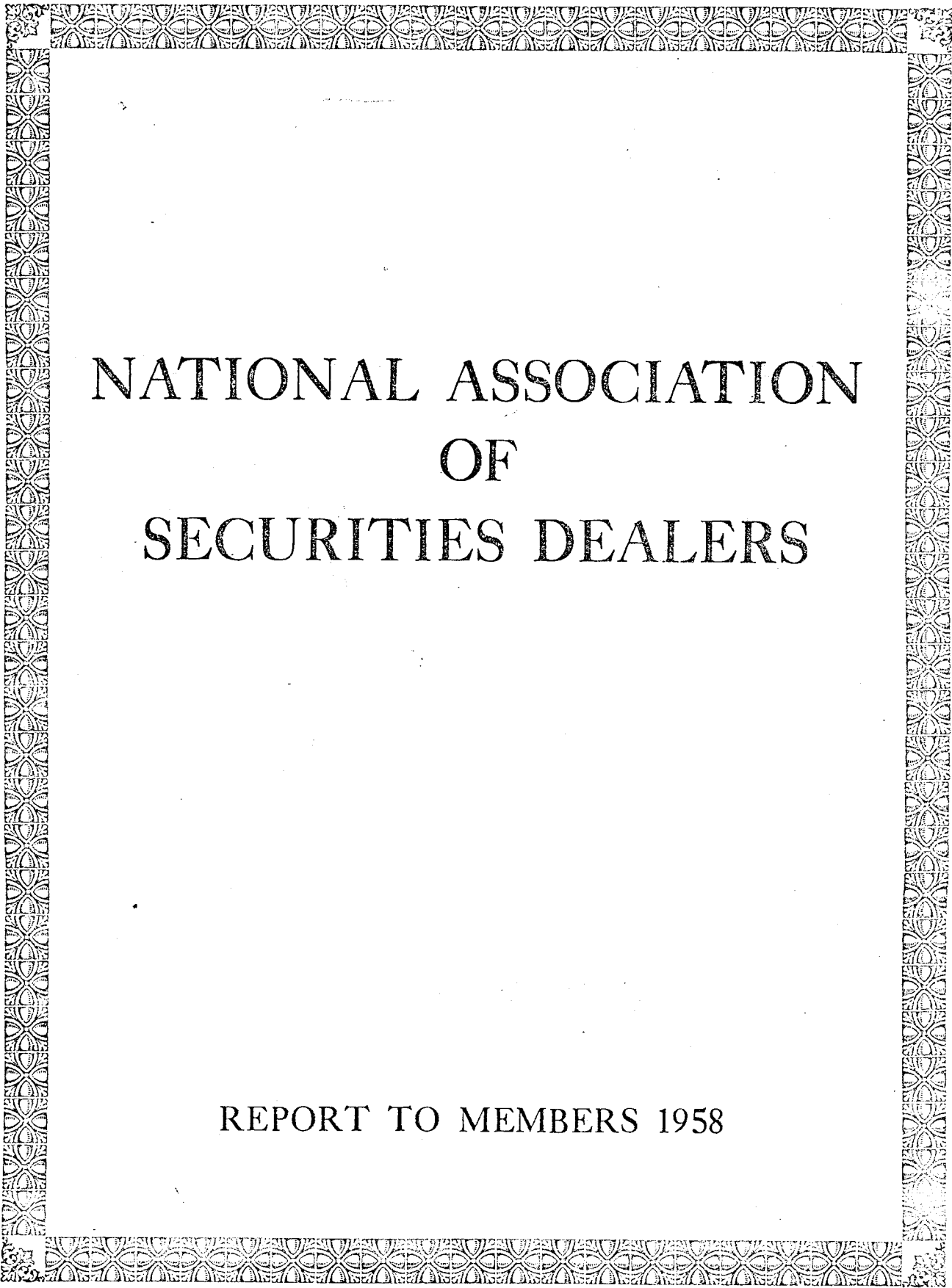


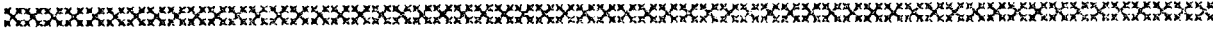
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NATIONAL ASSOCIATION  
OF  
SECURITIES DEALERS

REPORT TO MEMBERS 1958

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# CHAIRMAN'S MESSAGE

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HE last official duty of a chairman of the Board of Governors of this Association is to present to the membership a report summarizing Association activities during his term in office. It is a pleasure to submit this year's accounting of our stewardship because it is tangible evidence of continuing progress in achieving our objectives and discharging our responsibilities.

The major purposes of the Association as set forth in the Certificate of Incorporation are listed in the back of this report. "Self-regulation" of a high order is required to accomplish these basic purposes. We must also recognize the weighty responsibility conferred on us by the privilege of self-regulation. In keeping with this responsibility we must promote "uniformity of concept" with respect to proper standards and practices, enforce our rules with vigilance, and fairly but firmly discipline those who are found in violation of our code.

While we must keep abreast of changing conditions, we also must strongly resist efforts to lower our standards or undermine our effectiveness. Our rules of fair practice and related interpretations were not conceived by zealots or crusaders. They are simply a codification of the ethical standards and practices of the large majority of our responsible members.

Although our emphasis is on "regulation," we do "promote . . . the investment banking and securities business" in other ways. Our National and Regional Quotations Committees have performed an outstanding service in promoting widespread acceptance of NASD sponsored quotations for over-the-counter securities. This is promotion of a positive nature. Our intervention in the matter of "Variable Annuities" seeks to protect our business from being placed at a competitive disadvantage. This is promotion of a defensive nature. Information contained in this report will suggest to you other areas in which we have been useful.

Basic responsibility for carrying on the work of the Association rests with the members of the Board of Governors and the several District Committees. The men serving in such capacities must be able, thoughtful and dedicated to the promotion of the high principles of the Association. They must recognize that they assume a position of public trust when they take office. Their work demands much time and effort but their only compensation is the satisfaction of a job well done. In a larger sense, however, the real responsibility for the successful functioning of the Association rests with its member firms. It is they who must be interested in the election of able men. It is they who must make available from their organizations the men needed for our job. This contribution is a small price to pay for assurance that the high reputation of our business and its members will not be impaired.

The substantial increase in the number of persons engaged in the securities business and the increase in the volume of business transacted has added to the magnitude of our task and has required the enlargement of the professional staff. Your executive director, Wallace Fulton, has done an outstanding job in engaging and training personnel with the special talents needed for this work and in conducting our operation on an efficient and economical basis. He and the staff merit our sincere appreciation.

