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

Quotations**Board Calls for Active Support of Price Policy**

The securities business and the public benefit substantially from Association sponsorship of over-the-counter quotations published as a public service, the Board of Governors reminds the membership in a new policy statement.

In several sections, over-the-counter quotations are still published under the by-line of individual firms and, in a few places, even wholesale quotations are still being furnished for publication. In a renewed effort to end these practices, the Board has adopted the following statement pledging its assistance in the expansion of NASD quotations sponsorship throughout the country.

"The Board of Governors believes that the interest of the investing public and the securities business can best be served when published quotations are supervised by NASD Quotations Committees.

"To the public—NASD Quotations mean:

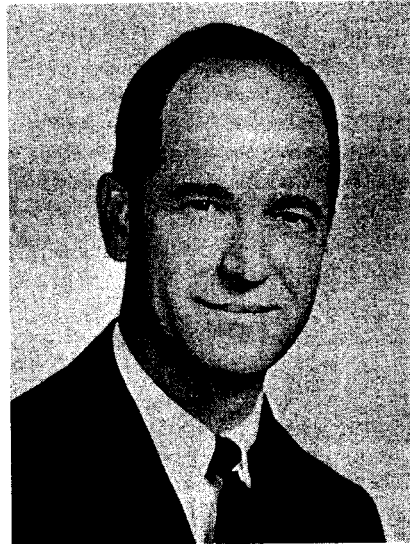
Objective, accurate retail price ranges within which members of the public could have expected to do business at the time the prices were recorded.

"To the business—NASD Quotations mean:

Retail quotations designed (1) to give recognition to the fundamental fact that the over-the-counter market is a negotiation market, and (2) to assist retail dealers in selling securities as principal.

No one firm has the unfair advantage of representing the over-the-counter market in a

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GOVERNOR**ROBERT L. CODY**

Elected from District 2, Bob is the first representative of the mutual fund side of the business to serve on the Board of Governors. He is Chairman of the Investment Companies Committee and Executive VP of North American Securities Company, San Francisco, underwriter of the Commonwealth group of investment companies.

Number One

Texas notwithstanding, Alaska has been included in the Association's regional set-up as part of District 1, which now also includes the states of Washington, Oregon, Idaho, Montana and the Dakotas.

The Board of Governors took formal action joining the Union's new largest state to the Association at its recent annual meeting. The Hawaiian Islands already are included within the Association's geographical boundaries as part of District 2.

Free-Riding**Nine More Issues Come Under NASD Investigation**

The Association is investigating the distribution of nine additional "hot issues" to determine whether its anti-free-riding policy has been violated.

The new issues involve the securities of Champion Spark Plug Company, Chock Full O'Nuts Corp., Desilu Productions, Inc., Duffy-Mott Company, Inc., Dynamic Electronics-N. Y., Houston Corporation, Oxford Paper Company, Sanborn Company and the Upjohn Company.

Some 1,800 questionnaires have been sent to underwriters and selling group members who participated in these distributions. These questionnaires require a classification breakdown of all accounts which received any of the issues and a transcript demonstrating normal investment practices for all "insider" accounts.

Beginning with the Upjohn study, the Association is requiring disclosure of the names of registered representatives who sold securities to "insider" accounts. This is in line with the Board of Governors' determination that registered representatives are equally bound with their employing firms to see that bona fide public offering is made on all new issues. All registered representatives are cautioned to make sure they understand the Board's interpretation with respect to free-riding and withholding in connection with new securities issues.

The temptation to withhold portions of new issues where the demand exceeds supply to the point that the price goes to a premium before the issues can be distributed continues to present a major problem to the Association in its discipli-

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An officer of A. G. Becker & Company, Incorporated, Chicago, Andrew M. Baird is the new Governor from District 8.

Growth

All-time highs are being registered in every phase of Association activity, reflecting the substantially broadened interest by investors in corporate securities.

In 1958, new records were set in membership, the number of persons entering the securities business, and the volume of disciplinary actions handled by District Business Conduct Committees of the Association and by the Board of Governors. All indications are that 1959 will see a continuance of this growth pattern.

