

7-19-77
10, 1977**SHUMATE & COMPANY, INC.**

INVESTMENT SECURITIES

FIRST NATIONAL BANK BUILDING

DALLAS, TEXAS 75202

SECURITIES AND EXCHANGE COMMISSION
RECEIVED

JUL 20 1977

DIVISION OF MARKET REGULATION

July 14, 1977

CHAIRMAN'S OFFICE
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The Honorable Harold Williams, Chairman
Securities and Exchange Commission
Washington, D. C. 20549

JUL 18 1977

Dear Mr. Williams:

SEC. & EXCH. COMM.

First, let me congratulate you upon your selection as Chairman of the Securities and Exchange Commission, which has been called one of the best run agencies in Washington. Your academic and private business background should uniquely equip you to make some of the important decisions that seem to have been put off by your predecessors.

This firm has been active for over 20 years in trying to reform the securities industry, including the National Association of Securities Dealers, Inc., which has yielded all too slowly to the march of progress. A reprint from the book *THE LAST DAYS OF THE CLUB* is enclosed, which catalogs our efforts in that field. In our legal fight, which was instituted after approximately 15 years of trying to accomplish change through peaceful methods, we had the support of the U. S. Department of Justice, but precious few industry sources, and of course the opposition of the major firms, who strangely enough are now conceding we were correct. We still have pending a Rule 394 suit which the Federal judge here has not heard yet, waiting to hear the results of the Thill case.

We are unable to understand why the NASD has been so unresponsive to the needs of a majority of its members, refuses to disclose to its members the salaries of its officers, and is openly violating, in our opinion, many provisions of its own charter and of Section 15A of the 1934 Act; to wit, the provision of 15A(b)(4).

The present management of the NASD is the "old guard" dedicated to the interests of its members who are also stock exchange members, and if they were to argue that its members have a voice in administration of its affairs, one has only to refer to the only contested election in the history of the NASD some years ago in which the writer had a part--the effort turned into a NYSE member versus non-NYSE member battle, and the leaders of the latter, including this firm, found themselves under harassment by the NASD after the election was over. We also have the specter of the general counsel of the NASD, Mr. Lloyd Derrickson, leaving the NASD

The Honorable Harold Williams -2-

July 14, 1977

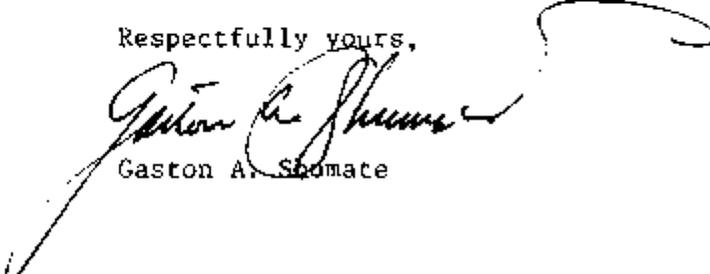
to become counsel for a large NYSE member. This is against the stated opposition of President Carter and several members of Congress who have denounced the practice of a regulator going to work for one of the regulated.

We noted the concern of Congressman Moss expressed in the newspapers about the lack of progress in instituting the central marketplace; at the time of Mr. Garrett's appointment of the board that is supposed to develop this system, I noted to him that his board was tantamount to the appointment of the fox to guard the chicken coop, and my comments seem particularly apropos in view of the subsequent lack of progress.

We intend to propose some changes in the method by which the president and officers of the NASD are selected. We had some discussion with the Commission's excellent staff member, Mr. Moscovitz, some time ago and would like to proceed with some proposals in order to try to make the NASD management responsive to all the members' needs. While Mr. Moscovitz and I did not agree on the desirability of requiring the NASD to reveal to its members the compensation of its officers (as required in public corporations in their proxy statements), I wish to commend the conscientiousness and ability of Mr. Moscovitz to you and express my appreciation to him and his staff for their prompt and skillful answers to questions about other matters we have raised in the past.

We should appreciate any help the Commission might be willing to give in the matter of NASD proposals regarding fair representation of its members. And we would strongly urge you to press on in the matter of a central marketplace. If you need any help in getting those foxes out of the chicken coop, why don't you call on an old fox hunter like me?

Respectfully yours,


Gaston A. ShomateGAS:NK
EnclosuresCopy to The Honorable Harrison Williams
The Honorable John Moss
The Honorable Bob Eckhardt

SHUMATE & COMPANY, INC.

INVESTMENT SECURITIES

FIRST NATIONAL BANK BUILDING

DALLAS, TEXAS 75202

July 14, 1977

Mr. Gordon S. Macklin
National Association of Securities Dealers, Inc.
1735 K Street, Northwest
Washington, D. C. 20006

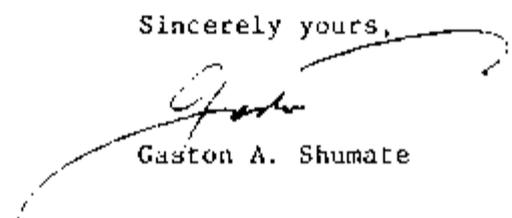
Dear Gordon:

Your letter of June 30, 1977, is in hand, stating that you suggest that any proposals I prepare be submitted through "channels." Of course these channels are the ones which in my opinion have allowed the NASD management to become and remain unresponsive to the majority of the members' interests and to the public interest in many ways. Basically, while these men are theoretically elected "de jure," "de facto," they are appointed in effect by a continuing oligarchy. I am in no way criticizing the competence of the present Governors, whom I do not know, only their method of selection.

Why would one ask approval of the fox concerning house rules for the chicken coop?

It seems to me that the proper avenue is the Delaware code, with oversight from the SEC and Congress, each of whom I have asked for guidance.

Sincerely yours,



Gaston A. Shumate

GAS:NK

Copy to The Honorable Harrison Williams
The Honorable John Moss
The Honorable Bob Eckhardt
The Honorable Harold Williams

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