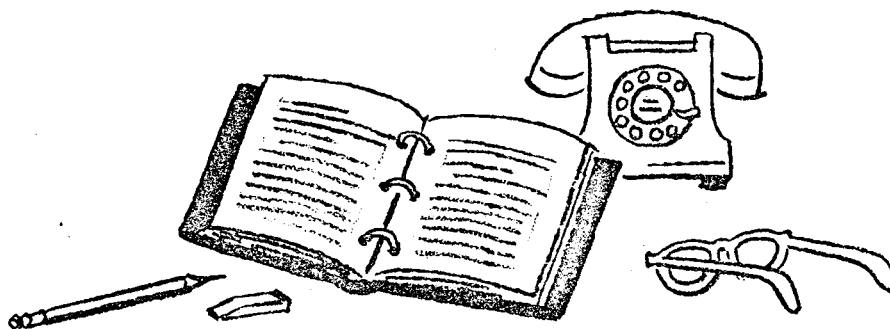
These comments cannot be concluded without a tribute to the individuals from our industry who have served on the Board and the various committees. They have generously given their time and talent. They deserve credit for our accomplishments and have made my experience one that I will always cherish.

Respectfully submitted,

*Charles L. Bergmann*

CHARLES L. BERGMANN

March 15, 1959



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## REPORT OF THE EXECUTIVE DIRECTOR

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**G**ROWTH. In a word, that is the story of the Association in 1958, as it has been in every year since the end of World War II—growth in every phase of Association activity, as well as in membership and in the number of persons entering the securities business.

The Association has steadily grown in number of member firms, number of registered representatives, number of members examined, number of disciplinary actions as a result of such examinations, and number of new problems that must be met as the securities markets expand.

Five years ago, in the first of these annual reports to the membership, I reported new, all-time highs in Association activity. For the first time, membership had reached 3000 firms; for the first time, 1000 members had been examined to determine conformance with the ethical standards administered by the Association; number of registered representatives stood at a record figure of 33,000; the volume of disciplinary actions had exceeded any previous year.

In 1958, five years later, membership had increased 30 percent; examination of members' offices increased 100 percent; the number of registered representatives had doubled; and volume of disciplinary actions handled by District Committees and the Board of Governors was 12 times the volume of 1953.

Here are the contrasting figures, 1958 vs 1953: membership, 3871 firms vs 3047; members' offices examined, 2074 vs 1053; registered representatives, 69,000 vs 33,629; disciplinary actions, 301 vs 23.

Four hundred and fifteen complaints, or 32 percent of the 1291 complaints handled in the history of the Association, were filed in the last two years. Last year's 301 disciplinary actions compared with 187 in 1957 and with 15, ten years previously. The 1958 total is composed of 206 complaints filed, 55 actions under the minor violations procedure, and 40 actions—either on appeal or review—by the Board of Governors. In 1957, there were 138 complaints processed by District Business Conduct Committees, 16 minor violations proceedings, and the Board handled 33 cases on review or appeal.

In conducting examinations of members' books and records during 1958, examiners visited 1521 main offices and 553 branch offices, by far the largest group ever examined in a single year—both percentagewise and in actual number of offices covered.

### FREE-RIDING

Expanding investor interest in the securities markets, has, of course, tended to stimulate further the raising of capital through new issues of securities underwritten by members of the Association. Some of the new underwritings continue to be in the area of "hot issues," with demand exceeding supply to the point that price goes to a premium before the issues can be wholly distributed. The temptation to withhold portions of such issues is such that the problem of free-riding and its cure continues to play a major role in Association disciplinary activities.

Despite increased efforts by District Committees and officers of the Association to educate members as to their obligations in this area, it is apparent that there are still some who fail to appreciate the fact that the primary duty of an underwriter or selling group member is to make bona-fide public distribution of the securities being underwritten. That is what they are being paid for. The Board of Governors consistently has maintained in statements to the membership and in decisions on disciplinary proceedings that the Association cannot tolerate failure by members to make bona-fide public offering of the new issues they are paid to distribute. That this policy will be enforced is evidenced by the fact that nine "hot issues" are currently under investigation through some 1800 questionnaires circulated among underwriters and selling group members. Indications of possible free-riding as result of analysis of these questionnaires are being referred to the appropriate District Committees for action. Some 30 complaint proceedings were initiated last year against member firms for violation of the Association's free-riding policy.

### PROPOSED SEC RULES

The Association has opposed the proposed Rule X-17A-8 under the Securities Exchange Act of 1934, which would require every registered broker/dealer to report to the Commission every transaction of a "significant amount" for foreign accounts within three days after the transaction. We stated that the rule as proposed could create an adverse atmosphere between friendly nations where business interchange is substantial, that the reporting duties that would be imposed upon broker/dealers would be an undue hardship, and that it was doubtful that the rule as proposed would accomplish anything worthwhile.

We have also advised the Commission regarding possible revision of Rule 434A of the 1933 Securities Act. We saw no necessity for revision of the summary prospectus; urged that its use should be expanded to include companies with a record of five years of continuous operation, a net worth in excess of \$2,000,000, and an annual net income of more than \$500,000; and suggested that companies publishing annual reports, including audited financial statements, for at least three years, or which have financial information available in securities manuals, be made eligible to use the summary prospectus.

### QUALIFICATION EXAMINATIONS

Qualification Examination Centers are now operating in Atlanta, Boston, Los Angeles, New Orleans, Philadelphia, Rochester, San Francisco, Seattle, and Washington, D. C. Since October, 1956, examinations have been given in New York City at New York University and Hunter College.

The several centers accommodated 66.2% of the 1,406 applicants who took the examination in December. Altogether, 15,463 examinations were given in 1958; 6938 at centers and 8525 in members' offices.

Studies are now under way preliminary to establishing centers in Chicago and other mid-western cities. We hope to have 90% of the Qualification Examination program operating

under such controlled conditions by the end of this year.

### CONGRESSIONAL REPORT

At the request of the House Committee on Legislative Oversight, we have brought up-to-date the information on the Association that we presented to that Committee in 1957. A sub-committee reprint containing the full report of the Association and exhibits, brought up-to-date through November 30, 1958, has been printed.

### REDISTRICTING

The conditions necessary to permit final action on redistricting of the Association were met on December 3, when the Board was advised that no additional candidates had been nominated for the Board of Governors or any of the new District Committees, pursuant to Section 20 of Article IV of the By-Laws, and the election of the candidates who had been nominated by the District nominating committees was officially certified. Members in each of the newly constituted Districts were also advised. The Board proclaimed the redistricting effective as of January 21. The composition of the District Committees, shown elsewhere in this report, reflects these changes.

### NASD MANUAL

Members will be interested to know that the NASD Manual is being revised for publication in a new format. It will be easier to read and there will be a complete index and appropriate cross-references between the By-Laws, Rules of Fair Practice and Resolutions, Interpretations and other supplementary material. I am confident this will make the Manual a more useful tool to members, a goal that has long been desired.

