

PUBLISHED BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., WASHINGTON, D. C.

Over-the-Counter Issues

Handbook on 2,000
Common Stocks
Available to Dealers

Over-the-counter dealers are being offered a handbook on common stocks devoted exclusively to issues making up this market. It is called "Over-the-Counter Common Stocks Handbook."

Published by Commodity Research Publications Corp., source of many booklets on the securities markets, the booklet contains summarized information on approximately 2,000 companies and recent and historical quotations.

Publication of the handbook was undertaken with the cooperation of the Association which contracted to purchase a quantity of the initial run for free distribution of single copies to members and their branch offices and for bulk sales thereafter. A feature of the handbook is provision on its cover for firm-imprints. It was designed to serve as a direct mail item for circulation among customers. Quantity discounts are being offered NASD members by the publishers.

Any member who has not received a copy of the handbook should communicate with the Executive Office of the Association in Washington—1625 K St., N. W. For quantity supplies and information on the booklet and its distribution, members are asked to write directly to the publishers at 82 Beaver St., New York 5.

"Expansion of public interest in over-the-counter securities in recent years has been accompanied by increased demand for more information about these securities, such as earnings, dividends and other financial data," say the publishers in announcing the new handbook. "This general demand for informa-

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COMMITTEE CHAIRMAN



Earl K. Bassett

"Free-Riding" Review

Committee Named to
Reappraise Policy

The Board of Governors, at its last meeting, voted to review the Association's policy statement on "free-riding" and Chairman Frank H. Hunter appointed a Committee to conduct this review.

The Committee, with Earl K. Bassett (New York) as Chairman, includes: Newton P. Frye (Chicago), Edmond E. Hammond (Boston), Frank L. Reissner (Indianapolis), and Charles L. Bergmann and Harold H. Cook (New York).

The policy of the Board on "free-riding" was set forth in a memorandum to the membership in March, 1950. It recalled that several years earlier the SEC proposed adoption of a rule to deal with practices considered to be "free-riding" on "hot" new underwritings. The NASD action in 1950, among other things, cited practices that could be interpreted to be violations of the Rules of Fair practice, including:

(1.) purchases by a partner, officer, employee or others associated

"Back-to-School"

Personnel Lacking
Year's Experience
Take "Exams"

June "exams" were almost as much a part of business for many securities firms as they were routine for schools throughout the country.

During the month, several thousand registered representatives went "back to school" for a few hours to work on examinations which were intended to better fit them for their responsibilities as salesmen, partners or officers of members. They took the examinations because they had not had one year's experience in the securities business. In keeping with an amendment to the By-Laws, adopted by the membership, one year's experience or a passing grade on an examination will be, from now on, a prerequisite to registration as a registered representative or to admission to Association membership.

An estimated 10,000 persons took the NASD "exams" during June. In a few offices, more than 100 persons took them. All of this first round of

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with a member directly or through family relationships, of new offerings "in excess of their normal investment practices" . . . (2.) failure of a member to make a genuine effort to sell its allotment to bona fide investors.

In connection with the decision of the Board, Mr. Hunter made these comments:

"Six years have passed and I think that time and experience have indicated that this matter should be reviewed." In particular, he spoke of the need to clarify "normal investment practices."

He called upon the Board to act for clarification of terms and application of the policy.

N. Y. Transfer Tax

Affects Out-of-Town Firm With N. Y. Office

A recent memorandum on the applicability of the New York stock transfer tax to a transaction between a New York City and a Chicago firm held that the trade was subject to the tax because the New York representative of the Chicago firm accepted the offer for his home office.

The summarized facts in the memorandum are as follows: A New York dealer telephones to the agent at the New York office of the Chicago firm and makes an offer to sell stock. The offer is communicated by wire to the agent's Chicago headquarters, which replies to its representative with an acceptance of the offer. This acceptance is then telephoned to the New York dealer to whom shipping instructions are given.

These facts prompted the conclusion by the New York State taxing authority that the offer was made by telephone between two New York offices. Despite intermediate communications between the Chicago firm's offices no contract resulted until the latter's New York representative confirmed acceptance of the offer.

The memorandum concludes:

"... since no contract arises until the communication of the acceptance of the offer to the offerer, that action by the (Chicago firm's) agent in this State is the last act in the formation of the contract. The situs of the transaction having been placed in this State (New York) the transaction is accordingly subject to stock transfer tax."

Articles on NASD

The Association recently has been the subject of articles in widely-read publications. The May 26 issue of Business Week carried an article on the work of the Association. In June, the Christian Science Monitor carried an article on the organization's activities as part of a series arranged for by NASD dealing with major aspects of the over-the-counter market.

Medical Insurance

Expanded Coverage Being Considered

Comprehensive major medical insurance for members of the Association is being considered by the Insurance Trustees. The new plan would provide more comprehensive coverage of the total cost of medical care than has been possible up to the present time. This proposed insurance would provide a high percentage of the cost of medical care, up to a maximum of \$10,000, for each unrelated illness or accident.

