defendants, except for one suit which is pending before the United States Court of Appeals for the District of Columbia Circuit.

In another case, the United States Court of Appeals for the Fifth Circuit on March 5, 1975 affirmed a judgment of a lower court dismissing a complaint brought by a member against the Association. The plaintiff had alleged injury as a result of the decision of the Association initially to preclude Third Market securities from inclusion in the NASDAQ System. The plaintiff had also alleged that the composition of the Association's Board of Governors unfairly discriminates against non-exchange members. Following the Court of Appeals' affirmance, the plaintiff appealed to the United States Supreme Court, which declined to entertain the appeal, and the lower court's disposition of the case became final.

National Clearing Corporation Activities

The three most important developments in the work of the National Clearing Corporation (NCC) during 1975 were:

1. A significant improvement in NCC's financial condition;
2. Improvement and expansion of services to users; and
3. Progress toward a NCC merger with the New York Stock Exchange's Stock Clearing Corporation and the American Stock Exchange Clearing Corporation in 1976. This consolidation of New York clearing entities and their service facilities will represent an important step toward a single national clearing system.

The NCC is a wholly-owned subsidiary of the NASD. In 1975, it provided clearance and settlement services to some 270 NASD member firms, through facilities located in Atlanta, Baltimore, Boston, Chicago, Dallas, Milwaukee, Minneapolis, New York, Philadelphia, St. Louis and Washington, D. C.

Improved Financial Condition

Net income of NCC for the fiscal year ending September 30, 1975 was \$460,853. As a result of its favorable cash flow, NCC was able to retire all of the 8½% subordinated notes held by former stockholders of the National OTC Clearing Corporation. NCC was also able to reduce its accumulated loss, which had stood at \$1,217,874 on September 30, 1974 to \$757,021 as of September 30, 1975.

The turn-around in NCC's financial condition was largely due to the employment on October 1, 1974 of Bradford Computer and Systems, Inc. as facilities management contractor for NCC clearing operations. This allowed NCC to establish a minimum revenue level which exceeds its fixed expenses and to share revenue above this level with Bradford, all without raising its rates.

An additional feature of the Bradford contract was provision for its early termination, if necessary. This provision was included to give the NCC flexibility in merging into a partial or complete national clearing system for all securities transactions.

Improvement and Expansion of NCC Services

Pending establishment of a national clearing system, NCC in 1975 improved and expanded its services, both in order to enhance its immediate usefulness to its members and to develop additional components that may be melded into a national system.

The Baltimore Clearing Center, the tenth of

NCC's regional facilities, was opened in June 1975, and plans were made for the opening of two more centers in Jersey City and Cleveland.

Interfaces with other clearing entities were expanded. The interface with the Pacific Clearing Corporation (PCC), initiated in 1974, grew to include 189 NCC and 62 PCC members. A new interface was begun with the TAD Depository Corporation in New York, adding to the one previously established there with the Depository Trust Company (DTC), and substantially following its pattern. The NCC relationship with DTC was strengthened by the acquisition of 8% of DTC stock by the NASD, as part of a program of diversification of ownership of DTC by the New York Stock Exchange.

The National Envelope Settlement System (NESS) became operational for all NCC regional clearing facilities in January 1975, after a pilot program in late 1974. NESS is a rapid and relatively inexpensive means for delivery and settlement of trades between NCC members in securities which are not eligible for Continuous Net Settlement. NESS uses NCC's network of communications, couriers and regional centers. Delivery and settlement occur one day after presentation to any NCC regional center.

In conjunction with NESS, a Collateral Loan Program was implemented to allow overnight financing of deliveries through the system. It permits a NESS user to borrow from a participating bank up to 10 times its Clearing Fund deposit, to a maximum of \$250,000, on NESS deliveries.

Toward a Merger of Clearing Entities

For some time, the NASD has been working closely with other securities industry groups and organizations to create a single national clearing system for all broker/dealers. This work has included the establishment of interfaces, as already described, and planning for a single, user-controlled clearing system. In 1975, the attainment of a single system came much closer, with very strong support from the NCC Board.

In mid-1975, the NASD, the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) agreed in principle on a plan for the consolidation of their clearance and settlement activities. They jointly appointed a Special Clearing Advisory Committee, made up of 12 representatives of various types of securities firms and from various parts of the U. S., to guide the design of a single system for the clearing of OTC, NYSE and AMEX trades in the New York area. A detailed plan was established for the consolidation of the clearing functions of NCC, the NYSE's Stock Clearing Corporation and the American Stock Exchange Clearing Corporation into a single new entity. Work has proceeded on a formal filing of the consolidation plan with the SEC.

The consolidation is expected to take place as soon as possible in 1976, and the single system for OTC, NYSE and AMEX trades is to become operational thereafter. This should bring to the NASD membership both substantial cost savings and greater efficiency and uniformity of service. It also brings a single national clearing system for all broker/dealers nearer to reality.

EDP Services

The EDP Services Department in 1975 provided extensive support to the Association's work. Among other things, it developed elements of the Financial Early Warning System and surveillance reports on NASDAQ securities and their market makers, conducted special studies in such areas as broker/dealer income and gold trading, and streamlined the Association's entire billing system. At the same time, the Department enforced strong control measures to reduce the Association's data center costs.



EDP Services staff verifies Association records.

Arbitration

The Association during the past 7 years has offered a forum for the arbitration of controversies involving both the public and professional sectors. In this time span more than 800 cases have been submitted to arbitration and of the total volume better than one-half of these cases have occurred subsequent to January 1, 1973. To accommodate this substantially enlarged volume of cases, a major effort is presently being undertaken by the National Arbitration Committee to enroll additional arbitrators from both the securities industry and the public at large.

The program has advanced to the point where it now encompasses disputes arising from securities

transactions as well as other controversies. A growing and important aspect of the program is now identified with this latter category of submissions, which includes employer-employee, member corporate and partnership disputes and the like. More importantly, this amendment to the Arbitration Code permits all aspects of particular controversies to be submitted to and decided in the same forum.

Another unique feature of the Arbitration Code is the resolution of the Board of Governors which provides disciplinary sanctions as to any member or person associated with a member who fails to arbitrate, to appear or produce documents or to honor an award of arbitrators. This resolution has resulted in stimulating and promoting compliance with arbitrator directives and awards.

The Agenda For '76

The decisions taken in 1975, coupled with the upturn in market conditions and the movement toward restructuring of the securities markets, make for an ambitious, challenging program for the NASD in 1976. There is much to do in pursuit of the Association's continuing goals of investor protection, enhancement of the marketplace and assistance to the membership, and there is still more to do in regulating and serving the OTC market.