### RECIPROCAL BUSINESS

A special committee has been authorized by the Board of Governors to consider problems in connection with reciprocal business. It is composed of Curtis H. Bingham, of Bingham, Walter & Hurry, Inc., Chairman; Edward B. Burr of William Street Sales, Inc.; Robert L.

Cody of North American Securities Company; H. Theodore Freeland of American Securities Corporation; Edward H. Ladd, III, of the First Boston Corporation; and David J. Lewis of Paine, Webber, Jackson & Curtis.

### ALASKA

The Board of Governors has taken appropriate action to include the new State of Alaska in District 1. To date, four Alaskan firms have requested information regarding membership. Since Alaskan firms were not required to register with the SEC before the Territory became a state, we have no information on how many firms are in the securities business there.

### REGIONAL MEETINGS

A series of meetings between the Chairman of the Board, the Executive Director and members of the various District Committees during the past year has been extremely helpful in bringing Board policy on important Association matters to the attention of the men in the business who carry out that policy. Similar meetings are being conducted in 1959: Committee members from Districts 1, 2 and 3 met with the new Chairman, the outgoing Chairman, and the Executive Director in January; in February, the new Chairman and I met with Committee members from Districts 5, 6 and 7; and similar sessions will be conducted with joint Committee groups in the other Districts.

If we can continue to schedule these across-the-table discussions of Board policy early in the year, they will greatly assist in orienting new Committee members and should be much more educational than were the member meetings held in past years.

Following the 1958 conferences, District Committees conducted meetings with members in key cities such as Philadelphia, Pittsburgh, Portland, Seattle, Spokane, San Francisco, Dallas, Houston and San Antonio. These sessions also were quite helpful because the District Committees were able to communicate fresh ideas and up-to-the-minute Board policy to the members as a result of their previous

conferences with the Chairman and Executive Director.

### SECTION 28

There has been considerable confusion in the past as to whether Section 28 of Article III of the Rules of Fair Practice calls for some kind of mandatory notice by an executing member who opens an account or who executes a transaction for the purchase or sale of a security for the account of a partner, officer, registered representative or employee of another member.

The Board of Governors has determined that the Section needs clarification because the general practice in the industry is to give some type of notice. Now it is proposed that Section 28 be interpreted to require an executing member to give notice to an employer member whenever the former has or intends to open an account for a partner, officer, registered representative or employee of an employer member.

### SALES LITERATURE CLEARANCE

For some time the Board of Governors has been concerned with problems created by submission of sales literature prepared by non-members who wish clearance under the Statement of Policy so that they may sell the material to members. The Board has now concluded that clearance service on investment company sales literature hereafter can be given only to members of the Association.

### DEPARTMENT OF DEFENSE

We have been advised by the Department of Defense that US Air Force Headquarters in Europe has issued a new directive governing persons seeking authority to offer investment company shares on Air Force installations.

Prior to granting clearances and solicitation privileges to persons selling mutual fund shares, commanders will require:

(a) a notarized letter, signed by an officer of the employing firm, be on file at their installation. The letter will state that the agent is an authorized representative, and that the firm accepts full responsibility for transactions made by the agent, and

(b) that each agent furnish documented evidence to be retained at the installation that he

or she is bonded in the amount of at least \$10,000.

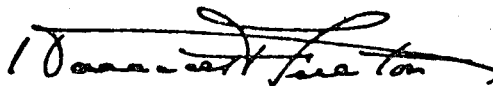
Commanders are to advise firms requesting solicitation privileges that it will be their responsibility to inform immediately the installation concerned upon the termination of employment of any agent and that the firm will be held responsible for all transactions made by their agent until a termination of employment notice is received.

### BUSINESS CONDUCT PROCEDURES

One final word—the businessmen serving on the Association's Business Conduct Committees and Board of Governors are men of knowledge and repute and they should be permitted to arrive at their judgments without unnecessary interference and delay. These Committees should not have to contend with the delaying tactics that have been employed by counsel for some respondents in recent years. Delay that is sought for its own sake or in the hope of winning a dismissal or a lowered penalty by the force of sheer attrition can only result in disservice and higher costs to the client.

A member is entitled to a fair hearing, during which all of the pertinent facts relating to the complaint should be brought out. Fairness should be the keynote, coupled with scrupulousness in obtaining the facts upon which the decision is based. Uppermost in the minds of all members of District Business Conduct Committees and the National Business Conduct Committee should be the fact that the final decision is to be made by businessmen, based upon their knowledge of the proper conduct of their business.

Respectfully submitted,



Executive Director

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# COMMITTEE REPORTS

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## VARIABLE ANNUITIES



THE United States Supreme Court is weighing its decision on the appeal by the Association and the Securities and Exchange Commission from the adverse findings of the Court of Appeals in the case seeking to have the contracts of Variable Annuity Life Insurance Company of America declared securities, registerable under Federal law and subject to the same regulatory controls that govern other securities. The case was argued early in January.

In New Jersey, the series of bills sponsored by Prudential Life Insurance Company to permit establishment and sale of "variable annuity" contracts lost out, for the fourth year, when Republican majority members of the State Senate in caucus refused to allow these bills to be reported to the floor for action on the final day of the 1958 session. These bills have been re-introduced in the new session and have been approved once more by the State Assembly, so the fight to continue the embargo on their passage in the Senate has been renewed for the fifth time by the securities business organizations that so far have blocked this legislative effort.

In Massachusetts, the securities business opposed similar legislation during 1958 at hearings before the legislature's Joint Committee on Insurance. The Joint Committee has referred the bills back to the Study Group, composed of members of the legislature and representatives of the insurance industry, and there is no indication what future action may be.

In West Virginia, the State Court still is considering the suit opposing the sale of VALIC's "variable annuity" contracts as insurance in that state.

Variable Annuity Life Insurance Company and Equity Annuity Life Insurance Company now have filed with the Maryland State Insurance Commissioner for authority to do business in that state. NASD has filed briefs in opposition to the move with the Insurance Commissioner and with the State Attorney General. The Maryland legislature in 1955 refused to incorporate The Variable Life Income Corporation of Maryland and to provide for the establishment by that company of a "variable contract" account. One phase of our argument, consequently, is that it would be a strange situation for a "foreign" corporation to do business in the state in a manner which was denied to a "domestic" corporation.

## INVESTMENT COMPANIES

Since the Association began administering the Statement of Policy in 1950, the sale of investment company shares has mushroomed from a comparatively modest role in the operations of most dealers until it now accounts for some \$100,000,000 in commissions annually for Association members. About one-half the NASD membership now is actively engaged in the offer-



ing of these shares. These and others are doing additional business in the portfolio securities of the 200 investment companies now holding \$12,000,000,000 worth of assets.

The past year has been one of unusually heavy literature review load, from both members and non-members. In the case of the latter, the volume of books, articles, brochures, sales training guides, etc., that is being developed by outsiders for sale to dealers has become an increasingly difficult problem. Discontinuance of review service for non-members, as has been directed by the Board of Governors, will create some new problems, but these will be handled as they arise.