Meantime, the Trustees report that as of April 30, 1956, group hospitalization and surgical expense insurance provided NASD members covered 402 firms and 2,528 employees with 1,139 of their dependents.

As to the group life insurance, the Trustees reported that on April 30, last, 853 firms were participating, providing coverage for 7,233 individuals at \$62,418,750 in aggregate life insurance. Since group life insurance was initially offered members of the Association there has been a steady year-by-year increase in firm-participants. The gain since 1950 amounts to 25 per cent.

Registration Simplified

Another effort on the part of organizations in the securities business to do away with duplicating routines is about to bear fruit in the form of a single registration application for use by stock exchanges and the NASD. A uniform application has been approved by all interested organizations and will take the place of current multiple forms as soon as printing and distribution details are completed.

This simplification of registration routine for multiple applications is the latest in a series of moves on the part of major organizations to eliminate duplicate requirements insofar as practical. Last year, a program intended to avoid duplicating work in examinations of the exchanges, the NASD and regulatory bodies went into effect and complaints of this kind have all but disappeared.

Member Roll Gains

Registered Rep Totals Also Hit New Peak

Membership in the Association and employment by members continues to reach new heights month after month.

On June 1, membership was the highest in history and the roll of registered representatives also reached a new peak since registration figures were first collected.

Membership is now 3,604, an increase since December 31, 1955 of 3.5 per cent. The net gain in membership since the end of 1955 amounts to 123 members there having been 209 new members admitted against 86 terminations. NASD membership has risen without interruption for nearly ten years.

The increase in membership over the last five years amounts to 26 per cent.

California, the Mountain States, Texas and New York account for the lion's share of the growth in membership over that period. In the Middle West and New England membership has remained steady.

Employment in the business, judged by further additions to the roll of registered representatives, is at another new high. On June 1, there were 49,480 individuals registered with the Association—partners, officers, salesmen, etc. The June 1 figure was a net gain of 4,992 registrants from the total as of December 31, 1955.

It seems safe to forecast that the number of registered representatives listed with the Association will soon cross the 50,000-mark.

Conduct Complaints

Business conduct matters are pending in sizeable numbers. At the end of 1955, there were 115 complaints pending against members and before the District Committees. Since January, 33 new complaints were filed and 47 completed, leaving 101 awaiting disposition by these Committees on May 1. At the last meeting of the Board of Governors, 14 cases were considered.

Corporate Bad Habits

Lack of Notice Hit on Dividends, Rights

Uniform Practice Committees of the Association continue to complain bitterly about the habit some companies have of failing to give public notice of dividends and "rights" declarations in advance of record dates. The Association has had considerable success in recent years in winning more and more companies to giving due notice of Directors' actions but every departure from accepted practice in this regard is painful to dealers and the public.

Members should promptly call all such incidents to the attention of the appropriate NASD committees for such action as may be taken to help bring about a correction of individual practices of this kind.

Meantime, members are also being called upon to observe provisions of Section 49 (Page F-17 in the MANUAL) covering procedures for collection of dividends. Members are both buyers and sellers of securities and because of this regularly find themselves calling upon fellow-members for cooperation to collect dividends, rights and interest. Full cooperation at all times is always in each member's best interest and contributes to healthy customer relations for the business as a whole.

Exams

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examinations were conducted in members' offices. Each "student" was given a list of 100 questions, culled from a master list of 344.

All members have been supplied Manual inserts covering the whole subject of examinations, including the master list of questions as well as reference material and listings of supplemental reading material for potential registrants.

For the next several months, the following procedure will be followed in connection with applicants for registration or admission to membership:

—When an application form is received in the Executive Office a check will be made as to the

experience record, if any, of the applicant in the files of the Association or as to the existence of any bar to registration;

—If no bar exists and examination of the applicant is required, an examination package will be sent at once to the member concerned or member-applicant;

—The examination will be given by the member who must certify to its proper conduct;

—The completed examination paper is to be returned to the Executive Office where it will be scored and the member advised as to whether the applicant has passed the examination and that he is thereby registered.

Ultimately, it is the view of the Board of Governors and of many members, that the examination procedure should be made more exacting, requiring prospective applicants for membership or registration as representatives of members to familiarize themselves much more fully with investments and legal and ethical standards of the securities business.

The possibility is seen that, in time, two types of examinations may be in force: (1) for applicants for membership; (2) for applicants as registered representatives.

In addition to providing experience or qualifications standards for registration or admission to membership, the recently amended covering By-Law of the Association created bars to such registration or admission for persons with criminal or other "records" involving funds or securities of another or fiduciary relationships.

Said Chairman Frank H. Hunter in the announcement to members about the new By-Law requirements: "I feel that the new admission standards are a great step forward for the securities business."

NASD News

Published periodically by the Board of Governors under the supervision of the Information Committee.

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Credit Violations

Board of Governors Enforces Regulation T

Violations of Regulation T of the Federal Reserve Board can be "technical" in nature but the danger of becoming complacent about promiscuous disregard of this major governmental credit control was forcefully demonstrated to a member recently.