In the area of investor protection, the Association particularly faces the formidable task of municipal regulation, under the aegis of the Municipal Securities Rulemaking Board. The incoming Board of Governors and the District Committees have ample expertise in the municipal securities field, and the Association is hiring more staff and doing additional training to cope with its enlarged responsibilities. Some 250 municipal securities firms have to be effectively incorporated into the Association's membership, and an equitable and efficient pattern of procedures for regulating their activities developed.

In the efforts at enhancement of the marketplace, the Association's acquisition of the NASDAQ System facilities is only a new plateau, on which the Composite Quotation Service, the Options Display Service and the Block Interest Display Service remain to be built. Likewise, the merger of the National Clearing Corporation with the clearing entities of the NYSE and the AMEX will require months of work to become fully operational, and even then the result will simply be a major way station toward a single national clearing and settlement system.

With respect to Association assistance to the membership, the membership communications program so successfully conducted in 1975 is a spur to a 1976 program with much more breadth



NASD Board of Governors meets in one of its six sessions in 1975.

and depth. This program will augment both the flow of Association policy information to the members and members' input into Association operations. Also, the continued streamlining of members' reporting requirements and the increase of Association capability to make data available to the members need to be vigorously pursued in 1976, after the progress made on them in 1975.

External developments in 1976 will demand the Association's attention and action fully as much as internal ones. The gratifying upturn in the securities markets promises greater interest on the part of investors and issuers in the over-the-counter market. And the movement toward a National Market System will demand searching thought and a highly cooperative spirit on the part of all concerned, including the Association.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
STATEMENTS OF FINANCIAL POSITION

	September 30	
	1975	1974
Current assets		
Cash	\$ 137,465	\$ 232,408
Investment securities, at cost (approximate market value \$7,505,000 and \$6,333,000, respectively) (Note 3)	7,622,627	6,493,209
Loan to National Clearing Corporation		100,000
Other current assets	387,616	320,939
Total current assets	8,147,708	7,146,556
Less: Current liabilities		
Accounts payable and accrued expenses	812,389	736,681
Assessments and other income collected in advance (Note 1)	5,320	37,390
Prepaid NASDAQ fees (Note 1)	1,459,763	1,395,773
Current portion of mortgage payable (Note 2)	94,369	89,331
Total current liabilities	2,371,841	2,259,175
Working capital	5,775,867	4,887,381
Land, building and improvements, at cost		
less accumulated depreciation of \$317,512 and \$247,828, respectively (Notes 1 and 2)	3,116,295	3,185,299
Investment in wholly-owned subsidiary,		
National Clearing Corporation, at equity in net assets (Note 1)	1,252,979	792,126
Special investment account, at lower of cost or market (Note 1)	182,132	150,745
Other assets	156,875	130,039
	10,484,148	9,145,590
Less: Long-term liabilities		
Reserve for deferred compensation	182,132	150,745
Mortgage payable (Note 2)	1,140,032	1,234,401
	1,322,164	1,385,146
Association equity (Notes 4 and 5)	\$9,161,984	\$7,760,444

Note 1—Summary of Significant Accounting Policies
Investment in National Clearing Corporation (NCC)

The Association's investment in NCC is recorded at its equity in the net assets of NCC and accordingly is adjusted for the net income or loss of NCC. The report of independent accountants on the September 30, 1975 financial statements of NCC is included elsewhere in this annual report.

Retirement Benefits and Deferred Compensation

The Association maintains a non-contributory trusteed pension plan for the benefit of all eligible employees. Certain employees have been granted extended retirement and death benefits. It is the Association's policy to fund pension cost and provide for the cost of other benefits as they accrue. Pension and deferred compensation costs were \$287,634 and \$270,601 for the years ended September 30, 1975 and 1974, respectively.

The Special Investment Account represents amounts set aside to fund the reserve for deferred compensation which relates to five former or current employees.

Depreciation

Building and improvements are being depreciated on a straight-line basis over lives of 38 and 10 years, respectively. Depreciation expense in fiscal 1975 and 1974 aggregated \$69,684 and \$68,440, respectively.

Purchases of office furniture and equipment are treated as an expense in the year acquired.

Prepaid Fees and Assessments and Other Income Collected in Advance

Prepaid fees, assessments and other income collected in advance are deferred and included in income of the applicable fiscal year.

The NASDAQ issuers pay the established annual fee on a June 1 to May 30 yearly basis. Accordingly, that portion of the amounts collected representing advance payments for the period subsequent to September 30 has been deferred and will be included in the income of the following year.

Note 2—Mortgage Payable

The Association's land and building are pledged as security for a 5½% mortgage. The mortgage loan of \$1,234,401 at September 30, 1975 is payable through 1985 in equal monthly installments of principal and interest of \$13,326.

Note 3—Commitments and Contingencies

The NASDAQ quotation system commenced service on February 8, 1971, under an agreement with Bunker Ramo Corporation. The Association has elected to exercise its option to terminate this agreement and to acquire the system for Bunker Ramo's undepreciated

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
STATEMENTS OF INCOME, EXPENSES AND ASSOCIATION EQUITY

	Year Ended September 30	
	1975	1974
Income		
Member assessments and branch office fees	\$5,924,849	\$6,425,615
Registered representative fees		
Applications	1,365,500	1,916,111
Examinations	1,024,066	1,233,738
Corporate finance fees	1,105,713	881,357
Fines and costs	298,763	468,692
Interest and other income	714,122	564,143
NASDAQ fee (Note 1)	2,542,447	712,110
	12,975,460	12,201,766
Expenses		
Salaries and employee benefits (Note 1)	8,471,592	8,568,845
Travel, meetings and investigation expenses	865,109	889,677
Publication, stationery and postage (net of publications sales of \$38,174 and \$48,863, respectively)	581,337	561,353
Professional and other services	619,032	737,433
Occupancy expenses	1,030,650	918,237
Office, insurance and miscellaneous	419,849	403,215
Furniture and equipment	47,204	42,167
	12,034,773	12,120,927
Excess of income over expenses before		
National Clearing Corporation	940,687	80,839
Net income (loss) of National Clearing Corporation (Note 1)	460,853	(694,823)
Excess of income (expenses)	1,401,540	(613,984)
Association equity, beginning of year	7,760,444	8,374,428
Association equity, end of year	\$9,161,984	\$7,760,444

investment (approximately \$10,000,000) on February 9, 1976, the expiration date of the original agreement. This acquisition will be made through a wholly-owned subsidiary, which will borrow an amount equal to the purchase price by issuing a five year secured note guaranteed by the Association. This guarantee will include collateral of not more than \$4,500,000 of the Association's investment securities. A line of credit not to exceed \$1,500,000 will also be obtained for working capital purposes. The Association, through its subsidiary, is entering into a new agreement with Bunker Ramo as of February 9, 1976, for Bunker Ramo to operate the system and to perform certain other services in connection therewith for an initial monthly fee of \$325,000 during the first year, with annual escalations thereafter to a maximum of \$375,000 per month beginning in 1979. The agreement extends to January 31, 1980. Aside from expenses incurred in the supervision of system activities, the accompanying financial statements do not include any amounts relating to the construction or operation of the NASDAQ system.