Negotiations with the SEC were concluded in 1958 on a rule to bar formation of unrelated groups for the purpose of obtaining shares at a discount and to authorize properly constituted letters of intention. The Commission issued Rule N-22D-1 in December, effective March 20. It is substantially in line with our recommendations. At the request of the Commission and members, sample standard forms for Statements of Intention in line with the Rule were sent out to member underwriters as a guide, together with other standard descriptive language designed to assist members in conforming. These negotiations, which began under Board authorization in September 1956, have at last come to a satisfactory conclusion.

The policy adopted by the Board a year ago on recommendation of this Committee to insure prompt payment by dealers for shares taken down from underwriters is working well, and has been welcomed as a mechanism which has substantially eliminated difficulty in this area.

The Board's policy determination that makes it clear NASD members may not engage in transactions in shares of investment companies whose underwriters are not members, adopted in May at the suggestion of this Committee, likewise has cleared up some of the questions in the area of relationships with so-called "no-load" funds.

The Committee is continuing discussions with the SEC on how withdrawal plan statistics might be presented in sales literature within the framework of the Statement of Policy, and is also talking with the Staff about summary charts illustrating contractual plans. We have also been advised that the Division of Corporate Regulation has on its long-range agenda the development of a Commission rule under Section 22(c) of the Investment Company Act that would prescribe methods of pricing and repurchase designed to protect shareholders from dilution.

The original 20,000-copy edition of the booklet "What You Must Know . . ." has been sold out and a substantially revised second edition is now in preparation. Typical comment has been to the effect that this is a timely and needed help to underwriters, dealers, and salesmen by providing in one convenient booklet most of the standards governing sale of investment company shares.

In the literature review program under the Statement of Policy, 7752 pieces of literature were reviewed, in contrast with 7969 pieces in 1957. Some 6000 of these required comment—in 1896 letters and nearly 3000 telephone calls. Comment has been supplied to members and others on some 49,000 pieces of literature since the program commenced in 1950.

### UNIFORM PRACTICE

Like the rest of the securities business in 1958, the National Uniform Practice Committee had its share of additional problems created by the sharp increase in trading, including incorrect confirmations, misunderstandings during hasty telephone conversations and unfamiliarity of some members with many street practices.

Some of these problems have been handled by the Committee in formal rulings and others

were ironed out through informal discussions with the interested members so as to obtain fair and equitable solutions that are consistent with street practice.

The Committee, among other things, also cooperated with other industry organizations in the preparation of an explanatory memorandum to guide the securities business in conforming to the new Federal Stock Transfer Tax enacted by Congress in the Excise Tax Technical Changes Act of 1958. This memorandum was first cleared with the Internal Revenue Service, and was sent out shortly before the January 1 effective date.

While this memorandum answers many of the questions submitted to the Treasury Department, some of the methods being employed in the securities business for handling the new tax may have to be changed when the formal regulations are issued by the Treasury Department. There will, however, be uniformity of practice during the interim, due to the explanations provided by the Internal Revenue Service in response to the Committee request.

### FOREIGN SECURITIES

The Foreign Securities Committee has been active in assisting with many delivery problems involving foreign securities and in studying various other aspects of the foreign securities market.

Many difficulties which confront the Committee concerning specific securities could be eliminated by the introduction of American Depositary Receipts in place of the foreign shares now being traded. Some progress has been made by members of the Committee in convincing foreign companies that it is in their own best interests to authorize the distribution of these receipts.

The Committee is working with the National Uniform Practice Committee on delivery problems concerning Australian certificates. Section 29(h) of the Uniform Practice Code should apply to these deliveries, but we first wish to determine delivery conditions in the Australian market.

### QUOTATIONS

The need for expanded Association sponsorship of published over-the-counter securities quotations and how such expansion can best be achieved continue to be matters of major concern to the National Quotations Committee.

In several sections of the nation quotations are still being published under the sponsorship of an individual firm and, in some instances, wholesale quotations are being furnished for publication.

In contrast, the Committee has found that NASD-sponsored quotations provide the public with objective, accurate retail price ranges within which members of the public could have expected to do business at the time the prices were recorded.

Equally important, it has been confirmed that NASD-supervised retail quotations assist retail dealers in *selling* securities as principal; offer no one firm the unfair advantage of representing the over-the-counter market in a particular area through the quotations distributed in the press or by radio or television; and permit all members to make recommendations with respect to the securities which should be quoted.

Accordingly, in response to recommendations by the Committee, the Board of Governors has issued a statement urging all members to assist in the expansion of NASD sponsorship of published quotations by releasing quotations for publication only through an NASD Committee. Essence of the Board's statement is that the sponsorship of published quotations is a vital part of the Association's work to promote through cooperative effort the investment banking and securities business and that the Board will assist the members in every way possible in estab-

lishing local quotations committees. Further information can be obtained through the Executive Office in Washington.

The National Quotations Committee will conduct regional meetings during 1959 at which members will be urged to participate actively in the effort to broaden the scope of Association-sponsored quotations.

Another step in expanding coverage for over-the-counter quotations is the establishment of new Weekly Lists in all regional editions of the Wall Street Journal. These new Weekly Lists are designed especially for the Journal's readers in each region and they cover securities not included in either the National Daily or Regional Daily Lists. Prior to this expansion, the Journal limited the Weekly Lists to the Eastern and Midwestern editions and the lists were composed of securities primarily of interest to investors in the East.

### BUSINESS CONDUCT

The past year has been one of increased activity in disciplinary matters. More examinations were made, more complaints were filed and more cases were disposed of than in any previous year in Association history.

Through December 31, 1958, 261 complaints were filed; 215 were closed; and 162 cases were still pending.

In disposing of complaints, District Committees or the Board expelled 36 members, revoked the registrations of 45 representatives, and named 8 unregistered individuals as causes of action; suspended 10 members and 6 registered representatives; censured 111 members and 19 registered representatives; dismissed actions against 38 members and 8 registered representatives; fined 84 members and 8 registered representatives. Total fines and costs collected during the year amounted to \$51,587.08.

Forty cases were appealed to or called up for review by the Board of Governors and two cases were appealed to the Securities and Exchange Commission.

The Committee is gratified to note that during the past year there has been substantial improvement in the handling of disciplinary actions in certain Districts which hitherto perhaps had not fully understood the techniques of business conduct procedures. As a result of a memorandum sent out by the Executive Director, at the request of the Board, which covered various points of policy and procedure for the guidance of District Committees and Secretaries, progress has been made toward uniformity of approach in filing complaints; in incorporating necessary allegations in complaints; in the disposition of cases; and in the assessment of costs. Further, the stress put upon the desirability of conducting hearings at the District level has had a salutary effect.

