ARM’S-LENGTH STUDY
APPROVED BY BOARD
AS DISCUSSION BASIS

Does Not Bind Membership—Governors, Meeting in Washington, Told
of PSI Investigation

Committee Heads Report on Activities

Your Board of Governors and Advisory Council (Chairman of the 14
District Committees) met in Washington, D. C., on April 29 and 30 to
consider and take action on a number of highly important matters. Francis
A. Bonner, Chairman of the Board, presided.

First, the Board unanimously approved, as a basis for further discussion
with the Securities and Exchange Commission, the report of the special
Arm’s-Length Bargaining Committee, headed by Francis Kernan, Jr., of
New York City, prepared in response to a request from the SEC for advice and
suggestions as to how its arm’s-length bargaining rule (U-12F-2)
could be improved.

It was emphasized that this approval in no way bound the members of the Association to accept the report as this could not be done without a vote of the entire membership. The acceptance of the report merely gives the committee a signal to go ahead in their discussions with the SEC on the basis outlined in the report.

Also discussed was the investigation into the $45,000,000 offering of
Public Service of Indiana securities. It was explained that replies received
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FILE COPIES OF NASD NEWS

Inasmuch as the NASD NEWS will, from time to time, contain discussions of problems which have arisen and are deemed of general interest to the membership and other matters to which you will undoubtedly want to refer, you may wish to keep a file of the NEWS. For this reason, we have had holes punched in the margin to facilitate placing it in a loose-leaf binder.

DEALERS’ PROBLEMS AIRED
AT NUMEROUS MEETINGS

A double-barreled program involving a series of meetings with members of the Association and with other dealer groups has been actively car-
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DEALERS' PROBLEMS
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ried on by national officers, members and representatives of the NASD for the past two months and will continue until every District has been reached and as many of the larger dealer groups as possible. The first purpose of these meetings is to inform as many investment bankers and securities dealers as possible of the workings, aims and purposes of the Association. The second is to discuss general problems with members and to aid them in every way possible in solving the problems of their Districts. Two specific items which have been gone into at all of the member meetings are quotations on over-the-counter securities and the unifying of trade practices, both within Districts and throughout the country.

In pursuance of this program, Francis A. Bonner, Chairman of the Board of Governors of the Association, has attended numerous District Committee meetings and plans to continue these meetings with a hope of visiting all Districts. He has addressed dealer groups recently in such cities as Chicago, St. Louis, Kansas City, Omaha, Minneapolis, New York, Columbus, Dallas, San Antonio, Houston, Philadelphia, Louisville, Memphis, New Orleans and Atlanta. He plans further trips this month. He has also addressed such dealer groups as the Central States Group of the IBA, the Nebraska Investment Bankers Association, the Twin City Bond Club, the New York Securities Dealers Association, the Texas Group of the IBA and the Philadelphia Bond Club. Wallace H. Fulton, Executive Director of the Association, has accompanied Mr. Bonner on many of these trips.

Nevil Ford, Vice Chairman of the

ARM'S-LENGTH REPORT
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to a questionnaire sent out concerning this offering were being examined by accountants in the New York office. The accountants will report to the Executive Committee of the Association which will examine the report carefully for any evidence of violation of the Association's Rules of Fair Practice. If any such evidence is found, it will be turned over to the District Business Conduct Committee in the District in which the offense occurred for action. The questionnaires will be returned to the members who answered them when the investigation is completed.

The national Business Conduct Committee met during the Governors' session and perfected machinery for hearing appeals of decisions in trade practice complaints by the Board and for calling up cases for review, when thought necessary, when no appeal has been made. The Code of Procedure of the Association provides for appeal from District Business Conduct Committee decisions in cases involving violations of the Rules of Fair Practice to the Board and from the Board to the SEC and from the Commission to the Federal Courts.

The national Business Conduct Committee, as an agent of the Board, holds the original hearings on all appeals or reviews, but any decisions in such cases must be submitted to the Governors for action. Clifford S. Ash-

man of Minneapolis is chairman of the committee.

Joseph T. Johnson of Milwaukee, chairman of the national Uniform Practice Committee, reported that his group, while endeavoring to act as rapidly as possible in evolving a national policy and technique on uniform business practices, was giving the local Uniform Practice Committees an opportunity to experiment before making recommendations to the Board. These recommendations will form the basis on which national policy concerning uniform practices will be based.

Chairman Frank Weeden of San Francisco reported that the national Quotations Committee was following a similar procedure. A more detailed story concerning the progress the Association is making in solving the problem of quotations on over-the-counter securities will be found elsewhere in this issue of the NASD NEWS.

