

# NASD

# News

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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 300 17TH ST., N.W., WASHINGTON, D.C.

*To NASD Members and Registered Representatives:*

## **NEW NASD OFFICERS, GOVERNORS ELECTED AT SEPTEMBER BOARD MEETING**

The new Chairman of the NASD Board of Governors will be J. Coleman Budd, Vice President of The Robinson-Humphrey Company in Atlanta, Georgia. In January, he will succeed Gordon L. Teach, Executive Vice President of Shearson, Hammill & Co., Inc. in Chicago.

Budd is also a member of the Board of Directors and the Executive Committee of his firm. A member of the Board of Governors since 1969, he has also served as Chairman of the NASD District Committee No. 7 and as Chairman of the NASD's National Business Conduct Committee. In 1950 he was graduated from Emory University in Atlanta in Business Administration and two years later he obtained his Master's degree in Business Administration from Harvard Business School. He is a former President of the Emory University Business School Alumni and presently is on the Advisory Council of the Harvard Business School.

Other new officers of the Board of Governors will be:

Eugene A. Shurtleff, Senior Vice President of Blyth & Co., Inc., San Francisco—Vice Chairman

Francis J. Cunningham, Vice President and Director of Kidder, Peabody & Co.—Vice Chairman

R. Ron Heiligenstein, Vice President and Director of Loewi & Co., Incorporated, Milwaukee—Chairman of the NASD Finance Committee

The newly elected Governors are:

R. Marshall Barnes, Chairman of the Board of Howe, Barnes & Johnson, Inc., Chicago, Illinois—District No. 8

J. Logan Burke, Jr., General Partner of W. E. Hutton & Co., New York, N.Y.—District No. 12

Victor G. Dugal, Vice President of J. B. Maguire & Co., Inc., Boston, Mass.—District No. 13

James T. Gahan, Director and Executive Vice President of E. F. Hutton & Company, Inc., New York, New York—District No. 12

J. Jerry Inskeep, Jr., Senior Vice President, Secretary and Director of Rippey, Inskeep, Hess & McFaul, Inc., Portland, Oregon—District No. 1

Franklin R. Johnson, Vice President of The Keystone Company of Boston, Boston, Massachusetts—Governor-at-Large

Fred F. Leustig, Vice President of Murch & Co., Inc., Cleveland, Ohio—District No. 9

G. Willard Miller, Executive Vice President of Dean Witter & Co., Incorporated, San Francisco, California—District No. 2

**NASD BEGINS MOVE TO  
1735 K STREET BUILDING  
ASSOCIATION WILL SWITCH  
TO CENTREX PHONE SYSTEM  
ON NOVEMBER 30, 1970**

At the end of this month several departments in the Association will be moving from the current headquarters at 888 17th Street, N. W., to the building recently purchased by the NASD at 1735 K Street, N. W.

The Association will be in a transitional stage from November until about March of 1971, with the various departments moving in gradual stages.

On November 30, 1970, the Association will begin using a new Centrex telephone system, which will enable members to reach all departments directly. A notice was sent to all NASD members this month indicating the new main telephone number for the Executive Office and the numbers for each department.

In addition, to eliminate any confusion that might arise because of the two separate addresses, the NASD is asking members to continue sending all correspondence to the Association at the 888 17th Street address until the entire Association is headquartered in the new building.

**SCI-TEK INC. DEVELOPS  
SYSTEM TO DOUBLE-CHECK  
OWNERSHIP OF SECURITIES**

During 1969, it has been estimated that the loss to brokerage firms and banks arising from lost or misplaced securities had reached about \$15.5 million dollars. Because of the concern of fidelity insurance companies and brokerage firms about these financial losses, the Joint Industry Securities Protection Committee was formed in January of 1969. The Committee has been working on methods to reduce losses and thefts of securities and to prevent the marketing of these "missing" certificates.

The Committee urged the establishment of an automated "data-bank" containing information on lost and stolen securities with the intention that the entire financial community would be able to input and retrieve information on these securities. The NASD has strongly endorsed this concept.

Such a system, called "The Securities Validation System," has been developed by Sci-Tek, Inc., a computer consultant firm in Wilmington, Delaware. The NASD would like to draw the attention of all members to this information service.

The system will operate in the following way: Broker/dealers will input information regarding stolen or lost securities to Sci-Tek via telephone or TWX facilities. When a customer enters a broker's office and wishes to transact business in securities which he has in his possession, the broker can check with the system (again via telephone or TWX) to discover if the securities are legitimately owned. The answer to each inquiry will be received within two or three minutes. Securities can be deleted from the system *only* if Sci-Tek receives a written request which has been signed by an officer of the subscribing firm.

The initial data base, which has not yet been built up, will be provided by subscribers on forms provided by Sci-Tek. Subscribers will be drawn from firms belonging to national securities exchanges, the NASD, and banks. The more firms that belong, the more comprehensive the system will be.

A trial run of the system will begin before the end of the year and is expected to continue for about three months. NASD members are welcome to become subscribers now and to participate in this pilot program. After its conclusion Sci-Tek will begin billing subscribers. The cost to subscribers will be \$3.00 per month plus 2¢ to 10¢ per inquiry, depending on the number of inquiries. Subscribers will be billed monthly.

If your firm is interested in subscribing to the Securities Validation System, contact: Mr. John Bilella, Sci-Tek Incorporated, 55 Liberty Street, New York, New York 10005.