Not only is it desirable to develop an adequate record through hearings before District Business Conduct Committees, except where the facts are conclusively established; it also makes it easier for the Board of Governors to determine whether there is reasonable uniformity throughout the various Districts in the treatment of cases involving similar sets of facts and circumstances.

The National Business Conduct Committee believes that the progress achieved in the past year have been quite substantial and that it has been fully demonstrated that the additional time expended and diligence shown by the various District Business Conduct Committees are largely responsible for this progress. All those businessmen who serve on these Committees have earned the gratitude of the entire securities business. It is these men on whom lies the greatest responsibility for continued maintenance of the good name of this business.

# FINANCIAL STATEMENT

## INCOME, EXPENDITURES AND COMPOSITION OF ACCUMULATED BALANCE

	<i>Year ended September 30,</i>	
	<i>1958</i>	<i>1957</i>
<i>Income:</i>		
Assessments .....	\$ 816,774	\$ 713,642
Registered representatives' application fees .....	231,070	222,200
Registered representatives' examination fees .....	158,940	157,255
Branch office fees .....	30,554	26,370
Admission fees, etc. ....	11,725	13,163
Fines and costs .....	67,110	42,750
Interest .....	17,388	18,919
Total income .....	<u>\$1,333,561</u>	<u>\$1,194,299</u>
<i>Expenditures:</i>		
Salaries and office services:		
National office and committees .....	\$ 244,741	\$ 205,803
District offices .....	339,328	275,799
Travel and meetings .....	123,197	121,136
Publications, printing and stationery, net .....	98,730	115,430
Complaints and investigations—travel and transcripts .....	86,841	36,617
Fees—legal, actuarial, accounting, information and quotations, net ..	158,334	199,506
Rent .....	69,440	55,332
Office and miscellaneous .....	111,264	63,578
Registered representative examination program—services and supplies	21,695	15,788
Insurance and taxes .....	28,280	20,967
Retirement (including \$21,068 in 1958 for providing increased past service benefits) .....	48,381	23,129
Total expenditures .....	<u>\$1,330,231</u>	<u>\$1,133,085</u>
Excess of income over expenditures .....	\$ 3,330	\$ 61,214
Accumulated balance—beginning of year .....	660,091	598,877
Accumulated balance—end of year .....	<u>\$ 663,421</u>	<u>\$ 660,091</u>

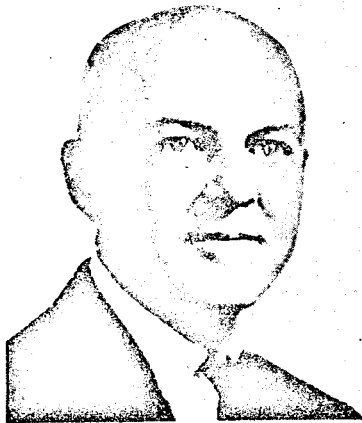
### *Composition of Accumulated Balance*

	<i>September 30,</i>	
	<i>1958</i>	<i>1957</i>
Cash .....	\$ 247,853	\$ 233,593
U. S. Treasury securities, at cost .....	447,638	445,934
Other assets .....	40,873	34,458
Accounts payable .....	(58,580)	(42,260)
Accrued and withheld payroll taxes .....	(10,468)	(9,218)
Assessments collected in advance .....	(3,895)	(2,416)
	<u>\$ 663,421</u>	<u>\$ 660,091</u>

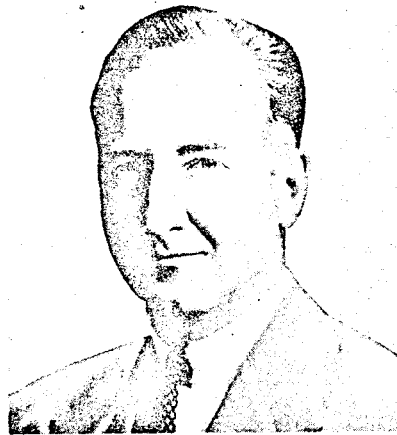
National Association of Securities Dealers, Inc.  
1707 H Street, N. W.  
Washington 6, D. C.

Washington, D. C.  
January 6, 1959

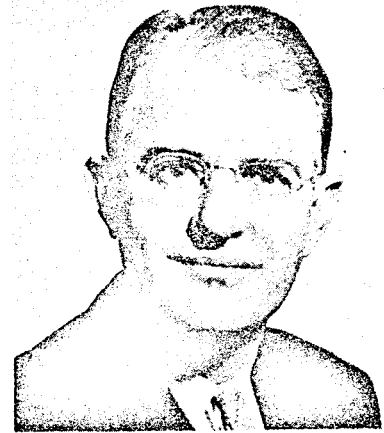
In our opinion, the accompanying financial statement presents fairly the recorded income and expenditures of the National Association of Securities Dealers, Inc. for the years ended September 30, 1958 and September 30, 1957 and the composition of the accumulated balance at those dates, in accordance with generally accepted accounting principles applied on a consistent basis. Our examination of the statement was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary.



