

the purposes of ~~Section 15A~~ of the Act, recommend appropriate changes in the By-Laws to exclude the territory covered by an affiliate association from the geographical area covered by the Corporation.

ARTICLE ~~III~~ VI

Dues, Assessments and Other Charges

Power of Board to Fix and Levy Assessments

Sec. 1. The Board of Governors shall prepare an estimate of the funds necessary to defray reasonable expenses of administration in carrying on the work of the Corporation each fiscal year, and on the basis of such estimate, shall fix and levy the amount of admission fees, dues, assessments and other charges to be paid by members of the Corporation and issuers and any other persons using any facility or system which the Corporation operates or controls. ~~which said f~~ees, dues, assessments and other charges shall be called and payable as determined by the Board of Governors from time to time; provided, however, that such admission fees, dues, assessments and other charges shall be equitably allocated among members ~~and issuers and any other persons using any facility or system which the Corporation operates or controls.~~ The amount of admission fees, dues, assessments and other charges to be paid by the membership to the Corporation shall be set forth in Schedule A attached to and made a part of these By-laws. The Board of Governors may from time to time make such changes in Schedule A such fees, dues, assessments and other charges as it deems necessary or appropriate to assure equitable allocation of dues among members. Neither the adoption nor any ~~No such~~ change in Schedule A such fees, dues, assessments and other charges need be submitted to the membership for approval ~~to become effective, as would otherwise be required by Article IX hereof,~~ but any such proposed change shall be filed with the Commission in accordance with Section 15A of the Act, and unless it is

~~disapproved by the Commission as therein provided, it and such fees, dues, assessments and other charges as adopted or amended shall become effective at such time as the Board of Governors may prescribe. In the event of termination of membership or the extension of any membership to a successor organization during any fiscal year for which an assessment has been levied and become payable, the Board of Governors may make such adjustment in the fees, dues, assessments or other charges payable by any such member or successor organization or organizations during such fiscal years as it deems fair and appropriate in the circumstances.~~

Explanation

The amendments conform to Section 15A(b)(5) of the 1934 Act, added by the Securities Acts Amendments of 1975, which authorizes the Association to impose charges upon, in addition to its members, issuers and persons using any facility or system operated or controlled by the Association. It is proposed that the content of existing Schedule A will be moved to a new portion of the Manual. The requirement that assessments and charges be filed with the Commission is being eliminated as unnecessary in the By-Laws since this simply restates the requirements of the Act.

Reports of Members

Sec. 2. (a) Each member, issuer or other person shall promptly furnish all information or reports requested by the Board of Governors Corporation in connection with the determination of the amount of admission fees, dues, assessments or other charges payable by members during any given fiscal year.

(b) Each member shall report promptly such information in connection with securities for which quotations are display on the NASDAQ System as the Board of Governors deems appropriate.

Explanation

The provision has been expanded to reflect NASDAQ issuer fees. Subsection (b) has been moved to new Article VII, Section 1(a)(6).

Suspension or Cancellation of Membership
for Non-Payment of Dues

Sec. 3. The Corporation Board of Governors, after fifteen (15) days notice in writing, may suspend or cancel the membership of any member in arrears in the payment of any fees, dues, assessments or other charges or for failure to furnish any information or reports requested pursuant to Section 2 of this Article.

Reinstatement of Membership

Sec. 4. Any membership suspended or canceled under this Article may be reinstated by the Board of Governors Corporation upon such terms and conditions as it shall deem just; provided, however, that any applicant for reinstatement shall possess the qualifications required for membership in the Corporation.

~~Membership list Showing Dues-Paying
Classification~~

~~Sec.5 As soon as practicable after the annual levy provided for in Section 1 of this Article, the Secretary of the Corporation shall prepare a list of the members of the Corporation which shall disclose the dues-paying classification of each member and be available for inspection by any member of the Corporation or his duly authorized representative during business hours at the main office of the Corporation.~~

Explanation

The provision is being deleted because the Association has never had separate dues paying classes of membership.

ARTICLE IV VII

Organization and Administration

Board of Governors

Powers and Authority of the Board of Governors

Sec. 21. (a) The management and administration of the affairs of the Corporation shall be vested in a Board of Governors composed of thirty-one

members, twenty-one to be elected by the members of the various district in accordance with the provisions of Sections 3(a) through (e), of this Article, nine to be elected by the Board of Governors in accordance with the provisions of Sections 3(f), (g) and (h) of this Article, and the President of the Corporation to be selected by the Board of Governors in accordance with the provisions of Article V Section 2.