In connection with the operation of its district offices, the Association leases office space in various locations. Rental expense for 1975 and 1974 was \$753,357 and \$675,832, respectively. Minimum annual lease payments for the six succeeding fiscal years are as follows: \$638,000—1976, \$536,000—1977, \$495,000—1978, \$446,000—1979, \$237,000—1980, \$36,000—1981. No leases extend beyond

1981. The majority of these leases contain escalation clauses providing for increases in the lease payments based on increases in property taxes and building operation costs.

The Pension Reform Act of 1974 will require certain amendments to the pension plan concerning earlier participation and vesting. This is expected to provide some increase, that is not presently determinable, in the annual cost of the plan in years after 1975.

Note 4—Litigation

The Association has been named, separately or with others, in several legal actions in which damages of substantial or as yet unspecified amounts are claimed. Certain of these actions allege violations of the anti-trust laws or the failure of the Association to take appropriate action in the exercise of its regulatory responsibility. Counsel for the Association advises that, although the Association has meritorious defenses to all the pending litigation, the outcome of the litigation cannot be predicted.

Note 5—Subsequent Events

In October, 1975, the Association acquired 8% of the outstanding shares of Depository Trust Company from the New York Stock Exchange for \$266,725 pursuant to a plan to diversify the ownership of DTC among various self-regulatory organizations and institutions.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	Year Ended September 30	
	1975	1974
Financial resources were provided by		
Excess of income (expenses)	\$1,401,540	\$ (613,984)
Items not affecting working capital in the period:		
Net (income) loss of National Clearing Corporation	(460,853)	694,823
Depreciation	69,684	68,440
Decrease in other assets		5,877
	1,010,371	155,156
Financial resources were used for		
Purchase of building improvements	680	40,281
Decrease in long-term mortgage	94,369	89,331
Increase in other assets	26,836	
	121,885	129,612
Increase in working capital	\$ 888,486	\$ 25,544
Analysis of Changes in Working Capital		
Increase (decrease) in current assets		
Cash	\$ (94,943)	\$ (5,501)
Investment securities	1,129,418	1,121,685
Loan to National Clearing Corporation	(100,000)	100,000
Other current assets	66,677	119,376
	1,001,152	1,335,560
Decrease (increase) in current liabilities		
Accounts payable and accrued expenses	(75,708)	122,873
Assessments and other income collected in advance	32,070	(32,346)
Prepaid NASDAQ fees	(63,990)	(1,395,773)
Current portion of mortgage payable	(5,038)	(4,770)
	(112,666)	(1,310,016)
Increase in working capital	\$ 888,486	\$ 25,544

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

We have examined the accompanying statements of financial position of the National Association of Securities Dealers, Inc. as of September 30, 1975 and 1974, and the related statements of income, expenses and Association equity and the changes in financial position for the years then ended. Our examinations were 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.

We did not examine the financial statements of National Clearing Corporation (NCC), a wholly-owned subsidiary for the year ended September 30, 1974. Our opinion expressed herein, insofar as it relates to the amounts included for NCC for the year ended September 30, 1974, is based solely upon the report of other independent accountants. Our report on the financial statements of NCC for the year ended September 30, 1975 is included elsewhere in this annual report.

As further described in Note 4 to the Association's financial statements, the Association is a defendant in several legal actions, the outcome of which is not presently determinable.

In our opinion, based upon our examinations and the report of other independent accountants on National Clearing Corporation for the year ended September 30, 1974, subject to the ultimate resolution of the pending litigation referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the National Association of Securities Dealers, Inc. at September 30, 1975 and 1974, the results of its operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles consistently applied.

Washington, D.C.
January 28, 1976

PRICE WATERHOUSE & CO.

**NATIONAL CLEARING CORPORATION
BALANCE SHEETS**

Assets	September 30	
	1975	1974
Current assets:		
Cash (includes in 1975 bank certificates of deposit of \$230,000 maturing on or before March 31, 1976)	\$ 371,662	\$ 215,230
Accounts receivable, less allowance for doubtful accounts of \$294,389 in 1975 and \$223,350 in 1974	593,546	586,196
Settlement accounts receivable (Note 3)	963,442	77,329
Other current assets	226,980	279,597
Total current assets	2,155,630	1,158,352
Furniture, equipment and leasehold improvements, at cost less accumulated depreciation of \$380,979 in 1975 and \$261,854 in 1974	582,719	725,257
Deferred computer software costs, less accumulated amortization of \$795,437 in 1975 and \$580,937 in 1974	277,100	491,600
Clearing fund assets (Note 5)	12,715,000	11,335,000
	\$15,730,449	\$13,710,209
Liabilities and Stockholder's Equity		
Current liabilities:		
Settlement accounts cash overdrafts (Note 3)	\$ 733,937	
Loan payable to NASD (Note 2)		\$ 100,000
8½% subordinated promissory notes due 1975		822,682
Management fee payable (Note 4)	525,083	
Accounts payable and accrued expenses	197,343	561,672
State and local taxes payable	76,602	10,586
Unclaimed dividends	229,505	88,143
Total current liabilities	1,762,470	1,583,083
Clearing fund (Note 5)	12,715,000	11,335,000
Commitments and contingent liabilities (Notes 8, 9 and 10)		
Stockholder's equity:		
Common stock, par value \$1; 10,000 shares authorized; 100 shares issued and outstanding	100	100
Additional paid-in capital	2,009,900	2,009,900
Deficit	(757,021)	(1,217,874)
Total stockholder's equity	1,252,979	792,126
	\$15,730,449	\$13,710,209

**Notes to Financial Statements
September 30, 1975 and 1974**

Note 1—Summary of Significant Accounting Policies:

Depreciation and Amortization:

Depreciation of furniture and equipment is provided on a straight-line basis generally over a ten-year period. Leasehold improvements are amortized on a straight-line basis over the period of the respective leases.

Amortization of Deferred Computer Software Costs:

Deferred computer software costs relating to the development of the CNS system are being amortized on a straight-line basis over a sixty-month period ending in January, 1977.