Contrasting figures, 1958 vs 1953, point up the dynamic growth of activity in the securities business and the Association during the past five years:

Membership — 3,871 firms vs 3,047; registered representatives—69,000 vs 33,629; disciplinary actions—301 vs 23; and members' offices examined—2,074 vs 1,053. Even more indicative of recent growth is the fact that 415 complaints, or 32 percent of the 1,291 complaints handled in the history of the Association, were filed within the past two years.

Continuing Commissions

Valid Contracts Given Clearance

Payment of compensation to registered representatives after they leave the employ of a member of the Association—or to their widows or other direct beneficiaries—will not be deemed in violation of NASD Rules, provided bona fide contracts call for such payment.

The Board of Governors of the Association made this clear in reaffirming the position taken last year that under normal circumstances compensation for the sale of securities may not be paid by a member of the Association to any person who is not a registered representative of a member.

Effect of the clarification is simply to recognize the validity of contracts entered into in good faith between employers and employees at the time the employees are registered representatives of the employing members. Such a contract may vest in an employee the right to receive continuing compensation on business done while with the firm in the event the employee retires and the right to bequeath such payments to his widow or other direct beneficiary.

The Board action in no way is intended to impose or imply any obligation on any member to enter into contracts with registered representatives for continuing compensation. Nor is there any intention to specify or rule on the terms of such contracts; employers may limit or restrict the right to receive continuing commissions or payments in any way they see fit.

Publications

The Executive Office is now reviewing all Association publications following the redesigning of the basic pamphlet entitled, "National Association of Securities Dealers . . . What It Is . . . What It Does to Protect the Public . . ." As copies of other publications are exhausted, similar redesigning and up-dating will be undertaken.



Samuel S. Whittemore comes from Spokane and is District 1's new Board member. His firm is Pacific Northwest Company.

"Practicing Law"

Dealers Cautioned on Use of Trust Forms

The growing practice by certain dealers—and some underwriters—specializing in the sale of investment company shares of offering customers "free advice" on the establishment of various types of testamentary trusts, "living trusts," and other means of disposition of property can result in the assumption of unnecessary risks by all concerned.

Indiscriminate distribution of various types of self-executing forms of trust and testamentary documents, and the recommendation that they be used by dealers with customers can be dangerous.

Perhaps most important is the possible unknowing acceptance by dealers of liability for misuse of the forms. This could open dealers to the charge of offering to perform legal functions and other services not properly within their purview.

Insistence that the customer's attorney be called in before any program involving the disposition of property is undertaken should be a cardinal rule of the dealer offering estate planning services.



Claude F. Turben is an officer of the Cleveland firm of Merrill, Turben & Co., Inc., and comes to the Board from the new District 9, comprising the states of Kentucky and Ohio.

Examination Centers

The program to establish qualification examination centers throughout the country is now well under way and the Association's current goal is to have 90 percent of the examinations administered under controlled conditions by the end of 1959.

Centers now operating in Atlanta, Boston, Los Angeles, New Orleans, New York City, Philadelphia, Rochester, San Francisco, Seattle and Washington, D. C. accommodate 67 percent of the approximate 1600 applicants being examined monthly. During 1958, 6,899 examinations were administered at the then established centers and 8,234 examinations were taken in members' offices.

Arrangements were completed to open centers in Portland on March 24 and Spokane on March 25. These new centers, together with the center in Seattle, will be prepared to receive all applicants from the states of Idaho, Oregon and Washington.

Studies are now being conducted preliminary to opening centers in Chicago and other midwestern cities.

Unfair Comparisons

Warn Dealers Against False Anti-Life Insurance Attacks

Association members are warned against use of certain published material that unfairly attacks ordinary life insurance and recommends the indiscriminate conversion of cash surrender values into proceeds for the purchase of investment company shares or other securities.

There are several books, brochures, and reprints of published articles now in circulation that securities dealers are being asked to purchase which support this proposition by misstatements, misinterpretation of facts, and dangerous and unqualified generalities. Dealers are being encouraged to use some of this material together with recommended form letters and advertising as a method of increasing securities sales.