(a)(b) The Board of Governors shall be the governing body of the Corporation and, except as otherwise provided by these By-Laws, shall be vested with all powers necessary for the management and administration of the affairs of the Corporation and the promotion of the Corporation's welfare, objects and purposes. In the exercise of such powers, the Board of Governors may, shall have the authority to:

(1) adopt for submission to the membership, as hereinafter provided, such By-Laws, Rules of Fair Practice and changes or additions thereto as it deems necessary or appropriate;

(2) make such regulations, issue such orders, resolutions, interpretations, including interpretations of the Rules of Fair Practice, and directions, and make such decisions as it deems necessary or appropriate;

(3) prescribe maximum penalties for violations of the provisions of these By-laws, the rules and regulations of the Corporation, for neglect or refusal to comply with orders, directions and decisions of the Board of Governors or of any District Committee or other Committee; or for violation of any rule or regulation adopted by any District Committee, as provided in Section 2 of Article VII hereof; and

(4)(3) prescribe a code of arbitration procedure providing for the required or voluntary arbitration of controversies between members and between members and customers or others as it shall deem necessary or appropriate to the

extent consistent with law, and neither the adoption nor any amendments to the code need be submitted to the membership for approval and the code and any amendments thereto shall become effective as the Board of Governors may prescribe;

(4) establish rules and procedures to be followed by members in connection with the distribution of securities issued by members and affiliates thereof, and neither the adoption nor any amendments to such rules and procedures need be submitted to the membership for approval and such rules and procedures and any amendments thereto shall become effective as the Board of Governors may prescribe;

(5) require all over-the-counter transactions in securities between members to be cleared and settled through the facilities of a clearing agency registered with the Commission pursuant to the Act, which clears and settles such over-the-counter transactions in securities;

~~(e) The Board of Governors shall have the authority to establish rules and procedures to be followed by members in connection with the distribution of issues of securities in a member corporation and affiliates thereof as defined by the Board of Governors. Such rules and procedures shall be incorporated into Schedule E to be attached to and made a part of these By-laws. The Board of Governors shall have the power to adopt, alter, amend, supplement or modify the provisions of Schedule E from time to time without recourse to the membership for approval as would otherwise be required by Article IX hereof and Schedule E, as adopted, altered, amended, supplemented or modified shall become effective as the Board of Governors may prescribe unless disapproved by the Commission.~~

(6) organize and operate automated systems to provide qualified subscribers with securities information and automated services. The systems may be organized and operated by a division or subsidiary company of the Corporation or

by one or more independent firms under contract with the Corporation as the Board of Governors may deem necessary or appropriate. The Board of Governors may adopt rules for such automated systems, establish reasonable qualifications and classifications for members and other subscribers, provide qualification standards for securities included in such systems, require members to report promptly information in connection with securities included in such systems, and establish charges to be collected from subscribers and others. The Board of Governors shall have power to adopt, amend, supplement or modify such rules, qualifications, classifications, standards and charges from time to time without recourse to the membership for approval, and such rules, qualifications, classifications, standards and charges shall become effective as the Board of Governors may prescribe; and

(7) engage in any activities or conduct necessary or appropriate to carry out the Corporation's purposes under its Certificate of Incorporation and the federal securities laws.

~~(a)~~(b) In the event of the refusal, failure, neglect or inability of any member of the Board of Governors to discharge his duties, or for any cause affecting the best interests of the Corporation the sufficiency of which the Board of Governors shall be the sole judge, the Board shall have the power, by the affirmative vote of two-thirds of the Governors then in office, to remove such member and declare his position vacant and that it shall be filled in accordance with the provisions of Section ~~7~~ 6 of ~~the~~ this Article.

Explanation

Existing subsection (a) is being transferred to new Section 3 where it more appropriately belongs. The authority of the Board to establish automated systems in new subsection (a)(6) has been transferred from existing Article XVI and new subsection (a)(5) concerning use of clearing agencies has been transferred from existing Article XVII of the By-Laws. New subsection (a)(7) is intended to clarify that the Board has full power to engage in any lawful activities as prescribed by its Certificate of Incorporation and the provisions of the federal securities laws. The authority of the Board to prescribe penalties under existing Article IV, Section

2(b)(3) has been combined with similar authority in existing Section 3(c) of Article VII and transferred to new Article XIV in the interests of eliminating unnecessary duplication.

Authority to Suspend for Failure
to File Regulatory Reports

Sec. 2(a) The Board of Governors shall have authority to cancel or suspend the membership of any member or suspend the association of any person associated with a member for failure to file, or to submit on request, any report, document or other information required to be filed with or requested by the Corporation. Before such cancellation or suspension shall become effective, the member or person associated with a member shall be given fifteen (15) days notice in writing thereof.