Income Taxes:

The Company generally recognizes revenue and expenses for income tax purposes on the same basis as that used for financial statement purposes.

Clearing Fund:

The Company records clearing fund assets based on cash deposited in the clearing fund plus amounts due on demand from members necessary to satisfy the Company's requirements. The amounts due are generally secured by U.S. Government and municipal obligations.

Pension Plan:

Annual pension costs are equivalent to the contribution required for the year as determined by the provisions of the Company's defined contribution plan. Such costs are funded as accrued.

Note 2—Transactions with Parent Company:

The Company is a wholly owned subsidiary of the National Association of Securities Dealers, Inc. (NASD). During 1975, NASD billed the Company \$137,465 (\$280,039 in 1974) for expenses incurred on its behalf, of which \$37,570 was unpaid at September 30, 1975. In addition, the Company billed NASD \$74,490 in 1975 (\$242,204 in 1974) for expenses incurred on behalf of NASD, of which \$36,256 was unpaid at September 30, 1975. The Company repaid to the NASD its \$100,000 loan in 1975.

Note 3—Settlement Accounts:

Settlement accounts receivable of \$963,442 due from other clearing organizations, depositories or dividend disbursing agents arise from temporary time lags in the cash settlement process with these entities. As a result, the Company's settlement bank accounts reflect an overdraft position of \$733,937 at September 30, 1975.

Note 4—Facilities Management Agreement:

On October 1, 1974, the Company entered into a facilities management agreement with Bradford Computer and Systems, Inc. (Bradford) whereby Bradford has agreed to provide the necessary facilities, personnel, and services in support of the Company's clearing services and related functions.

Bradford's management fee under this agreement ranges from 80% to 84% of monthly revenue with the balance retained by the Company; however, the Company's minimum monthly share is not to be less than \$70,000. In addition, Bradford reimburses the Company for depreciation and amortization of software costs and leasehold improvements which amount to

NATIONAL CLEARING CORPORATION
STATEMENTS OF OPERATIONS AND DEFICIT

	Year Ended September 30	
	1975	1974
Revenue:		
Clearing services	\$8,097,207	\$8,116,461
Investment income	7,128	567,099
Other income	91,537	68,649
Total revenue	8,195,872	8,752,209
Expenses:		
Management fee (Note 4)	6,418,018	
Salaries and related expenses	433,336	4,719,238
Depreciation and amortization	340,909	354,659
Professional fees	114,006	172,485
Provision for doubtful accounts	71,039	
Data processing	30,946	1,331,340
Other expenses	260,738	2,869,310
Total expenses	7,668,992	9,447,032
Income (loss) before income taxes and extraordinary item	526,880	(694,823)
Income taxes (Note 6):		
State and local taxes payable	66,027	
Tax effect of loss carry-forward	221,607	
	287,634	
Income (loss) before extraordinary item	239,246	(694,823)
Realization of loss carry-forward (Note 6)	221,607	
Net income (loss)	460,853	(694,823)
Deficit at beginning of year	(1,217,874)	(523,051)
Deficit at end of year	\$ (757,021)	\$ (1,217,874)

Notes to Financial Statements, Continued

approximately \$30,000 per month through January, 1977 and \$12,000 thereafter.

The agreement is for five years and may be terminated by the Company prior to September 30, 1976 upon payment of \$250,000 and between October 1, 1976 and September 30, 1977 upon payment of \$125,000. No payment is required to terminate the agreement after October 1, 1977.

Note 5—Clearing Fund:

The operating rules of the Company require each clearing member to maintain an amount on deposit in the clearing fund before such member can participate in the Company's settlement systems. Such amount is calculated in accordance with the operating rules of the Company. The composition of the fund is as follows:

	September 30	
	1975	1974
Cash	\$ 3,921,000	\$ 394,913
Investments—U.S. Government guaranteed obligations, at cost (market value, \$3,871,000)		3,900,000
Amounts due from members on demand—generally secured by U.S. Government and municipal obligations (market value, \$16,635,000 in 1975 and \$12,825,000 in 1974)	8,794,000	7,040,087
	\$12,715,000	\$11,335,000

Note 6—Income Taxes:

The income tax benefit of \$221,607 resulting from the realization in 1975 of operating loss carry-forwards has been recorded as an extraordinary item. After such realization, the Company has approximately \$620,000 (expiring in 1979) of loss carry-forward available to offset future federal taxable income.

Note 7—Pension Plan:

The Company's employees participate in the trustee NASD defined contribution plan. Pension benefits are limited to the assets of the trust fund as calculated by the provisions of the plan.

No contribution to the trust fund was required by the Company in 1975 (\$14,322 in 1974). At December 31, 1974, the last available valuation, the assets of the plan exceeded trust fund liabilities by approximately \$14,000.

Note 8—Proposed Merger of NCC:

The governing bodies of the NASD and the Company have agreed in principle to a consolidation of the Company's operations with those of the clearing subsidiaries of the NYSE Inc. and the Amex Inc. Until such plans are completed and approved by governmental authorities, management anticipates that the Company's operations will continue as in the past. The plan provides that at the time of the consolidation, which should occur sometime in 1976, the new entity will acquire all of the Company's assets and assume its liabilities and responsibility for all the Company's leases and contracts, including the operating contract with Bradford referred to in Note 4.

Note 9—Contingencies:

The Company has been a defendant, among others, in a legal action initiated in 1966 by a former clearing member. The action seeks judgment of \$3,000,000 against all defendants for allegedly destroying the plaintiff's business by reason of suspensions and other actions. The plaintiff withdrew this action on December 8, 1975.

The Company is also named as a defendant, among others, in a complaint initiated in October 1974 by a broker/dealer. The action seeks judgment of \$2,000,000 against the Company for allegedly excluding the plaintiff from membership. On February 22, 1975 the United States District Court for the Southern District of New York dismissed the complaint with prejudice and on February 28, 1975 also dismissed plaintiff's Motion for Reargument. Based on information currently available to management and its counsel, they believe no material liability will result to the Company from such action.

Note 10—Lease Commitments:

The Company's rent expense for the year ended September 30, 1975 was \$36,717 (\$658,764 in 1974) net of sublease income of \$56,376 (\$32,170 in 1974) and \$615,079 reimbursed to the Company by Bradford in 1975 pursuant to the terms of the facilities management agreement (Note 4).