Alexander Yearley, IV  
*Chairman*

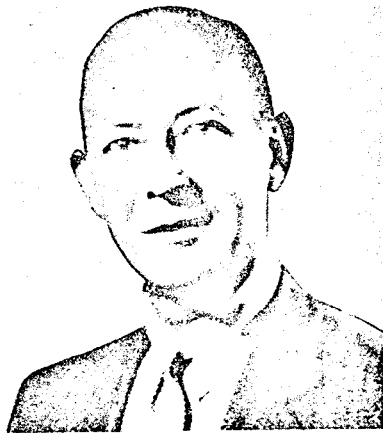


Donald L. Patterson  
*Vice-Chairman*



Allen J. Nix  
*Vice-Chairman*

# OFFICERS 1959



Ernest W. Borkland, Jr.  
*Treasurer*



Wallace H. Fulton  
*Executive Director*

# BOARD OF GOVERNORS

## To Serve Until January 1960

Ernest W. Borkland, Jr.  
Tucker, Anthony & R. L. Day, New York City

Francis M. Brooke, Jr.  
Brooke & Co., Philadelphia

Richard Lawson  
Lawson, Levy, Williams & Stern, San Francisco

Alexander Yearley, IV  
The Robinson-Humphrey Company, Inc., Atlanta

Allen J. Nix  
Riter & Co., New York City

George H. Nusloch  
Nusloch, Baudean & Smith, New Orleans

Donald L. Patterson  
Boettcher and Company, Denver

## To Serve Until January 1961

Glenn E. Anderson  
Carolina Securities Corporation, Raleigh

Curtis H. Bingham  
Bingham, Walter & Hurry, Inc., Los Angeles

James G. Dern  
Smith, Barney & Co., Chicago

Ralph C. Sheets  
Blyth & Co., Inc., New York City

J. Gordon Hill  
Watling, Lerchen & Co., Detroit

James F. Jacques  
First Southwest Company, Dallas

Glenn L. Milburn  
Milburn, Cochran & Company, Wichita

## To Serve Until January 1962

Andrew M. Baird  
A. G. Becker & Co., Incorporated, Chicago

William H. Clafin, III  
Tucker, Anthony & R. L. Day, Boston

Robert L. Cody  
North American Securities Company, San Francisco

Samuel S. Whittemore  
Pacific Northwest Company, Spokane

Graham Jones  
Cooley & Company, Hartford

Blancke Noyes  
Hemphill, Noyes & Co., New York City

Claude F. Turben  
Merrill, Turben & Co., Inc., Cleveland

## FORMER CHAIRMEN OF THE BOARD OF GOVERNORS

1939—\*B. Howell Griswold, Jr.  
*Baltimore*

1940—\*Francis A. Bonner  
*Chicago*

1941—Robert W. Baird  
*Milwaukee*

1942—H. H. Dewar  
*San Antonio*

1943—\*Henry G. Riter, 3rd  
*New York City*

1944—Ralph Chapman  
*Chicago*

1945—Ralph E. Phillips  
*Los Angeles*

1946—\*William K. Barclay, Jr.  
*Philadelphia*

1947—Herbert F. Boynton  
*New York City*

1948—L. Raymond Billett  
*Chicago*

1949—Clement A. Evans  
*Atlanta*

1950—John J. Sullivan  
*Denver*

1951—Howard E. Buhse  
*Chicago*

1952—Clarence A. Bickel  
*Milwaukee*

1953—Carl Stolle  
*New York City*

1954—Edward C. George  
*Chicago*

1955—Harold E. Wood  
*St. Paul*

1956—Frank H. Hunter  
*Pittsburgh*

1957—Frank L. Reissner  
*Indianapolis*

1958—Charles L. Bergmann  
*New York City*

\* Deceased

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# COMMITTEES OF THE BOARD

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## EXECUTIVE COMMITTEE

Alexander Yearley, IV—Chairman  
Glenn E. Anderson  
Ernest W. Borkland, Jr.  
Francis M. Brooke, Jr.  
James G. Dern  
James F. Jacques  
Allen J. Nix  
Donald L. Patterson  
Ralph C. Sheets  
Wallace H. Fulton

## FINANCE COMMITTEE

James F. Jacques—Chairman  
Ernest W. Borkland, Jr.  
J. Gordon Hill  
George H. Nusloch  
Alexander Yearley, IV  
Wallace H. Fulton

## NATIONAL BUSINESS CONDUCT COMMITTEE

Glenn E. Anderson—Chairman  
Andrew M. Baird  
William H. Clafin, III  
Robert L. Cody  
Graham Jones  
Richard Lawson  
Glenn L. Milburn  
Blancke Noyes  
George H. Nusloch  
Samuel S. Whittemore

## NATIONAL UNIFORM PRACTICE COMMITTEE

Henry H. Badenberger—Chairman  
Thomas B. MacDonald—Vice-Chairman  
Edward J. Armstrong  
George J. Denzer  
Guenther M. Philipp  
Oliver J. Troster  
Ralph W. Welsh

## NATIONAL QUOTATIONS COMMITTEE

Emmet K. Whitaker—Chairman  
Justin J. Stevenson, Jr.—Vice-Chairman  
Francis V. Ward—Chairman, Eastern Region  
Glen A. Darfler—Chairman, Midwestern Region  
Donald E. Summerell—Chairman, Pacific Coast Region  
John W. Turner—Chairman, Southwestern Region  
Francis J. Cunningham  
S. Richard Harris  
Albert C. Purkiss

## LEGISLATION COMMITTEE

James G. Dern—Chairman  
Ewing T. Boles  
J. Gordon Hill  
Graham Jones  
Blancke Noyes  
Ralph C. Sheets  
Claude F. Turben

## VARIABLE ANNUITIES COMMITTEE

John D. McCutcheon—Chairman  
Arthur H. Haussermann  
Allen J. Nix  
Lee H. Ostrander  
Erwin A. Stuebner

## INFORMATION COMMITTEE

Andrew M. Baird—Chairman  
Curtis H. Bingham  
William H. Clafin, III  
Wallace H. Fulton

## INVESTMENT COMPANIES COMMITTEE

Robert L. Cody—Chairman  
Franklin R. Johnson  
Hugh W. Long  
Rowland A. Robbins  
William F. Shelley  
Harry J. Simonson, Jr.  
Francis S. Williams

## FOREIGN SECURITIES COMMITTEE

Henri L. Froy—Chairman  
John A. Nevins—Vice-Chairman  
Jack M. Bloch  
John Fountain  
Derek Grewcock  
Max Halpert  
Carl Marks  
Henry Stravitz

# DISTRICT COMMITTEES

1

Robert E. Daniel, *Chairman* . . . . . Pacific Northwest Company, Seattle  
 Harold L. Temple, *Vice-Chairman* . . . Campbell & Robbins Incorporated,  
 Portland  
 Edward K. Easter . . . . . Dean Witter & Co., Seattle  
 Conrad O. Frazier . . . . . Reid, McDowell & Frazier, Spokane  
 John K. Marshall . . . . . Foster & Marshall, Spokane  
 George F. Patten, Jr. . . . . George Patten Investment Co., Portland  
*Eugene R. Gibson, Secretary, White-Henry-Stuart Bldg., Seattle 1*



2

Merl McHenry, *Chairman* . . . . . J. Barth & Co., San Francisco  
 Ralph E. Phillips, Jr., *Co-Chairman* . . . Dean Witter & Co., Los Angeles  
 Dwight C. Baum . . . Eastman Dillon, Union Securities & Co., Los Angeles  
 A. Norman Bennett . . . . . Stern, Frank, Meyer & Fox, Los Angeles  
 John D. Berl . . . . . Sutro & Co., San Francisco  
 Richard M. Davis . . . . . Davis, Skaggs & Co., San Francisco  
 Charles B. Harkins . . . . . Blyth & Co., Inc., San Francisco  
 Robert C. Hill . . . . . Hill, Richards & Co., Los Angeles  
 Francis S. McComb . . . . . Blyth & Co., Inc., Los Angeles  
 Verdon C. Smith . . . . . Lester, Ryons & Co., Los Angeles  
 Van S. Trefethen . . . . . Shuman, Agnew & Co., San Francisco  
 Hart D. Wood . . . . . Hart Wood and Company, Ltd., Honolulu  
*D. J. Conway, Secretary, Russ Building, San Francisco 4*  
*James H. Resh, Assistant Secretary, 210 W. 7th St., Los Angeles 14*