(b) The Board of Governors is authorized to delegate the authority hereinabove granted to the President of the Corporation; provided, however, that the Executive Committee of the Board of Governors shall be notified in writing of any such contemplated action by the President.

(c) Any suspension or cancellation under this section shall take effect following the fifteen (15) day notice period and shall not be subject to the requirements of the Code of Procedure.

Explanation

New subsection (a) makes clear that the Board has authority to suspend or cancel the membership of a firm and suspend the association of a person associated with a member for failure to file any report or other information required to be filed or for failure to honor a request for information. New subsections (b) and (c) parallel the existing procedure under Article IV, Section 5 of the Rules of Fair Practice respecting suspension for refusal by a member to permit inspection of its books and records.

Representation of Districts on Board

Composition of Board

Sec. 3. (a) The management and administration of the affairs of the Corporation shall be vested in a Board of Governors composed of thirty-one members, twenty-one to be elected by the members of the various districts in

accordance with the provisions of subsections (b)(1) through (5) hereof, nine to be elected by the Board of Governors in accordance with the provisions of subsections (b)(6),(7) and (8) hereof, and the President of the Corporation to be selected by the Board of Governors in accordance with the provisions of Article X, Section 2 of the By-Laws.

(b) The several districts shall be represented on the Board of Governors.

The elected members of the Board of Governors shall be chosen as follows:

~~(a)~~(1) Three members of the Board of Governors shall be elected from and by the members of the Corporation having places of business eligible to vote in District No. 2;

~~(b)~~(2) Two members of the Board of Governors shall be elected from and by the members of the Corporation having places of business eligible to vote in District No. 8;

~~(c)~~(3) Five members of the Board of Governors shall be elected from and by the members of the Corporation having places of business eligible to vote in District No. 12;

~~(d)~~(4) Two members of the Board of Governors shall be elected from and by the members of the Corporation having places of business eligible to vote in District No. 13;

~~(e)~~(5) One member of the Board of Governors shall be elected from and by the members of the Corporation having places of business eligible to vote in each of the remaining districts not referred to in paragraphs ~~(a)~~, ~~(b)~~, ~~(c)~~ and ~~(d)~~ Subsections (1), (2), (3) and (4) of this Section;

~~(f)~~(6) One member of the Board of Governors shall be elected by the Board of Governors from among the principal underwriter members of investment company shares, and he shall be designated a Governor-at-Large;

~~(g)~~(7) One member of the Board of Governors shall be elected by the Board of Governors from among insurance company members or insurance company affiliated members of the Association Corporation and he shall be designated a Governor-at-Large;

~~(h)~~(8) Seven members of the Board of Governors shall be elected by the Board of Governors and they shall be designated Governors-at-Large. Any Governor-at-Large initially filling a Governor-at-Large office shall be elected at such time as the Board of Governors in its discretion deems appropriate;

(9) At least one member of the Board of Governors shall be representative of issuers and not be associated with a member, broker or dealer and at least one member of the Board of Governors shall be representative of investors and not be associated with a member, broker or dealer;

~~(i)~~(10) The Board of Governors shall, from time to time, consider the fairness of the representation of the various districts on the Board of Governors, and whenever it finds any unfairness in such representation to exist, it shall recommend appropriate changes in these By-Laws to assure fair representation of all districts.

Explanation

In subsection (b)(7) the word "Association" is deleted and replaced with the word "Corporation" for purposes of consistency. The proposed new subsection (b)(9) implements Section 15A(b)(4) of the Act requiring that at least one member of the Board of Governors shall be representative of issuers and one of investors and shall not be affiliated with a broker/dealer. New subsection (a) has been transferred from existing Article IV, Section 2 (a) of the By-Laws.

Term of Office of Governors

Sec. 4. Each elected member of the Board of Governors, including the Governors-at-Large, except as otherwise herein provided, shall hold office for a

term of three years, and until his successor is elected and qualified, or until his death, resignation or removal. The President of the Corporation shall serve as a member of the Board of Governors until his successor is selected and qualified, or until his death, resignation or removal.

Succession to Office

Sec. 5. The office of a retiring member of the Board of Governors elected under ~~Section 3~~ subsections (a) (1) through (e) (5) of Section 3(b) of this Article shall be filled by the election of a member from the same district as that of the retiring member. The office of a retiring Governor-at-Large shall be filled by election by the Board of Governors as provided in ~~Section 3~~ subsections (f), (g) (6), (7) and/or (h) (8) of Section 3(b) of this Article, as the case may be.