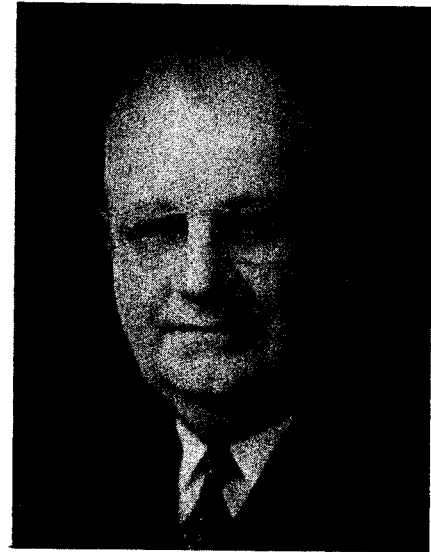
Serious violations of the SEC's Statement of Policy on investment company sales literature can result from use of this material.

Much of the difficulty with this published material stems from efforts to oversimplify the actuarial basis of life insurance. This has resulted, among other things, in erroneous statements about cash surrender values and death benefits under life insurance policies issued on a level premium basis.

Representations to customers, as part of an overall general sales approach by a securities dealer, that ordinary life insurance is a "miserable investment" and that existing cash surrender values should be realized and the proceeds used to purchase mutual fund shares or other securities can have most undesirable results, both to the public interest and to the good name of the securities business.

Registration Form

A new, simplified application form for registration of registered representatives has been developed, containing only those questions which are pertinent to the NASD. It will be in use April 1.



Senior partner of the New Orleans firm of Nusloch, Baudean & Smith, George H. Nusloch represents the new District 5, which was split off from old District 9 under the recent redistricting.

Sales Literature

Board Drops Non-Member Clearance

Brochures, books, booklets, pamphlets, and other material prepared by non-members for sale to Association members to be used in promoting interest in investment company shares no longer will be reviewed for clearance by the NASD.

The Board of Governors has been concerned for some time with the problems, both potential and current, created by the amount of such material submitted for clearance under the Statement of Policy. The Board has decided, therefore, that this service can not be given to anyone other than a member of the Association.

The volume of books, articles, brochures, and sales training guides that are being developed by outsiders for sale to dealers has been increasing steadily. Upon occasion, it has been so extensive as to interfere seriously with Investment Companies Department ability properly to service advance clearance requests from members of the Association.



Graham Jones comes to the Board from Cooley & Company, Hartford, and with Blanche Noyes, of Hemphill, Noyes & Co., New York City, they make up the freshman contingent from new District 12. Bill Claflin, from the Boston office of Tucker, Anthony & R. L. Day, represents New England, now redesignated District 13. Bill was Chairman of the District Committee before his election as Governor.

Quotations

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particular area through the quotations distributed in the press or by radio or television. All members are free to make recommendations to the appropriate quotations committee with respect to securities which should be quoted.

"The supervision of quotations representing the over-the-counter market is properly an industry obligation and responsibility.

"The Board of Governors urges all members to assist in this important work by releasing quotations for publication only through an NASD Committee.

"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 the Board of Governors will assist the members in every way possible in establishing local quotations committees. Further information is available through the Executive Office in Washington."

Must Supervise

Failure leads to Serious Charges

A recurring problem which causes serious violations of the Association's Rules of Fair Practice is the failure of members adequately to supervise their salesmen as required by Section 27 of Article III of the Rules of Fair Practice.

This failure to supervise can result in inadequate books and records, violations of the Statement of Policy on mutual fund sales literature, unfair mark-ups, Regulation T departures, and misuse of customers' funds or securities.

One case considered by the Board of Governors at a recent meeting involved serious financial penalties against a member where its officers failed to supervise registered representatives, including minor officers of the member. Fines levied in this case amounted to more than \$6,000 and the costs were substantial, without taking into consideration what the member itself expended in connection with the complaint proceedings.

Free-Riding

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nary activities. Efforts by District Committees and officers of the Association to educate members as to their obligations in this area have not, in all cases, succeeded in convincing members that the primary duty of an underwriter or a selling group member is to distribute the securities being underwritten.

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 offerings of the new issues they are paid to distribute. Some 30 complaint proceedings were initiated in 1958 against member firms for violation of the Association's free-riding policy.

The Board's determination to continue pressure for vigorous action by District Committees in this area is predicated on the Association's pledge to police its own membership.