Henry L. Rosenthal, Jr., of New York City reported that the national Technical Committee, of which he is chairman, had been working with the SEC for at least six months on the Commission's proposed hypothecation of securities rules, during which time a number of drafts have been considered and reported to the Commission.

Chairman Y. E. Booker of Washington, D. C., of the Education Committee said that his group had decided that its most important job was to keep members informed as to the workings of and all events and happenings concerning the Association and other matters of interest and that educating the public as to the Association was its second, although no less important, work. Toward the end of keeping members informed, he recommended the publication of the NASD NEWS, which recommendations was approved by the Governors.

Reports of the activities of the 14 District Committees were read and submitted to the Board. The problems of each of these Districts and possible solutions of them were discussed.

Also attending the meeting were Wallace H. Fulton, Executive Director, and Joseph C. Hostetler and Murray Hanson of Counsel for the Association. Chairman Bonner reported 100 per cent attendance by the Governors and that all the Districts were represented with one exception.
QUESTIONS AND ANSWERS

The Association from time to time receives a great many questions having to do with its By-Laws, Rules of Fair Practice, Code of Procedure and also with respect to certain provisions of the Securities Act, the Exchange Act and the Commission's Rules and Regulations under those Acts. Many of these inquiries have to do with problems of very limited interest to the membership as a whole but others are of general interest and considerable importance to all members. It is our intention, therefore, in this column regularly to run a series of such questions and answers which seem to us of general concern.

QUESTION: Should members, on joining the Association, amend their broker-dealer registration with the Securities and Exchange Commission to show membership in the National Association of Securities Dealers, Inc.?

ANSWER: Yes.

REASON: Item 16 of SEC Form 3-M (Application for Registration of Broker or Dealer Transacting Business on Over-the-Counter markets) asks "Is registrant a member of any associations of brokers, dealers or investment bankers? If so, furnish names of such associations.". In addition, SEC Rule X-15B-2 in substance requires every registered broker and dealer to keep his original application for registration, at all times and accurate and up to date by the filing of supplementary statements (on SEC Form 6-M) to correct inaccuracies and supply information with respect to changes which render no longer accurate information previously filed.

NOTE

It will be seen from the above that it is necessary for all members, who have not already done so, to amend their broker-dealer registration with the SEC to reflect their present membership in the National Association of Securities Dealers, Inc. It is suggested that at the same time, members should check all items on their registration statement with the SEC to make certain that the answer to each item is currently accurate.

QUESTION: May a member use the name of the Association on its letterheads or advertising material?

ANSWER: No.

REASON: Article VIII, Section 2 of the By-Laws of the Association provides that "No member shall use the name of the Corporation on letterheads, circulars or other advertising matter or literature except to the extent that may be authorized by the Board of Governors" and the Board has not as yet authorized such a use, by members, of the Association's name.

QUOTATIONS

(Continued from Page 1)

in which the publication of quotes has been inaugurated. A national Quotations Committees has been appointed and local Quotations Committees named in each of the 14 Districts of the Association.

The committee for District No. 13 (New York, New Jersey and Connecticut) has been compiling and disseminating quotations for a long time. Bids and offers on some 650 over-the-counter securities are furnished the metropolitan newspapers daily and also are given to the wire services (Associated Press, United Press and International News Service) which send them all over the country. There is a particular demand for quotations from this District on insurance company, investment company and bank stocks.

The committee for District No. 2 (California and Nevada) has been supplying quotations to newspapers in San Francisco, Los Angeles, Oakland and other important cities in the area for quite some time. Within the last three weeks, the work of the committee for District No. 12 (Pennsylvania and Delaware) has resulted in the daily publication of quotations in Pittsburgh and this service will be extended to other cities in the District soon.

The committee for District No. 6 (Texas) has brought its work to a point where it is expected to start supplying daily quotations to the newspapers in the various cities in Texas within the next 30 days. Plans have been laid for the publication of quotations by the committee for District No. 8 (Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin) in the very near future. The other committees are all actively at work and results can be expected soon.

Investors find this work valuable in that it gives them a reliable indication of how their securities fare from day to day and within what range they may reasonably expect to be able to purchase or sell the quoted securities. It is also helpful to dealers in providing a ready reference as to the trading range of securities in which they are not actually making a market.

The publication of quotations is made possible only through the cooperation of securities dealers and investment bankers who furnish the actual bids and offers to the committees which are compiling and disseminating the quotes. These committees carefully scan each bid and offer to make sure that it is not out of line with general prices and average out the bids and offers and spreads in accordance with a predetermined formula. The resulting quotations are nominal, but do represent a range within which an investor can reasonably expect to do business.