Election of Board Members

Sec. 6. The elected members of the Board of Governors shall be chosen as follows:

Procedure for Nominations by Nominating Committees

(a) Before June 1 of each year, the Secretary of the Corporation shall ~~cause notice to be given to~~ notify in writing the Chairman of the respective District Committees of the expiration of the term of office of any member of the Board of Governors elected under ~~Section 3~~ subsections (a) (1) through (e) (5) of Section 3(b) of this Article which will expire during the next calendar year. The said Chairman shall thereupon notify the Nominating Committee elected for such District pursuant to the provisions of ~~Section 223~~ of ~~this~~ Article IX of the By-Laws and such Nominating Committee shall proceed to nominate a candidate from such District for the office of each such member of the Board of Governors whose term is to expire. Nominating Committees in nominating candidates for the office of member of the Board of Governors shall endeavor, as nearly as practicable, to

secure appropriate and fair representation on the Board of Governors of all classes and types of members firms engaged in the investment banking and securities business. ~~n~~No Nominating Committee shall nominate an incumbent member of the Board of Governors to succeed himself unless it first takes appropriate action ~~(by a~~ written ballot sent to the entire membership within the District~~)~~ to ascertain that such nomination is acceptable to a majority of the members voting on such ballot in the District except where the incumbent member of the Board of Governors is serving pursuant to the provisions of Section 7(a) of this Article. Each candidate nominated by the Nominating Committee shall be certified to the District Committee by September 1 and within five (5) days thereafter a copy of such certification shall be sent by the District Committee to each member of the Corporation having a place of business eligible to vote in the district. Such candidate shall be designated the "regular candidate."

Nomination of additional candidates

(b) ~~Ten per cent or more of the members of the Corporation having places of business in the district may nominate a~~ An additional candidate or candidates may be nominated for the office of any member elected under ~~Section 3~~ subsections (a) through (e) (1) through (5) of Section 3(b) of this Article, and whose term is to expire, if written notice thereof in writing of the nomination, signed by ~~the~~ required number of members at least ten percent of the members of the Corporation eligible to vote in the district, is filed with the District Committee within thirty (30) days from the date of the notice of the action taken by the Nominating Committee. If no additional candidate or candidates are nominated within such thirty-day period, the candidate or candidates nominated by the Nominating Committee shall be considered duly elected, and the District Committee shall certify the election to the Board of Governors.

Contested elections

(c) If any additional candidate or candidates are nominated, as provided in paragraph subsection (b) of this Section, the District Committee shall forthwith cause the names of the regular candidate and of all other duly nominated candidates for each office to be placed upon a ballot, which shall be sent to all members of the Corporation ~~having places of business~~ eligible to vote in the district. Each member of the Corporation having its principal place of business in the district shall be entitled to one vote, and each member having one or more registered branch offices in the district shall be entitled to vote as provided in Section ~~40~~ 8 of Article ~~I~~ III. The District Committee shall fix a date before which ballots must be returned to be counted. All ballots shall be opened and counted by such officer or employee of the ~~District Committee Corporation~~ District Committee Corporation as ~~its~~ the Chairman of the District Committee may designate and in the presence of a representative of each of the candidates if such representation is requested in writing by any candidate named on the ballot ~~voted upon~~. The candidate for each office to be filled receiving the largest number of votes cast shall be declared elected to membership on the Board of Governors, and certification thereof shall be made forthwith to the Board of Governors. In the event of a tie, there shall be a run-off election. In all elections held under this paragraph subsection voting shall be made by secret ballot, the procedure for which shall be prescribed by the Board of Governors.

Explanation

Subsection (a) would be amended to eliminate the requirement of an advance ballot to the membership before a District Nominating Committee may nominate an incumbent member of the Board to succeed himself in the case where the incumbent is filling a vacancy with an unexpired term of less than one year. The other changes are clarifying.

Filling of Vacancies on Board

Sec. 7. All vacancies in the Board of Governors other than those caused by the

expiration of a Governor's term of office, shall be filled as follows:

(a) If the unexpired term of a Governor elected under ~~Sections 3 subsections (a) through (e)~~ (b)(1) through (b)(5) of Section 3 of this Article, is for less than twelve months, such vacancy shall be filled by appointment by the District Committee of a representative of a member of the Corporation having a place of business eligible to vote in the same district.

(b) If the unexpired term of a Governor, elected under ~~Sections 3 subsections (a) through (e)~~ (b)(1) through (b)(5) of Section 3 of this Article, is for twelve months or more, such vacancy shall be filled by election, which shall be conducted as nearly as practicable in accordance with the provisions of Section 6 of this Article.