3

Edward B. Coughlin, *Chairman* . . Coughlin and Company, Inc., Denver  
 C. Arthur Pettibone, *Vice-Chairman* . . Earl M. Scanlan and Co., Denver  
 Edward F. Altman . . . . . Stone, Altman & Company, Inc., Denver  
 Harrison S. Brothers . . . . . Harrison S. Brothers & Co., Salt Lake City  
 Harry T. Buchenau . . . . . Bosworth, Sullivan & Company, Incorporated,  
 Denver  
 Kenneth A. Ellis . . . . . Kenneth Ellis & Co., Phoenix  
 Edward A. Hanifen . . . . . E. A. Hanifen & Company, Denver  
 Gerald P. Peters, Jr. . . . . Peters, Writer & Christensen, Inc., Denver  
 Arthur P. Quinn . . . . . Quinn & Co., Albuquerque  
*Kenneth W. Cole, Secretary, Boston Building, Denver 2*



4

John W. Bunn, *Chairman* . . Stifel, Nicolaus & Company, Incorporated,  
 St. Louis  
 Mark A. Lucas, Jr., *Vice-Chairman* . . Lucas, Eisen & Waeckerle, Inc.,  
 Kansas City  
 Warren D. Chiles . . . . . Chiles-Schutz Co., Omaha  
 Dumont G. Dempsey . . . . . Newhard, Cook & Co., St. Louis  
 Henry E. Gray . . . . . Bache & Co., Tulsa  
 T. Bates Huffaker . . . . . Merrill Lynch, Pierce, Fenner & Smith, Inc.,  
 Kansas City  
 Edward G. Mader . . . . . B. C. Christopher & Co., Kansas City  
 Carl A. Meyer . . . . . The Columbian Securities Corp., Topeka  
 W. Guy Redman . . . . . A. G. Edwards & Sons, St. Louis  
*William S. Clendenin, Secretary, Waldheim Bldg., 6 E. 11th St.,  
 Kansas City 6*

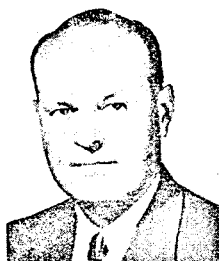






Edward S. Lewis, Jr., *Chairman* . . . . . Lewis and Company, Jackson  
 Mortimer A. Cohen, *Vice-Chairman* . . . . . Sterne, Agee & Leach,  
 Montgomery  
 Harry D. Allen . . Merrill Lynch, Pierce, Fenner & Smith, Inc., Memphis  
 R. N. Dillingham . . . . . Dabbs Sullivan Company, Little Rock  
 G. Shelby Friedrichs . . . . . Howard, Weil, Labouisse, Friedrichs and  
 Company, New Orleans  
 Joseph P. Minetree . . . . . Steiner, Rouse and Company, New Orleans  
*Ralph L. Atchison, Secretary, Richards Bldg., New Orleans*

5



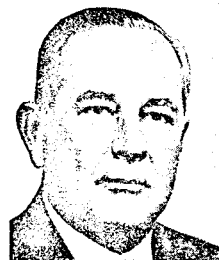
Jack P. Brown, *Chairman* . . . . . Dallas Union Securities Co., Inc., Dallas  
 Jack T. Currie . . Moreland Brandenberger, Johnston & Currie, Galveston  
 A. Gordon Crockett . . . . . Dempsey-Tegeler & Company, Houston  
 Landon A. Freear . . . . . William N. Edwards & Company, Fort Worth  
 Creston A. King . . . . . Dewar, Robertson & Pancoast, San Antonio  
 Frank R. Newton, Jr. . . . . Lentz, Newton & Co., San Antonio  
 Jesse R. Phillips, Jr. . . . . J. R. Phillips Investment Company, Houston  
*Paul J. Fagan, Secretary, Insuromedic Life Bldg., Dallas 1*

6



Gus G. Halliburton, *Chairman* . . . . . Equitable Securities Corporation,  
 Nashville  
 Frank A. Chisholm, *Vice-Chairman* . . Varnedoe, Chisholm & Co., Inc.,  
 Savannah  
 Malcolm M. Manning . . . . . V. M. Manning, Greenville  
 Clinton T. McCreedy . . . . . Paul A. Davis & Company, Miami  
 William S. McGinness . . . . . Elder & Co., Chattanooga  
 Julian W. Tindall . . . . . J. W. Tindall & Co., Atlanta  
*Bennett Whipple, Secretary, First National Bank Bldg., Atlanta 3*

7



James M. Howe, *Chairman* . . . . . Farwell, Chapman & Co., Chicago  
 T. Gordon Kelly, *Vice-Chairman* . . Collett & Company, Inc. Indianapolis  
 Merrill M. Cohen . . . . . J.M. Dain & Co., Inc., Minneapolis  
 Milton S. Emrich . . . . . Julien Collins & Company, Chicago  
 A. Jackson Goodwin, Jr. . . . . Lee Higginson Corp., Chicago  
 Harry B. Graefe . . . . . First of Iowa Corporation, Des Moines  
 Robert W. Haack . . . . . Robert W. Baird & Co., Milwaukee  
 Sanford C. Miller . . . . . A. C. Allyn and Company, Inc., Chicago  
 Claude G. Porter . . . . . Baker, Simonds & Co., Detroit  
 James A. Swoboda . . . . . Paine, Webber, Jackson & Curtis, Milwaukee  
 Carl F. Thiel . . . . . Berrien Securities, Inc., Benton Harbor  
 Richard B. Walbert . . . . . Blyth & Company, Inc., Chicago  
*John F. Brady, Secretary, 10 South La Salle Street, Chicago 3*

8



August Lorenz, *Chairman* . . . . . Lorenz & Company, Incorporated,  
 Columbus  
 W. Power Clancey . . . . . W. P. Clancey & Co., Cincinnati  
 Watson B. Dabney . . . . . J. J. B. Hilliard & Son, Louisville  
 Russell Ebinger . . . . . Almstedt Brothers, Louisville  
 John B. Greene . . . . . Greene & Ladd, Dayton  
 Harvey L. Hawkins . . . . . Hawkins & Co., Cleveland  
 Herman B. Joseph . . . . . Joseph, Mellen & Miller, Inc., Cleveland  
 John A. Kruse . . . . . Prescott & Co., Cleveland  
 Justin J. Stevenson, Jr. . . . . W. E. Hutton & Co., Cincinnati  
*Joseph J. Van Heyde, Secretary, 44 East Broad Street, Columbus 15*

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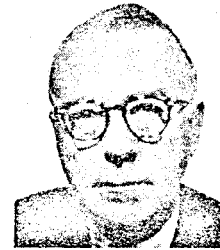
# 10