**NASD DISTRICT COMMITTEES  
ACQUIRE NEW CHAIRMEN  
FOR 1971 - 1972 TERM**

The most important responsibilities of the NASD's self-regulatory program rest with the Association's 13 District Committees which work in tandem with the 13 NASD District Offices. Each committee is responsible for maintaining high business standards among NASD members in its geographic area. The committees' (which also operate as District Business Conduct Committees) main activities lie in the realm of resolving complaints against member firms or their employees. The complaints generally stem from two sources: (1) The discovery of violations of NASD rules by examiners in the District Offices; and (2) Complaints that are filed with the District Offices by investors. The DBCC's investigate each complaint, and, where appropriate, conduct disciplinary hearings to determine if the Association's rules have been violated. If such a determination is made, the Committee members are responsible for bringing their businessmen's judgment to bear on the situation and imposing disciplinary penalties where appropriate.

The 13 Districts recently elected the NASD District Committee Chairmen for 1971. These men, who will share the tremendous job of making self-regulation work, are:

- District No. 1—Edward K. Easter, Vice President of Dean Witter & Co. Incorporated, Seattle, Washington
- District No. 2—Theodore F. Seton, Vice President and Secretary of Sutro & Co., Incorporated, San Francisco, California  
(Co-Chairman) John R. Pierce, Senior Vice President of Roberts, Scott & Co., Inc., Los Angeles, California
- District No. 3—John M. Butler, Vice President, Secretary & Director of Financial Programs, Inc., Denver, Colorado
- District No. 4—Bill T. Wall, Vice President of Stern Brothers & Co., Kansas City, Missouri
- District No. 5—Philip A. Sellers, President and Director of Union Securities Corp., Montgomery, Alabama
- District No. 6—David J. Powell, Senior Vice President & Secretary of Eppler, Guerin & Turner, Inc., Dallas, Texas
- District No. 7—William K. Stephenson, President of V. M. Manning & Co., Inc., Greenville, South Carolina
- District No. 8—Fred T. Rahn, Senior Vice President of The Illinois Company Incorporated, Chicago, Illinois
- District No. 9—George H. Rinker, Jr., Vice President of The Ohio Company, Columbus, Ohio
- District No. 10—Patteson Branch, Partner of Branch & Company, Richmond, Virginia
- District No. 11—(Co-Chairmen)  
Eugene Arnold, Jr., Executive Vice President of Hopper, Soliday, Brooke, Sheridan, Inc., Philadelphia, Pa.  
Joseph P. Short, Partner of Arthurs, Lestrangle & Short, Pittsburgh, Pennsylvania
- District No. 12—Edward B. deSelding, Vice President & Secretary of Spencer Trask & Co. Incorporated, New York, New York
- District No. 13—Wesley E. Horton, President of Colonial Distributors, Inc., Boston, Massachusetts

## **NSTA JOINS NASD IN EDUCATING INVESTORS**

While all of the preparations for NASDAQ have been taking place, the Association has been working hard on its nationwide consumer education program, designed to excite investors about NASDAQ and other salutary changes taking place in the over-the-counter market.

The Association, which is relying on voluntary contributions from brokerage firms and other groups interested in the OTC market, has begun previewing the campaign before management personnel in brokerage firms. Doremus & Company, the advertising firm working on the NASD account, has developed a multi-media presentation to demonstrate to NASD members what we can do to make certain that investors are aware of the marketing improvements that NASDAQ will offer.

The National Security Traders Association, which has long been active in an information and public relations program of its own, voted last month to join the NASD in this ambitious effort. The NSTA will devote its energy to the public relations aspects of the program—an area where they have had much experience and success.

## **SEC UPHOLDS NASD PENALTIES IN RECENT UNDERWRITING CASE**

This fall the Securities and Exchange Commission upheld an NASD disciplinary action against a member firm for unreasonable and unfair underwriting compensation and for failure to file required documents regarding the underwriting with the Association. This case was the first test before the Commission of the NASD's Interpretation on Underwriting Arrangements.

The firm was censured, suspended from membership for 2 days and fined \$2,000. The NASD Guidelines indicate that the Underwriting Arrangements Committee, which reviews the fairness of underwriting compensation, values stock acquired by the underwriter, finder or related parties in connection with the offering on the basis of the difference between the cost of such stock and the public offering price.

Applying these guidelines, the Committee discovered that 40,000 shares were acquired by a vice president of the member (the principal underwriter) at 50 cents per share (as opposed to the \$2 per share offering price). In addition, the Committee noted that 5,000 shares were received by a director and promoter of the issuer who had served as financial consultant for the firm. The Committee, which viewed the stock issued to these two men as stock issued to related parties in connection with the offering, assigned value to this stock at 19 percent of the total public offering price. When this was added to the underwriters' commissions, the total underwriting compensation was calculated to be 31.5 percent of the total public offering price. The Committee recommended that the NASD District Business Conduct Committee institute disciplinary proceedings against the firm. When the case was reviewed by the NASD Board, the Governors found that the firm had violated the Association's Rules of Fair Practice and imposed the \$2,000 fine and the suspension.

The firm proceeded to appeal the case to the Securities and Exchange Commission. The SEC, in its review, determined that the shares issued to the vice president of the firm should be considered as underwriting compensation. Being an officer of the company and the person who signed the underwriting agreement, he was closely involved with the underwriting. In addition, he had purchased the shares about two months before the public offering while knowing that the offering was going to be made.

The SEC decided, however, that the shares issued to the financial consultant should not be considered as underwriting compensation since he did not advise the firm in connection with the public offering, although he had advised the firm in connection with general brokerage activities. The SEC determined that the shares were issued to him because of his relationship with the issuing company as a promoter, organizer and a director.

Still, when the shares issued to the financial consultant were eliminated from the total underwriting compensation, the compensation equalled 28.8 percent of the public offering price. The SEC agreed with the NASD that this was unreasonable.