(c) If the unexpired term is that of a Governor-at-Large, such vacancy shall be filled in accordance with the provisions of ~~Section 3 subsections (b)(6), (b)(7), (f), (g)~~ and/or (b)(8) (h) of Section 3 of this Article as the case may be.

Meetings of Board

Sec. 8. Meetings of the Board of Governors shall be held at such times and places, upon such notice, and in accordance with such procedure as the Board of Governors in its discretion may determine. A quorum of the Board of Governors shall consist of ~~fourteen~~ a majority of the members, and any action taken by a majority vote at any meeting at which a quorum is present, except as otherwise provided in these By-Laws, shall constitute the action of the Board. Meetings of the Board of Governors may be held by mail, telephone or telegraph, in which case any action taken by a majority vote of the Board of Governors shall constitute the action of the Board. Any action taken by telephonic vote shall be confirmed in writing at a regular meeting of the Board of Governors.

Explanation

The change in the quorum requirement to a majority of the Board members is intended to reflect the fact that the number of Board members has increased in recent years. The other changes are clarifying and to conform to existing practice.

Offices of Corporation

Sec. 9. The Corporation shall maintain such offices as the Board of Governors may from time to time deem necessary or appropriate.

ARTICLE IV VIII

District Committees

Administrative Districts

Sec. 1. For the purpose of administration, the ~~several states~~ of the United States ~~are~~ is hereby divided into districts, the boundaries of which ~~are set forth in Schedule B; appended hereto~~ shall be established by the Board of Governors. The Board of Governors may from time to time make such changes in ~~Schedule B~~ the boundaries as it deems necessary or appropriate. Neither the establishment nor any ~~No such change in Schedule B~~ the boundaries need be submitted to the membership for approval ~~to become effective; as would otherwise be required by Article IX hereof;~~ and the boundaries, as established or changed, but a copy of any such proposed change shall be filed with the Commission in accordance with Section 15A of the Act and unless it is disapproved by the Commission as therein provided, it shall become effective as at such time as the Board of Governors may prescribe.

Explanation

The changes are largely technical. It is also proposed that the content of Schedule B will be transferred to a new portion of the Manual.

District Committees
and District Business Conduct Committees

Sec. ~~10~~ 2. (a) For the purpose of effectuating a maximum degree of local administration of the affairs of the Corporation, each of the districts created under Section 1 of this Article shall elect a District Committee, as hereinafter provided. Each such District Committee shall determine the number of its members so to be elected, but in no event shall any District Committee consist of more than twelve members; provided, however, that the Board of Governors by resolution may increase, upon request, any such District Committee to a larger number.

(b) In the event of the refusal, failure, neglect or inability of any member of any District Committee to discharge his duties, or for any cause affecting the best interests of the Corporation the sufficiency of which shall be decided by the District Committee, the District Committee shall have the power by the affirmative vote of two-thirds of the members of the District Committee then in office, to remove such member and declare his position vacant and that it shall be filled in accordance with the provisions of Section ~~135~~ of this Article; provided, however, that any member of any District Committee who has had his position declared vacant in the manner provided herein shall have the right to appeal the determination of the District Committee to the Board of Governors within 30 days after the date he is notified of the action of the District Committee. The Board of Governors shall thereafter have the authority to affirm, reverse or modify the determination of the District Committee. Any such action by the Board shall be by the affirmative vote of at least two-thirds of the governors then in office.

(c) The District Committees shall also serve as the District Business Conduct Committees for their respective districts.

Explanation

The language added by new subsection (c) reflects the fact that the persons who comprise the District Committees and the District Business Conduct

Committees are the same persons. The change is made in conjunction with the elimination of existing Section 3 of Article VI of the By-Laws requiring that the District Committees go through the procedure of appointing District Business Conduct Committees.

Term of Office of District Committeemen Members

Sec. ~~3~~ 3. Each regularly elected member of a District Committee shall hold office for a term of three (3) years, and until his successor is elected and qualified, or until his death, resignation or removal.