Robert W. Fleming, *Chairman*.....Folger, Nolan, Fleming—W. B. Hibbs & Co., Inc., Washington  
 E. Clinton Bamberger, *Vice-Chairman*..Baumgartner, Downing & Co., Baltimore  
 Eugene H. Cassell.....C. F. Cassell & Co., Inc., Charlottesville  
 W. Barrett Disney.....Abbott, Proctor & Paine, Richmond  
 Henry C. Evans.....Stein Bros. & Boyce, Baltimore  
 Marshall H. Johnson.....McDaniel Lewis & Co., Greensboro  
 Harry L. McAllister.R.S. Dickson & Company, Incorporated, Charlotte  
 Bernard J. Nees.....Johnston, Lemon & Co., Washington  
*Richard Peters, Secretary, 1707 H Street, N.W., Washington 6*



# 11

Robert E. Daffron, Jr., *Co-Chairman*....Harrison & Co., Philadelphia  
 Frederic P. Mullins, *Co-Chairman*.....A. E. Masten & Company, Pittsburgh  
 Walter H. Babbitt.....W. H. Babbitt & Company, Incorporated, Pittsburgh  
 Ernest M. Brown.....M. M. Freeman & Co., Inc., Philadelphia  
 Harold F. Carter.....Hornblower & Weeks, Philadelphia  
 James C. Chaplin, III.....Chaplin & Company, Pittsburgh  
 L. Paul Close....Rambo, Close & Kerner, Incorporated, Philadelphia  
 George E. Nehrbas.....Parrish & Co., Philadelphia  
 Alfred Rauch.....Kidder, Peabody & Co., Philadelphia  
 Ralph S. Richards, Jr.....Richards & Company, Pittsburgh  
 Harry J. Steele.....Steele, Haines & Co., Pittsburgh  
 George Winchester.....Laird, Bissell & Meeds, Wilmington  
*Edward R. Gilleran, Secretary, Fidelity-Philadelphia Trust Bldg., 123 S. Broad St., Philadelphia 9*



# 12

Albert C. Purkiss, *Chairman*.....Walston & Co., Inc., New York  
 Edward H. Ladd, III, *Vice-Chairman*..The First Boston Corporation, New York  
 Gustave A. Alexisson, *Vice-Chairman*....Granbery, Marache & Co., New York  
 Joseph S. Barr.....J. S. Barr & Co., Inc., Ithaca  
 Thomas H. Choate.....White, Weld & Co., New York  
 John W. Dayton, Jr.....Clark, Dodge & Co., New York  
 John J. Gurian.....Merrill Lynch, Pierce, Fenner & Smith, Inc., New York  
 Hudson B. Lemkau.....Morgan Stanley & Co., New York  
 Gustave L. Levy.....Goldman, Sachs & Co., New York  
 David J. Lewis.....Paine, Webber, Jackson & Curtis, New York  
 Homer J. O'Connell.....Blair & Co., Incorporated, New York  
 Robert A. Powers.....Smith Barney & Co., New York  
 Avery Rockefeller, Jr.....Dominick & Dominick, New York  
 Stanley L. Roggenburg.....Roggenburg and Company, New York  
 J. William Roos.....W. A. Gardner & Company, Newark  
 Craig Severance.....F. Eberstadt & Co., New York  
 Leslie B. Swan.....Chas. W. Scranton & Co., New Haven  
 Orland K. Zeugner..Stone & Webster Securities Corporation, New York  
*George E. Rieber, Secretary, 25 Broad Street, New York 4*



# 13

James H. Goddard, *Chairman*.....J. H. Goddard & Co., Inc., Boston  
 George S. Payson, *Vice-Chairman*.....H. M. Payson & Co., Portland  
 Foster B. Davis, Jr.....Davis & Davis, Providence  
 Eugene R. Hussey.....The First Boston Corporation, Boston  
 Carlisle F. Morrison.....H. P. Wood Company, Inc., Boston  
 Frank H. Sellman.....Spencer Trask & Co., Boston  
 Carleton H. Simmons.....Hayden, Stone & Co., Boston  
*Francis C. Doyle, Secretary, 80 Federal Street, Boston 10*



# STATISTICAL HIGHLIGHTS

## MEMBERSHIP

The Association had 3896 members on December 31, 1958, a net increase over 1957 of 29 firms.

## REGISTERED REPRESENTATIVES

There were 69,345 registered representatives enrolled at the end of 1958. That was a net gain of 8503 for the year, the result of 24,317 new registrations and 15,814 terminations.

## BRANCH OFFICES

Members had 3242 branches registered, 462 more than at close of 1957.

## QUALIFICATION EXAMINATIONS

A total of 15,463 applicants for membership or registration took examinations during the year. In 1957, 14,841 took these examinations. 70 per cent of applicants for registration as registered representatives were required to take the examination because they lacked one year's experience in the securities business.

## REGULATION T

The Association's offices pass on members' requests for extensions under the Regulation. In 1958, 19,992 such requests were received, on which 19,601 extensions were granted. In 1957, 22,098 applications and 21,620 extensions were processed.

## MEMBER EXAMINATIONS

Staff examiners completed 1521 examinations of members' books, records, etc. in 1958, or 39 per cent of the membership, the largest number examined in a single year. In addition, 553 branch offices of members were examined. In 1957, 1245 members were examined, or 32 per cent of the membership.

## MARK-UPS

In their member examinations, the staff reviewed 33,389 individual transactions. 39 per cent of these were at mark-ups of 3 per cent or less; 44 per cent at 3.1 to 5 per cent; 7 per cent at mark-ups of 5.1 to 6 per cent; 3 per cent at mark-ups of 6.1 to 7 per cent; 3 per cent at mark-ups of 7.1 to 10 per cent; 4 per cent at mark-ups over 10 per cent. In a number of instances, mark-ups over 5 per cent resulted in complaint action.

## DISCIPLINARY ACTIONS

There were 162 complaints pending against members at the end of 1958; 116 had been pending at the beginning of the year. During the year, 261 more complaints were filed and 215 complaints were closed, resulting in these actions: 38 dismissals; 84 fines; 36 expulsions; 10 suspensions; 111 censures; 40 appeals to or reviews by the Board of Governors; 2 appeals to the SEC. In addition, registered representatives named in complaints were disciplined as follows: 8 fines; 45 revocations; 6 suspensions; 19 censures. Fines and costs collected from members and registered representatives in 1958 amounted to \$51,587.08.

# PURPOSES

## NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

- (1) To promote through cooperative effort the investment banking and securities business, to standardize its principles and practices, to promote therein high standards of commercial honor, and to encourage and promote among members observance of Federal and State securities laws;
- (2) To provide a medium through which its membership may be enabled to confer, consult, and cooperate with governmental and other agencies in the solution of problems affecting investors, the public, and the investment banking and securities business;
- (3) To adopt, administer and enforce rules of fair practice and rules to prevent fraudulent and manipulative acts and practices, and in general to promote just and equitable principles of trade for the protection of investors;
- (4) To promote self-discipline among members, and to investigate and adjust grievances between the public and members and between members.

*(From the Certificate of Incorporation)*