Minimum rental commitments under all noncancelable leases for the rental of office premises are as follows:

Year	Rental commitment	Bradford reimbursement	Sublease income
1976	\$690,952	\$609,639	\$30,106
1977	680,217	599,362	30,106
1978	646,400	583,749	12,544
1979	364,000	334,770	

NATIONAL CLEARING CORPORATION
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended September 30	
	1975	1974
Financial resources were provided by (used for):—		
Income (loss) before extraordinary item	\$239,246	\$ (694,823)
Items not affecting working capital:		
Depreciation and amortization	340,909	354,659
Other		51,517
Working capital provided by (used for) operations	580,155	(288,647)
Working capital provided by realization of loss carry-forward	221,607	
Proceeds from sale of furniture and equipment	28,351	22,644
Resources provided (used)	830,113	(266,003)
Financial resources were used for:—		
Reduction of long-term debt		822,682
Purchases of equipment and leasehold improvements	12,222	66,700
Resources used	12,222	889,382
Increase (decrease) in working capital	\$817,891	\$ (1,155,385)
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash	\$156,432	\$ 180,878
Accounts receivable	7,350	(5,083,051)
Settlement accounts receivable	886,113	
Other current assets	(52,617)	(15,595)
Total	997,278	(4,917,768)
(Increase) decrease in current liabilities:		
Settlement accounts cash overdrafts	(733,937)	
Loan payable to NASD	100,000	(100,000)
8½ % subordinated promissory notes	822,682	(822,682)
Drafts issued to members		4,889,939
Management fee payable	(525,083)	
Accounts payable, accrued expenses and other current liabilities	156,951	(204,874)
Total	(179,387)	3,762,383
Increase (decrease) in working capital	\$817,891	\$ (1,155,385)

**To the Board of Directors of
National Clearing Corporation**

In our opinion, the accompanying balance sheet and the related statement of operations and deficit and of changes in financial position present fairly the financial position of National Clearing Corporation (a wholly owned subsidiary of the National Association of Securities Dealers, Inc.) at September 30, 1975, the results of its operations and the changes in financial position for the year then ended, 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.

The September 30, 1974 financial statements of National Clearing Corporation were examined by other independent accountants, whose report thereon contained an opinion subject to the effect of resolution of the matters referred to in Note 9.

New York, New York
December 19, 1975

PRICE WATERHOUSE & CO.

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* NASD Board of Governors Member

NASD OFFICERS AND BOARD OF GOVERNORS



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President and member
of the Board

TO SERVE UNTIL JANUARY, 1976



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Securities, Inc.
Washington, D.C.
Chairman, 1975



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Underwood, Neuhaus
& Co. Incorporated
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Vice Chairman, 1975



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1975



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TO SERVE UNTIL JANUARY, 1977



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Dean Witter & Co.
Incorporated
New York, New York
Chairman, 1976



George Rinker, Jr.
The Ohio Company
Columbus, Ohio
Vice Chairman, 1976



Richard D. Vermillion
Smith, Barney & Co.
Incorporated
Milwaukee, Wisconsin
Vice Chairman, 1976



Ian M. Rolland *
Lincoln National
Corporation
Fort Wayne, Indiana
Vice Chairman-
Finance, 1976



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Burbank & Company, Inc.
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Colonial Management
Associates, Inc.
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E. Richard Larson
Richards, Merrill &
Peterson, Inc.
Spokane, Washington



Alfred J. Rauschman
Reynolds Securities, Inc.
New York, New York

* Governor-at-Large

* Governor-at-Large

NASD 1975

TO SERVE UNTIL JANUARY, 1978



Eugene Arnold, Jr.
Hopper Soliday & Co., Inc.
Philadelphia, Pennsylvania



Richard L. Bove
American Securities
Corporation
New York, New York



Joseph A. Crisler III
Leftwich, Ross & Crisler
Memphis, Tennessee



Ralph L. Gosselin
Goughlin & Company, Inc.
Denver, Colorado



Robert E. Linton
Drexel Burnham & Co.
Incorporated
New York, New York



John E. McClelland
Halsey, Stuart & Co. Inc.
Atlanta, Georgia



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



Roger H. Morley *
American Express
Company
New York, New York

* Governor-at-Large

TO SERVE UNTIL JANUARY, 1979



Dwight C. Baum
Blyth Eastman Dillon &
Co. Incorporated
Los Angeles, California



John E. Eckelberry
Salomon Brothers
New York, New York



Ray Garrett, Jr. *
Gardner, Carton & Douglas
Chicago, Illinois



Robert R. Googins *
Connecticut Mutual Life
Insurance Company
Hartford, Connecticut



David W. Mesker
A. G. Edwards & Sons, Inc.
St. Louis, Missouri



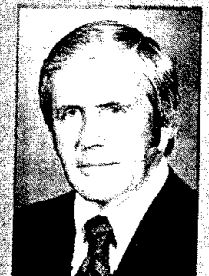
N. Clark Moran
Baker, Watts & Co.
Baltimore, Maryland



Walter Schnabel
E. F. Hutton &
Company, Inc.
Rochester, New York



Wayne G. Skaggs
American General
Capital Companies
Houston, Texas



John R. Winsor
Piper, Jaffray &
Hopwood Incorporated
Minneapolis, Minnesota

* Governor-at-Large

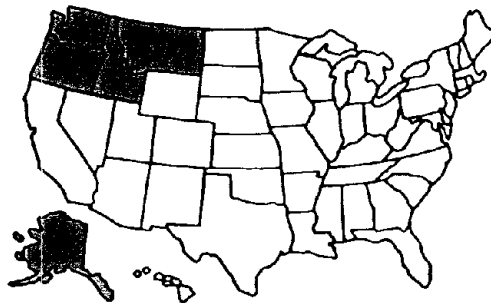
DISTRICT COMMITTEES 1975

DISTRICT NO. 1

ALASKA OREGON
IDAHO WASHINGTON
MONTANA



William S. Macfadden, Jr.
Chairman
D.A. Davidson & Co.
Great Falls, Montana



David S. Sackett
Vice-Chairman
Blyth Eastman Dillon & Co.
Incorporated
Portland, Oregon

John A. Goffrier
Hornblower & Weeks-Hemphill,
Noyes Incorporated
Salem, Oregon

Donald Hart
Foster & Marshall, Inc.
Seattle, Washington

G. C. Horton
Horton, Gelb & O'Rourke, Inc.
Spokane, Washington

Earl McLaren
Dean Witter & Co. Incorporated
Seattle, Washington

Preston L. Phipps
June S. Jones Co.
Portland, Oregon

Leland J. Sahlin
Murphey Favre, Inc.
Spokane, Washington

Kenneth Solid
Merrill Lynch, Pierce, Fenner &
Smith, Inc.
Seattle, Washington

L. Hoyt DeMers
Director
1111 IBM Building
Seattle, Washington

70 MEMBERS • 263 BRANCH OFFICES • 5,023 REGISTERED REPRESENTATIVES

DISTRICT NO. 2

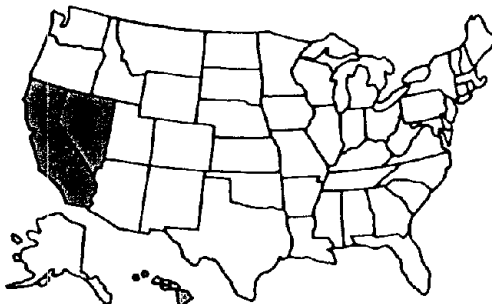
CALIFORNIA NEVADA
HAWAII



Hugh W. Ditzler, Jr.
Co-Chairman
Shuman, Agnew & Co., Inc.
San Francisco, California