Election of District Committeemen Members

Sec. ~~4~~ 4. Members of the District Committees shall be elected as follows:

Procedure for Nominations by Nominating Committees

(a) Before June 1 of each year, the Secretary of the Corporation shall ~~cause notice to be given to~~ notify in writing the Chairman of the each respective District Committees of the expiration of the term of office of any member of that District Committee which shall expire during the next calendar year. The said Chairman shall thereafter, but not later than July 1, advise the Nominating Committee, which shall proceed to nominate a candidate from their District for the office of each member of the District Committee whose term is to expire. Nominating Committees in nominating candidates for the office of member of the District Committee shall endeavor, as nearly as practicable, to secure appropriate and fair representation on the District Committee of the various sections of the District and of all classes and types of ~~firms~~ members engaged in the investment banking or securities business within such District; ~~and~~ N no Nominating Committee shall nominate an incumbent member of the District Committee to succeed himself unless it first takes appropriate action ~~(by a written ballot of the entire membership within the District)~~ to ascertain that such nomination is acceptable to a majority of the members in the District except where the incumbent member of the District Committee is serving pursuant to the provisions of Section 5(a) of this Article. Each candidate nominated by the

Nominating Committee shall be certified to the District Committee, by September 1, and within five (5) days thereafter a copy of such certification shall be sent by the District Committee to each member of the Corporation ~~having a place of business~~ eligible to vote in the District. Such candidate shall be designated the "regular candidate."

Nomination of additional candidates

(b) ~~Ten per cent or more of the members of the Corporation having places of business in the district may nominate a~~ An additional candidate or candidates may be nominated for the office of any member whose term is to expire or for any new office created by the District Committee pursuant to Section ~~10~~ 2 of this Article, if written notice thereof in writing of the nomination, signed by the required number of members at least ten percent of the members of the Corporation eligible to vote in the district, is filed with the District Committee within thirty (30) days from the date of the notice of the action taken by the Nominating Committee. If no additional candidate or candidates are nominated within such thirty-day period, then the candidate or candidates nominated by the Nominating Committee shall be considered duly elected and the District Committee shall certify the election to the Board of Governors.

Contested elections

(c) If any additional candidate or candidates are nominated, as provided in paragraph (b) of this Section, the District Committee shall forthwith cause the names of the regular candidate for any contested office and of all other candidates for such office to be placed upon a ballot, which shall be sent to all members of the Corporation ~~having places of business~~ eligible to vote in the district. Each member of the Corporation having its principal place of business in the district shall be entitled to one vote, and each member having one or more registered branch offices in the district shall be entitled to vote as provided in

Section ~~10~~ 8 of Article ~~I~~ III. The District Committee shall fix the date before which ballots must be returned to be counted. All ballots shall be opened by such officer or employee of the ~~District Committee Corporation~~ as its the Chairman of the District Committee may designate, and in the presence of a representative of each of the candidates if such representation is requested in writing by any candidate ~~voted upon~~ named in the ballot. The candidate for each office to be filled receiving the largest number of votes cast shall be declared elected to membership on the District Committee, and certification thereof shall be made forthwith to the Board of Governors. In the event of a tie, there shall be a run-off election. In all elections held under this Section, voting shall be by secret mail ballot, the procedure for which shall be prescribed by the Board of Governors.

Explanation

Subsection (a) would be amended to eliminate the requirement for an advance ballot to the membership before a District Nominating Committee may nominate an incumbent member of the District Committee to succeed himself in the case where the incumbent is filling a vacancy with an unexpired term of less than one year. The other changes are clarifying.

Filling of Vacancies on District Committees

Sec. ~~13~~ 5. All vacancies in any District Committee other than those caused by the expiration of a member's term of office, shall be filled as follows:

(a) If the unexpired term of the member causing the vacancy is for less than ~~six~~ twelve months, such vacancy shall be filled by appointment by the remaining members of the District Committee of some member of the Corporation having a place of business in the same district.

(b) If the unexpired term of the member causing the vacancy is for ~~six~~ twelve months or more, such vacancy shall be filled by election, which shall be conducted as nearly as practicable in accordance with the provisions of Section ~~124~~ of this Article.

Explanation

The change in the authority of the District Committees to fill vacancies by appointment is extended to cases where the unexpired term is for less than one year in order to be consistent with the existing authority of the Board to fill vacancies under Article IV, Section 7 of the present By-Laws.

Meetings of District Committees

Sec. ~~14~~ 6. Meetings of each District Committee shall be held at such times and places, upon such notice, and in accordance with such procedure as each District Committee in its discretion may determine. A quorum of a District Committee shall consist of a majority of its members, and any action taken by a majority at any meeting at which a quorum is present, except as otherwise provided in the By-Laws, shall constitute the action of the Committee. Action by a District Committee may be taken by mail, telephonic or telegraphic vote, in which case any action taken by a majority of the Committee shall constitute the action of the Committee. Any action taken by telephonic vote shall be confirmed in writing at a regular meeting of the District Committee.

Explanation

The change incorporates desirable practice with respect to confirmation of telephone votes.

Election of Chairmen and Other District Officers

Sec. ~~15~~ 7. Following the annual election of members of the District Committees pursuant to Section ~~124~~ of this Article, each District Committee shall elect from its members a Chairman and such other officers as it deems necessary for the proper performance of its duties under these By-Laws, and shall prescribe their powers and duties.