The national Quotations Committee will endeavor to coordinate the work of the local committees after they have had sufficient time to experiment and learn their problems and possible solutions to them. The findings of these committees are expected to prove valuable in evolving a national policy and technique. It is hoped that, as these quotations become more widely published, they will prove a long step toward restoring the col-

ALLOTMENT OF NASD NEWS

We have decided to allot copies of the NASD NEWS to members on basis of personnel. For this purpose, the following schedule has been set up:

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Any additional copies you may wish will be sent you on request at a nominal charge. Only one copy of the first issue of the NEWS is being sent to each member, unless more are specifically requested.

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When Congress, confronted upon the securities business the right to regulate itself, under certain governmental supervision, it did something which is unique in the history of business-governmental relations. Certain restrictions were imposed and certain types of rules made mandatory, but by and large, national securities associations were given a pretty free hand in handling the activities of their members within the general code of fair dealing outlined.

There has not as yet been time for a final evaluation experiment, inasmuch as the NASD is concerned. However, in the first six months of the Association's existence enough has been accomplished to give some indication of how well the Association has assumed its duty of self-regulation.

Up to the present writing, District Business Conduct Committees have handled seven complaints lodged formally against members—that is, in strict accordance with the rules set out in the Code of Procedure of the Association. In the same period, however, they have handled 33 complaints or disputes on informal basis.

The following are typical examples of a few kinds of complaints which have come before the Association's committees and have been adjudicated or settled. This column will be a regular feature of the NASD NEWS.

**Case No. 1:**
A formal complaint was lodged against a firm charging violations of Article II, Section 1, 2 and 4 of the Rules of Fair Practice. Specifically, the firm was charged with recommending the sale of certain securities and the replacing of them with others entirely unsuitable for the complainant's portfolio. The complainant was a 75-year-old widow. She also charged that she followed these recommendations and sold her securities to the firm and bought others at prices which were grossly unfair in the light of the prevailing market in these issues.

The firm filed an answer explaining and justifying the transactions and denying the charges of improper and unfairness in the deal.

Both sides presented their case at a hearing before the District Business Conduct Committee. In view of the allegations of over-charging, the prices actually paid by or to the firm were compared with prices paid the day in recorded transactions or with prices quoted by the National Quotation Bureau. Also gone into, although testimony on this was not directly before the statements made by the firm as to the effect of the investment program outlined on the safety of the principal of the complainant and the amount of her income.

The committee found that the firm's recommendations had been improper and the prices unfair. The committee's decision set out a schedule of certain sales to the complainant that were to be reinscribed and of certain others on which adjustments in price should be made. The firm was also fined for taking excessive profits. The reassessments and adjustments ordered have been fully carried out.

**Case No. 2:**
An informal complaint was filed against a member firm by another member firm accusing the former of failing to deliver a dividend on a stock bought from that firm although it had been requested three times to remit the stock. The complaint was referred to the District Business Conduct Committee concerned and two members of that group called a meeting at which the complaint had been made. The latter admitted that the dividend was due, but said that they had been unable to contact the person from whom they had bought the stock. The cashier of this firm had also failed to notify the complaining firm of the fact that the dividend had been paid. Apparently the person from whom the stock was bought was an invalid and there had been some difficulty in explaining the matter. The dividend was forwarded to the complaining firm as soon as it was collected and the case was closed.

**Case No. 3:**
Early in March of this year, the Association received a communication from the Securities and Exchange Commission to the effect that certain members of the Association had persistently neglected to comply with the provisions of SEC Rule X-17A-2, which has to do with reports which are required to be filed with it in connection with certain stabilizing activities. The communication stated further that "in view of the many letters addressed to these firms—of an explanatory and finally, of an admonitory nature—the inference seems almost irresistible that such failure to comply has been grossly negligent, if not, in some instances, actually willful." Nevertheless, the Commission felt that it would perhaps be advisable for the Association in seeking to straighten out this situation rather than to resort immediately to formal administrative or legal proceedings and it, therefore, stated that if the Association believed that it wished to look into the matter, it would furnish the names of the firms involved and the details of each individual case.

The Association felt that this was a type of situation where it might be helpful to have some assistance from the Commission and to the Commission, so it obtained the names of the firms involved, got in touch with each one immediately, and quickly straightened out the whole matter to everyone's satisfaction. In most instances it was found that the partners or executives of the firms involved were wholly ignorant of the situation and that the fault lay in the lack of appreciation by certain employees, who had been entrusted with the preparation and filing of such reports, of the necessity for prompt and strict compliance with this Rule. In other instances the fault lay in a failure to have on hand a copy of the necessary forms.

*Any member desiring to keep on hand an adequate supply of the forms may be assisted in this regard with Rule X-17A-2 may secure same by writing to the Securities and Exchange Commission, Washington, D. C.*