

January 17, 1964

Hon. Harley O. Staggers, Chairman
Subcommittee on Commerce and Finance
Committee on Interstate and
Foreign Commerce
House of Representatives
Washington 25, D. C.

Dear Mr. Staggers:

Thank you for writing in reply to my letter of December 19 and giving me an opportunity to clarify our application of Rule 318 dealing with members' and allied members' connections with non-member business organizations.

Under paragraph (2) of Rule 318 no member or allied member may become an officer or employee of a non-member business corporation, firm or association without prior approval of the Exchange. A non-member business corporation, firm or association is an organization engaged in business -- either securities or otherwise -- but not a member of the Exchange. Although a director is not an "officer or employee", paragraph (4) of the Rule requires prior approval when a member or allied member becomes associated with any outside securities, financial or kindred business. Here the phrase "associated with" includes directorships.

Consequently, prior approval is required when a member or allied member becomes an officer or employee of a non-member business organization or becomes a director of an organization in the securities business, such as a bank, but is unnecessary when he becomes a director of a corporation not in the securities business.

On a further reading of the transcript covering my testimony before your Committee on November 20, 1963, I have noticed I mistakenly stated (on page 354) that members must report to the Exchange any directorships they accept. I knew at that time that my recollection of Rule 318 was hazy and in my response asked if I could write you a clarifying letter. My letter of December 19 was intended to restate the requirements of the Rule in this area and to make it clear that reporting to the Exchange is not required in the case of members serving on the boards of directors of corporations not in the securities business.

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We have not found it necessary to require reporting to the Exchange or prior approval by the Exchange when members or allied members serve on the boards of corporations not in the securities business. Such positions do not require a great deal of time and, consequently, are not in conflict with the requirement that every member shall be actively engaged in the securities business and devote the major portion of his time thereto.

In any event, I appreciate the opportunity to clarify our Rule and I hope these brief comments will be helpful.

Sincerely,

(signed) G. Keith Funston

RTW:kg