Robert E. Bernhard, Jr.
Co-Chairman
Mauney Company
Burbank, California



Edmund M. Adams
Crowell, Weedon & Co.
Los Angeles, California

William L. Bagnard
American Funds Distributors,
Inc.
Los Angeles, California

John D. Berl
Sutro & Co. Incorporated
Los Angeles, California

John B. Callery, Jr.
Newhard, Cook & Co., Inc.
Los Angeles, California

Shannon M. Drew
Kidder, Peabody & Co.,
Incorporated
San Francisco, California

Anthony M. Englese
Reynolds Securities, Inc.
San Francisco, California

Neil T. Ferguson
Putnam Funds Distributors,
Inc.
San Rafael, California

James L. McPhail
Morgan, Olmstead, Kennedy &
Gardner Incorporated
Los Angeles, California

Donald W. Moulton
R. H. Moulton & Co.
Los Angeles, California

James D. Murray
White, Weld & Co. Incorporated
San Francisco, California

Sanford R. Robertson
Robertson, Colman, Siebel
& Weisel
San Francisco, California

Emil J. Rothenberg
Stern, Frank, Meyer & Fox,
Incorporated
Los Angeles, California

Donald L. Wetmore
Birr, Wilson & Co., Inc.
San Francisco, California

Thomas W. Witter
Dean Witter & Co. Incorporated
San Francisco, California

Theodore F. Schmidt
Director
425 California Street,
Room 1400
San Francisco, California

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

343 MEMBERS • 1,016 BRANCH OFFICES • 23,629 REGISTERED REPRESENTATIVES

DISTRICT NO. 3

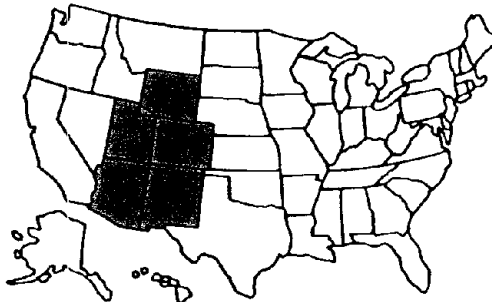
NASD 1975

ARIZONA
COLORADO
NEW MEXICO

UTAH
WYOMING



H. Holden Smith
Chairman
Young, Smith & Peacock, Inc.
Phoenix, Arizona



Lyle W. Davis
Vice-Chairman
Wilson-Davis & Co.
Salt Lake City, Utah

Edward E. Brown
Edward Brown Securities, Inc.
Salt Lake City, Utah

John R. Eaker
Quinn & Co., Inc.
Albuquerque, New Mexico

Jordan Mandel
Boettcher and Company
Denver, Colorado

David E. Nelson
Prince-Covey & Co., Inc.
Salt Lake City, Utah

Edward F. O'Keefe
Hamilton Management
Corporation
Denver, Colorado

Kenneth R. Schaefer
B. J. Leonard and Company
Denver, Colorado

William F. Shutts
Dain, Kalman & Quail,
Incorporated
Casper, Wyoming

William W. Strawther, Jr.
Continental American
Securities, Inc.
Phoenix, Arizona

John T. Christensen
Director
909 17th Street,
Room 608
Denver, Colorado

111 MEMBERS • 285 BRANCH OFFICES • 5,846 REGISTERED REPRESENTATIVES

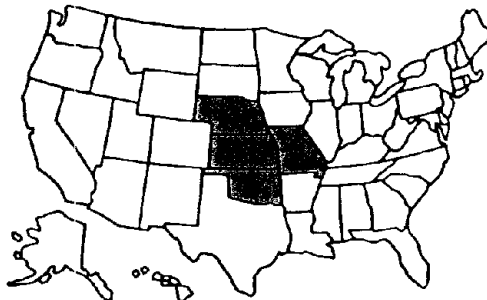
DISTRICT NO. 4

KANSAS
MISSOURI

NEBRASKA
OKLAHOMA



Raymond E. Rowland, Jr.
Chairman
R. Rowland & Co. Incorporated
St. Louis, Missouri



Milton H. Luce, Jr.
Vice-Chairman
Stifel, Nicolaus & Company,
Incorporated
Kansas City, Missouri

John W. Bachmann
Edward D. Jones & Co.
St. Louis, Missouri

M. W. Barrett
Professional Investment
Services, Inc.
Prairie Village, Kansas

Lawrence F. Dendinger
First Mid America Inc.
Lincoln, Nebraska

Francis C. Followell
H. O. Peet & Co., Inc.
Kansas City, Missouri

Larry S. Gutsch
Dean Witter & Co. Incorporated
Kansas City, Missouri

Meredith C. Jones, Jr.
J. M. Simon & Co.
St. Louis, Missouri

Thomas J. Miller
Harris, Upham & Co.
Incorporated
Tulsa, Oklahoma

Gerald L. Overton
The Columbian Securities
Corporation
Topeka, Kansas

Milton F. Svetanics, Jr.
General American Life
Insurance Company
St. Louis, Missouri

Richard M. Coster
Director
911 Main Street, Suite 2230
Commerce Tower Building
Kansas City, Missouri

109 MEMBERS • 341 BRANCH OFFICES • 9,852 REGISTERED REPRESENTATIVES

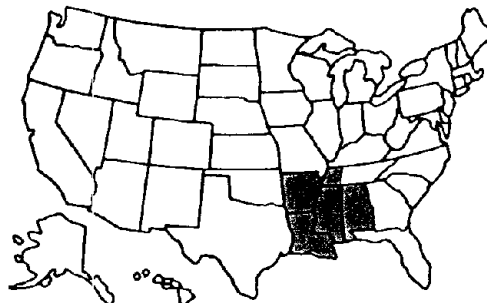
DISTRICT NO. 5

ALABAMA
ARKANSAS
LOUISIANA

MISSISSIPPI
WESTERN TENNESSEE



Jay F. Hill
Chairman
Hill, Crawford &
Lanford, Inc.
Little Rock, Arkansas



Leland S. Duddleston, Jr.
Vice-Chairman
Kroeze, McLarty & Duddleston
Jackson, Mississippi