The Board of Governors, faced with evidence that the member made no effort to comply with the Regulation, cited 87 individual examples of violations and fixed a penalty of \$50 per violation for a total of \$4,350.

As has been pointed out in previous reviews of this Regulation, members of the Association are under obligation to observe its requirements—covering extensions of credit to customers beyond a 7-day period. The Association established machinery for members to comply with its provisions when extensions are properly applied for and reasons for the application conform to standards of experience. Thousands of such extension applications are acted upon monthly by Association personnel or by the exchanges or other authorized agencies.

Handbook

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tion has been met by increased coverage in financial media and through the informational activities of the National Association of Securities Dealers, Inc., of which one example is the cooperation afforded by the Association to the preparation and publication of the 'Over-the-Counter Common Stocks Handbook.' Without the Association's aid and guidance, it would have been virtually impossible to assemble the vast amount of data needed by the editors."

The bulk of common stocks covered by the handbook is drawn from lists of quotations sponsored by the NASD and published in newspapers throughout the country.

Depending upon the response to the first issue, the publishers intend to make it an annual publication for use by over-the-counter dealers.

Practice Code Amended

Wife-Held Securities Ruled Good Delivery

An important and helpful amendment to a section of the National Uniform Practice Code having to do with delivery of securities in the name of a married woman has been approved by the Board of Governors. (Section 35a)

Simply stated, the amendment provides that a certificate in the name of a married woman shall be a good delivery except in those few states (Texas, Arizona and New Mexico) where rights of such persons to transfer securities are restricted. Heretofore, the Code provided that such a certificate could be delivered only when transfer books were closed, during which time an assignment executed jointly by husband and wife and acknowledged before a notary "or other qualified officer" was required.

In other amendments to the Code the following changes were approved:

A buyer having recourse to a "buy-in" may close the contract by purchasing for "cash" in the best available market *or at the option of the buyer for guaranteed delivery not later than the regular settlement date*, for the account and liability of the party in default all or any part of the securities necessary to complete the contract (the italicized portion being the new addition to the section). (Section 59c)

The "buy-in" section of the Code was further clarified to provide that if prior to the closing of a contract on which a "buy-in" notice has been given, the buyer receives from the seller written notice stating that the securities are in transfer or in transit or are being shipped that day, and giving the certificate numbers, then the buyer may not execute the "buy-in" for a period not exceeding seven days from the date delivery was due *under the "buy-in."* (new addition is italicized.) (Section 59g)

Reclamation sections were amended to increase from 10 to 15 days the period of time for reclamation for domestic securities and from 30 to 45 days for foreign securities. (Sections 54 and 55)

SPECIAL COMMITTEE HEAD



Harold H. Cook

Study Complaint Code

A special committee of Governors of the Association, with Harold H. Cook, New York, as Chairman, has been studying and reviewing methods and procedures employed in applying the Code of Procedure for Handling Trade Practice Complaints. This "code" prescribes procedures to be followed in business conduct matters.

Appointment of the Committee was decided upon by the Board of Governors in the interests of determining if greater uniformity in the conduct of investigations, processing of complaints and fixing of penalties, including costs of proceedings, could be recommended where practical. To date, the Committee has made recommendations looking toward more effective use by District Committees of letters of caution to members concerning practices which District Committee may find deserving of such warnings and the Special Committee has also recommended policies to be pursued by examiners of the Association in their discussions with members.

The Committee and the Board have under advisement a memorandum from a staff committee dealing with simplified measures for handling minor causes for complaints against members. Further study of this memorandum is to be given as well as other phases of the subject.

Suspension Upheld

SEC Opinion Protects "Unwary Purchaser"

A member who had been in business for eight years and whose principal partner had 25 years experience in the securities business, was suspended from membership for two years and assessed with full costs of proceedings. The member appealed to the SEC, which has upheld the Association's action in a decision having general implications in that the case is the first of its kind involving complaints originating with customers of the firm and resulted in an SEC opinion bearing on responsibility for recommendations made. (SEC release #5294 — In the matter of Philips & Company and Gerald G. Bernheimer.)

The complainants asserted that the member partner, knowing of the customers' limited financial circumstances, urged them to buy shares of a Canadian oil development company on the basis of representations as to future price increases of the stock and a promise, which he subsequently repudiated, that he would guarantee them against loss. The District Committee had found the defendant had accompanied his solicitations with "extravagant representations and glowing promises" while he knew that prior sales to the customers had depleted their cash reserves so that purchase of additional securities was not suitable on the basis of the customers' financial situations.

In its findings, the SEC said: ". . . it seems clear that even if a formal guarantee was not created, the observance of just and equitable principles of trade does not permit the use of statements which lead an unwary purchaser to the mistaken belief that his transactions are free of risk. We also find no merit in the applicant's contention that since the price charged . . . was not found to be improper there can be no violation . . . The contention erroneously assumes that no misconduct, other than that of overreaching as to price, could be inconsistent with just and equitable principles of trade."