Advisory Council

Sec. ~~16~~ 8. (a) The ~~Chairman~~ Chairmen of the ~~several~~ District Committees, elected pursuant to Section ~~157~~ of this Article, shall constitute an Advisory Council to the Board of Governors.

(b) Such Advisory Council shall be advised of and entitled to attend such meetings of the Board of Governors as the Board may designate and the Board shall designate at least one such meeting annually, ~~but such~~ The Advisory Council shall not ~~there~~ be entitled to vote at meetings of the Board of Governors.

Explanation

The changes are clarifying.

Expenses of District Committees

Sec. ~~17~~ 9. Funds to meet the regular expenses of each District Committee, elected pursuant to Section ~~124~~ of this Article, shall be provided by the Board of Governors out of funds collected by it under the provisions of Article ~~III~~ VI hereof, and all such expenses shall be subject to the approval of the Board of Governors.

District Committees Agencies of Corporation

Sec. ~~18~~ 10. The District Committees shall act as the agencies of the Corporation for the administration of its affairs in their respective districts and as such shall have such powers and duties as are provided in the By-Laws or from time to time delegated by the Board of Governors.

Certain Functions of District Committees

Sec. ~~19~~ 11. The District Committees shall endeavor, in such manner ~~or through such media~~ as they deem appropriate, to educate members and other brokers and dealers in their respective districts as to the objects, purposes and work of the Corporation in order to foster their interest and ~~friendly~~ cooperation. District Committees shall consider the practical operation of all provisions of the ~~Certificate of Incorporation, By-laws, Rules of Fair Practice and Code of Procedure of the Corporation~~ rules of the Corporation and shall report to the Secretary any which the District Committees believe do not work satisfactorily in their respective districts.

Explanation

The changes are primarily to incorporate the new definition of "rules of the Corporation" appearing in Article I, Section (o) hereof.

ARTICLE ~~IV~~ IX

Nominating Committees

Composition of Nominating Committees

Sec. ~~20~~ 1. (a) Each of the Districts created under Section 1 of ~~this~~ Article VIII of the By-Laws shall elect a Nominating Committee, as provided in Section ~~22~~ 3 hereafter: of this Article. Each such Nominating Committee shall consist of five members; provided, however, that the Board of Governors by resolution may increase any such Nominating Committee to a larger number. Members of the Nominating Committee in each District shall be members of the Corporation having places of business in the respective District, but shall not be members of the District Committee. All Nominating Committees shall include a majority of persons who have previously served on the District Committee and/or on the Board of Governors and shall, insofar as practicable, include at least one former member of the Board of Governors.

(b) In the event of the refusal, failure, neglect or inability of any member of any Nominating Committee to discharge his duties, or for any cause affecting the best interest of the Corporation, the sufficiency of which shall be decided by the Nominating Committee, the Nominating committee shall have the power, by the affirmative vote of ~~3/5~~ three-fifths of the members of the Nominating Committee then in office, to remove such member and declare his position vacant and that it shall be filled in accordance with the provisions of Section ~~223~~ 3 of this Article; provided, however, that any member of any Nominating Committee who has had his position declared vacant in the manner provided herein shall have the right to submit a written appeal in respect to the determination of

the Nominating Committee to the Board of Governors within ~~30~~ thirty (30) days after the date he is notified in writing of the action of the Nominating Committee. The Board of Governors shall thereafter have the authority to affirm, reverse or modify the determination of the Nominating Committee. A vote of ~~2/3's~~ two-thirds of the Governors then in office shall be required to reverse or modify the action of the Nominating Committee.

Explanation

The changes are proposed for purposes of clarity and to codify a resolution of the Board of Governors adopted at the September 1982 meeting.

Term of Office of Nominating Committeemen Members

Sec. ~~21~~ 2. Each regularly elected member of a Nominating Committee shall hold office for a term of one (1) calendar year, and until his successor is elected and qualified, or until his death, resignation or removal.