D. Black H. Chaffa III
Howard, Weil, Labouisse,
Friedrichs Incorporated
New Orleans, Louisiana

William A. Cutchen
PLES Corporation
Birmingham, Alabama

James F. Keegan
Morgan, Keegan &
Company, Inc.
Memphis, Tennessee

Lee F. Murphy
Paine, Webber, Jackson &
Curtis Incorporated
New Orleans, Louisiana

Towner J. Pringle
Norfleet & Co.
Shreveport, Louisiana

H. Bradford Walker
Thornton, Farish & Gauntt, Inc.
Montgomery, Alabama

Thomas K. Yardley
Hendrix, Mohr &
Yardley, Inc.
Birmingham, Alabama

Edward J. Newton
Director
1004 Richards Building
New Orleans, Louisiana

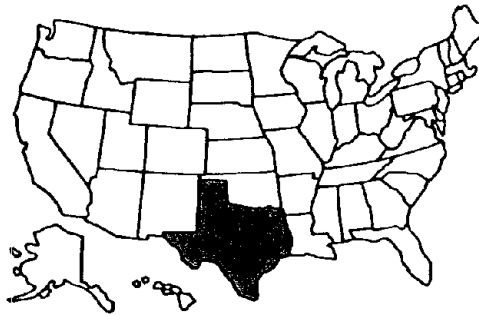
83 MEMBERS • 218 BRANCH OFFICES • 4,407 REGISTERED REPRESENTATIVES

DISTRICT NO. 6

TEXAS



Wm. Stewart Storie
Chairman
First Southwest Company
Dallas, Texas



Rollins S. Rubsamen
Vice-Chairman
Rotan Mosle, Inc.
San Antonio, Texas

Raymond W. Burroughs
S. E. Freese & Co.
El Paso, Texas

Stanley R. Crowe
Edward D. Jones & Co.
Amarillo, Texas

Jack Ewing Price
Jack Ewing Price & Company,
Inc.
Longview, Texas

Earle A. Shields, Jr.
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Fort Worth, Texas

Raymond E. Woodridge
Eppler, Guerin & Turner, Inc.
Houston, Texas

Peter M. Walker
Director
1610 Metropolitan
Federal Savings Bldg.
1407 Main St.
Dallas, Texas

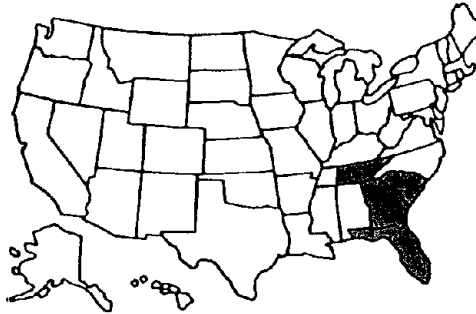
124 MEMBERS • 319 BRANCH OFFICES • 7,944 REGISTERED REPRESENTATIVES

DISTRICT NO. 7

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



David W. Wiley, Jr.
Chairman
Wiley Bros., Inc.
Nashville, Tennessee



Arthur J. Schwartz
Vice-Chairman
Bache & Co. Incorporated
Miami Beach, Florida

Thomas J. Asher
The Robinson-Humphrey
Company, Inc.
Atlanta, Georgia

William H. Baxley
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Jacksonville, Florida

Hugh O. MacLellan, Jr.
PLA Securities Corporation
Chattanooga, Tennessee

Henry R. Sims II
Henry Sims Securities, Inc.
Orangeburg, South Carolina

Jerry Williams
Jerry Williams, Inc.
Tampa, Florida

Ralph W. Williams, Jr.
E. F. Hutton & Company, Inc.
Atlanta, Georgia

Bennett Whipple
Director
1601 First National
Bank Tower
Two Peachtree St., N. W.
Atlanta, Georgia

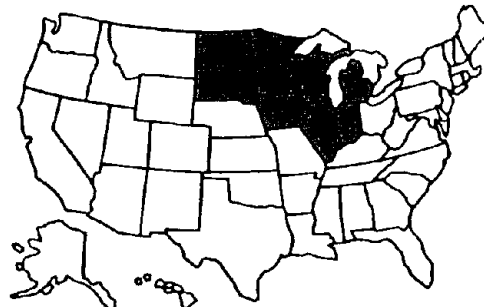
123 MEMBERS • 532 BRANCH OFFICES • 11,376 REGISTERED REPRESENTATIVES

DISTRICT NO. 8

ILLINOIS
INDIANA
IOWA
MICHIGAN
MINNESOTA
NORTH DAKOTA
SOUTH DAKOTA
WISCONSIN



Gilbert H. Schubert
Chairman
Loewi & Co. Incorporated
Milwaukee, Wisconsin



Hyman B. Shaine
Vice-Chairman
H. B. Shaine & Co., Inc.
Grand Rapids, Michigan

James C. Butterfield
James C. Butterfield Inc.
Jackson, Michigan

E. Lea Cotten
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Chicago, Illinois

Donald R. Dwyer
The Illinois Company/
McCormick Incorporated
Chicago, Illinois

Mendel J. Engler
Engler & Budd Company
Minneapolis, Minnesota

A. W. Flannagan
Investors Diversified
Services, Inc.
Minneapolis, Minnesota

John G. Martin
First of Michigan
Corporation
Detroit, Michigan

James M. McMullan
William Blair & Company
Chicago, Illinois

William L. Ostrander
The First Boston
Corporation
Chicago, Illinois

John D. Peterson
City Securities Corporation
Indianapolis, Indiana

Robert A. Stephan
Robert W. Baird & Co.
Incorporated
Milwaukee, Wisconsin

L. Gene Tanner
Raffensperger, Hughes & Co.,
Inc.
Indianapolis, Indiana

James F. Wade, Jr.
Lanson Bros. & Co.
Chicago, Illinois

Harlan W. Wittenstein
M. Wittenstein & Co.
Des Moines, Iowa

E. Craig Dearborn
Director
230 West Monroe Street,
Room 1450
Chicago, Illinois

384 MEMBERS • 950 BRANCH OFFICES • 34,653 REGISTERED REPRESENTATIVES

DISTRICT NO. 9

KENTUCKY OHIO

NASD 1975



David E. Kreid
Chairman
McDonald & Company
Cleveland, Ohio



George S. Wade
Vice-Chairman
Roose, Wade and Company
Toledo, Ohio

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

Walter R. Chambers, Jr.
The Ohio Company
Columbus, Ohio

H. Garrett Frey
Harrison & Company
Cincinnati, Ohio

Lionel P. Greenbaum
Merrill Lynch, Pierce, Fenner &
Smith, Inc.
Cleveland, Ohio

Leroy R. Hoffman, Jr.
Westfield Securities Company
Westfield Center, Ohio

Allan H. Roberts
Thomson & McKinnon
Auchincloss, Kohlmeyer Inc.
Cleveland, Ohio

Warren R. Woodward
Thayer, Woodward & Co.
Cincinnati, Ohio

P. William Hotchkiss
Director
100 Erieview Plaza
Cleveland, Ohio

84 MEMBERS • 290 BRANCH OFFICES • 7,444 REGISTERED REPRESENTATIVES

DISTRICT NO. 10

DISTRICT OF COLUMBIA NORTH CAROLINA
MARYLAND VIRGINIA



N. Clark Moran
Chairman
Baker, Watts & Co.
Baltimore, Maryland



Leo Sade
Vice-Chairman
Sade & Co.
Washington, D. C.

Forrest E. Brinson
Brinson and Company
Charlotte, North Carolina

J. Nathan McCarter, Jr.
McCarter & Company, Inc.
Asheville, North Carolina

Robert G. Merrick, Jr.
Alex. Brown & Sons
Baltimore, Maryland

Beverly B. Mumford III
Davenport & Co. of Virginia, Inc.
Richmond, Virginia

Mason T. New
Branch, Cabell & Company
Richmond, Virginia

John W. Rader
Wheat, First Securities, Inc.
Roanoke, Virginia

Ralph S. Richard
Johnston, Lemon & Co.
Incorporated
Washington, D. C.

William J. Radding, Jr.
Director
1735 K Street N. W.
6th Floor
Washington, D. C.

119 MEMBERS • 353 BRANCH OFFICES • 10,946 REGISTERED REPRESENTATIVES

DISTRICT NO. 11

DELAWARE PENNSYLVANIA
NEW JERSEY* WEST VIRGINIA

* With the exception of counties
adjacent to New York City



James C. French
Chairman
Wellington Management
Company
Valley Forge, Pennsylvania



Robert M. Stewart
Vice Chairman
Moore, Leonard & Lynch,
Incorporated
Pittsburgh, Pennsylvania

Henry E. Crouter
DeHaven & Townsend,
Crouter & Bodine
Philadelphia, Pennsylvania

John W. Greiner
Cunningham, Schmertz &
Co., Inc.
Pittsburgh, Pennsylvania

R. Victor Harrod
Warren W. York & Company,
Inc.
Allentown, Pennsylvania

William Katellis
Janney Montgomery Scott,
Inc.
Cherry Hill, New Jersey

R. Drew Kistler
Simpson, Emery &
Company, Inc.
Pittsburgh, Pennsylvania

William M. MacKay
Butcher & Singer
Pittsburgh, Pennsylvania

J. Barry MacNeal
Boening & Scattergood Inc.
Philadelphia, Pennsylvania

William Raffel
Raffel & Co.
Philadelphia, Pennsylvania

Thomas W. Smyth
Smyth, Akins & Lerch, Inc.
Bryn Mawr, Pennsylvania

Arthur Tresch
A. E. Masten & Co.,
Incorporated
Pittsburgh, Pennsylvania

Edward R. Gilleran
Vice President
Director
1932 Philadelphia
National Bank Building
Philadelphia, Pennsylvania

206 MEMBERS • 404 BRANCH OFFICES • 15,558 REGISTERED REPRESENTATIVES

DISTRICT NO. 12

NEW YORK CITY*

* Includes adjacent
NY and NJ counties



John E. Eckelberry
Chairman
Salomon Brothers
New York, New York



John H. Schwieger
Vice-Chairman
Paine, Webber, Jackson
& Curtis, Incorporated
New York, New York

Peter A. Bernard
Bache & Co., Incorporated
New York, New York

Donald J. Devine
Freeman Securities Company,
Inc.
New York, New York

Philip J. Hoblin, Jr.
Shearson Hayden Stone Inc.
New York, New York

Robert A. Mackie, Jr.
Singer & Mackie, Inc.
Jersey City, New Jersey

Daniel D. McCarthy
Blyth Eastman Dillon
& Co., Incorporated
New York, New York

Frederick Moss
A. G. Becker & Co., Incorporated
New York, New York

Thomas L. Parker, Jr.
MONY Sales, Inc.
New York, New York

John C. Printon
Printon, Kane & Co.
Summit, New Jersey

Thomas W. Rae
E. F. Hutton & Company,
Inc.
New York, New York

John D. Weeden
Weeden & Co.
New York, New York

Stephen S. Wien
M. S. Wien & Co., Inc.
Jersey City, New Jersey

George J. Bergen
Vice President,
Director
77 Water Street
New York, New York

879 MEMBERS • 474 BRANCH OFFICES • 32,602 REGISTERED REPRESENTATIVES

DISTRICT NO. 13

CONNECTICUT

MAINE

MASSACHUSETTS

NEW HAMPSHIRE

NEW YORK*

RHODE ISLAND

VERMONT

* With the exception of New York City
and adjacent counties



John L. McDonough
Chairman
H. C. Wainwright & Co.
Boston, Massachusetts



John K. Pierce
Vice-Chairman
H. M. Payson & Co.
Portland, Maine

Thomas H. Adams, Jr.
Paine, Webber, Jackson &
Curtis, Incorporated
Boston, Massachusetts

Harold Engelman
Equity Services, Inc.
Montpelier, Vermont

Chester Hamilton
Fidelity Distributors
Corporation
Boston, Massachusetts

Donald J. Holly
Sage, Rutty & Company,
Inc.
Rochester, New York

N. Michael Kelser
Hugh Johnson & Company, Inc.
Buffalo, New York

Gilbert M. Lothrop
Moors & Cabot
Boston, Massachusetts

W. Lincoln Mossop, Jr.
Barrett & Company
Providence, Rhode Island

Frank A. Ofring
Ofring & Company, Inc.
Worcester, Massachusetts

J. Stephen Putnam
F. L. Putnam & Company,
Inc.
Boston, Massachusetts

James P. Rybeck
Wm. H. Rybeck & Co., Inc.
Meriden, Connecticut

Edward P. Ward
Phoenix Equity Planning
Corporation
Hartford, Connecticut

William S. Clendenin
Director
75 Federal Street
Boston, Massachusetts

258 MEMBERS • 504 BRANCH OFFICES • 24,530 REGISTERED REPRESENTATIVES

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 the public and members

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET N. W., WASHINGTON, D. C. 20006