Election of Nominating Committees

Sec. ~~22~~ 3. Members of the Nominating Committee shall be elected as follows:

Procedures for Nominations by Nominating Committees

(a) Before June 1 of each year the Secretary of the Corporation shall ~~cause notice to be given to~~ notify in writing the Chairmen of the respective District Committees as to those members of the District Nominating Committee who were elected for the present year and as to the offices of that Committee that are to be filled by the next election. The said Chairman shall thereupon notify the Nominating Committee elected for such District and the Nominating Committee shall proceed to nominate a candidate from such District for the offices of that Committee which are to be filled by the next election. The Nominating Committee in nominating candidates for the office of member of the Nominating Committee shall endeavor, as nearly as practicable, to secure appropriate and fair representation on the Nominating Committee of the various sections of the District

and of all classes and types of members firms engaged in the investment banking or securities business within such District and shall assure that the composition of the Nominating Committee meets the standards contained in Section 1(a) of this Article; and, nNo Nominating Committee shall nominate more than two incumbent members of the Nominating Committee to succeed themselves. No member of any Nominating Committee may serve more than two consecutive terms. Each candidate nominated by the Nominating Committee shall be certified to the District Committee, by September 1, and within five (5) days thereafter a copy of such certification shall be sent by the District Committee to each member of the Corporation having a place of business eligible to vote in the District. Such candidate shall be designated the "regular candidate."

Nomination of Additional Candidates

(b) Ten percent or more of the members of the Corporation having places of business in the District may nominate an aAdditional candidate candidates may be nominated for the office of any member whose term is to expire or for any new office created by the Board of Governors pursuant to Section 201(a) of this Article, provided that election of such candidates would be consistent with the requirements of Section 1(a) of this Article, if written notice thereof in writing of the nomination, signed by the required number of at least ten percent of the members, of the Corporation eligible to vote in the district, is filed with the District Committee within thirty (30) days from the date of the notice to the members of the action taken by the Nominating Committee. If no additional candidate or candidates are nominated within such thirty-day period, then the candidate or candidates nominated by the Nominating Committee shall be considered duly elected and the District Committee shall certify the election to the Board of Governors.

Contested Elections

(c) If any additional ~~candidate or~~ candidates are nominated, as provided in paragraph (b) of this section, the District Committee shall forthwith cause the names of the regular candidate and all other candidates for any contested office ~~and of all other candidates for such~~ to be placed upon a ballot, which shall be sent to all members of the Corporation ~~having places of business~~ eligible to vote in the District. Each member of the Corporation having its principal place of business in the District shall be entitled to one vote, and each member having one or more registered branch offices in the District shall be entitled to vote as provided in Section ~~10~~ 8 of Article ~~I~~ III. The District Committee shall fix the date before which ballots must be returned to be counted. All ballots shall be opened by such officer or employee of the ~~District Committee Corporation~~ as its the Chairman of the District Committee may designate, and in the presence of a representative of each of the candidates, if such representation is requested in writing by any candidate ~~voted upon~~ named in the ballot. The candidate for each office to be filled receiving the largest number of votes cast shall be declared elected to membership on the Nominating Committee and certification thereof shall be made forthwith to the Board of Governors. In the event of a tie, there shall be a run-off election. In all elections held under this Section, voting shall be by secret mail ballot, the procedure for which shall be prescribed by the Board of Governors.

Explanation

The proposed changes are for clarity and to reflect the composition of Nominating Committees under new language added to Section 1(a) above.

Filling of Vacancies for Nominating Committees

Sec. ~~23~~ 4. All vacancies in any Nominating Committee other than those caused by the expiration of a member's term of office shall be filled as follows:

(a) If the unexpired term of the member causing the vacancy is for less than six months, such vacancy shall be filled by appointment by the remaining members of the Nominating Committee of a ~~some~~ representative of a member of the Corporation having a place of business eligible to vote in the same District.

(b) If the unexpired term of the member causing the vacancy is for six months or more, such vacancy shall be filled by election, which shall be conducted as nearly as practicable in accordance with the provisions of Section ~~22~~3 of this Article.

Meetings of Nominating Committees

Sec. ~~24~~ 5. Meetings of each Nominating Committee shall be held at such times and places, upon such notice, and in accordance with such procedure as each Nominating Committee in its discretion may determine. A quorum of a Nominating Committee shall consist of a majority of its members, and any action taken by a majority of the entire Committee at any meeting at which a quorum is present, except as otherwise provided in the By-Laws, shall constitute the action of the Committee. Action by a Nominating Committee may be taken by mail, telephonic or telegraphic vote, in which case any action taken by a majority of the Committee shall constitute the action of the Committee. Any action taken by telephonic vote shall be confirmed in writing at a regular meeting of the Nominating Committee.

Explanation

The changes make clear that any final action by a Nominating Committee must be taken by a majority of the Committee members.

Election of Chairman and Other Nominating Committee Officers

Sec. ~~25~~ 6. Following the annual election of members of the Nominating Committees pursuant to Section ~~22~~ 3 of this Article, each Nominating Committee shall elect from its members a Chairman and such other officers as it deems necessary for the proper performance of its duties under these By-Laws.