

NASD

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NATIONAL ASSOCIATION OF SECURITIES DEALERS AND BROKERS, INC. 1700 K STREET, N.W. WASHINGTON, D.C. 20006

To NASD Members and Registered Representatives:

NASD OFFICERS NOMINATED FOR 1972

At their recent meeting in Colorado Springs, the Board of Governors unanimously approved its Nominating Committee's recommendations for NASD Officers in 1972. Those nominated were: Peter C. Barnes as Chairman of the Board of Governors; Maurice Schwarz, Jr., as Vice Chairman of the Board; J. Robert Doyle as Vice Chairman of the Board; and Peter R. Wilde as Chairman of the Finance Committee.

Although these men will not formally assume their duties until the January 1972 Board of Governors meeting, the Board's unanimous approval of their nomination is tantamount to election.

Peter C. Barnes, President and Treasurer of H. O. Peet & Co., Inc., Kansas City, has served this year as Chairman of the National Business Conduct Committee and Chairman of the Automation Committee. He is also a member of the Executive Committee, Committee on Financial Reporting, Committee on Capital Standards, and is on the Board of Directors of the National Clearing Corporation.

During this year, Maurice Schwarz, Jr., Senior Vice President of Sutro & Co. Incorporated, in Los Angeles, served as Vice Chairman of the NASD's National Business Conduct Committee.

J. Robert Doyle, President of Doyle, O'Connor & Co., Inc., in Chicago, Illinois, has been active during 1971 as Chairman of the NASDAQ Committee and Chairman of the Committee on Capital Standards. In addition, he is a member of the Information Committee, the Trading Committee and the Automation Committee.

As Agency Vice President of Connecticut General Life Insurance Company and a Director of CG Equity Sales Company in Bloomfield, Connecticut, Peter R. Wilde is serving as a representative of the insurance industry on the NASD Board. This year he is Chairman of the Retirement Plan Review Committee, as well as a member of the Investment Companies Committee, the Variable Contracts Committee, the Long Range Planning Committee, and the Automation Committee.

These four men will serve until January of 1973, when their terms as NASD Officers as well as members of the Board of Governors will expire.

NASDAQ VOLUME SECOND ONLY TO BIG BOARD

In a recent speech before the annual Management Conference of the Association of Stock Exchange Firms, NASD President Gordon Macklin revealed that based on preliminary studies, the volume of shares traded on NASDAQ consistently exceeds the total volume on all other registered stock exchanges combined, except the New York Stock Exchange. NASDAQ weekly volume, according to Macklin, is approximately four million shares higher than all other combined exchanges, again with the exception of the New York Stock Exchange. The NASDAQ daily volume averages about one-half the New York Stock Exchange daily volume.

Choosing a particular day at random, Macklin also noted that the volume in the ten most active NASDAQ stocks ranged from a low of 42,300 to a high of 244,800 shares traded.

President Macklin disclosed that NASDAQ volume information probably would be available to the wire services by November 1, 1971.

NCC Pilot Project Scheduled for Fall

The National Clearing Corporation, an NASD subsidiary created to develop and implement a nationwide continuous net clearing system for the OTC market, will begin a pilot project this fall to test its new clearing system. This project is the first step in adapting the National OTC Clearing Corporation in New York to the NCC's clearing system.

Last August, NCC acquired the NOTC in order to facilitate the introduction of its continuous net clearing system into New York. The NOTC clears and settles OTC transactions for about 250 members.

Eleven NOTC members are expected to participate in the pilot project, during which OTC securities transactions between these firms will be settled and cleared via the NCC system. It is estimated that the OTC transactions between these firms will amount to approximately 500 per day. The eleven firms that have volunteered for the project are:

Doyle, O'Connor & Co. Inc.
Eastman Dillon, Union Securities & Co.
Greene & Co.
W. E. Hutton & Co.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Mitchum, Jones & Templeton, Inc.
New York Hanseatic Corporation
Reynolds Securities, Inc.
G. A. Saxton & Co., Inc.
Shields & Co.
Singer & Mackie, Inc.

The pilot project will continue until the system is working effectively. After the pilot project, NCC will begin converting other members of the NOTC to the continuous net system.

Acting on recommendations contained in a study conducted by the Arthur D. Little Corporation, the NCC has been designing its continuous net system—the system which the study stresses would be the most efficient and most economical for the OTC market. It has been estimated that the continuous net system will reduce actual deliveries by 60 percent.

Main features of the continuous net system are: (1) All settlements, receipts, and deliveries of securities will be made directly with an NCC clearing center, rather than between clearing members. (2) Members will be sent a daily statement indicating money and securities either owed to the NCC or credited to the firm. (3) NCC will also provide dividend accounting and processing of transfer instructions. (4) All open securities positions will be marked to the market daily.

To date, NCC has completed programming for the system and has developed rules and procedures. The organization has also been working closely with the Banking and Securities Industry Committee to determine how the continuous net clearing system can best be interfaced with the planned nationwide securities depository system.

As of October 1, 1971, the NCC headquarters in New York will be at 2 Broadway. At that time NCC personnel will start moving into this location, and the first IBM 360/40 will be installed. Shortly afterwards, the planned pilot project will begin.

Self-Underwriting Rules Approved by Membership

The NASD membership has approved changes in the Association's By-Laws which have allowed the Board of Governors to adopt self-underwriting rules and rules relating to other offerings of a member's securities. These rules, which will become final barring disapproval by the Securities and Exchange Commission, will protect the public from lack of arms-length bargaining in setting an offering price and from possible conflicts of interest in the distribution of members' securities.

J. Coleman Budd, NASD chairman, viewed passage of the By-Law amendments as a forward step within the industry. According to Budd, the new rules will have the twofold effect of providing a method of raising capital for the industry, while at the same time insuring investor protection.

NASD to Test Inclusion of All Listed Stocks on NASDAQ

The NASD Board, at its recent meeting in Colorado Springs, concluded that the results to date of its study of having listed securities on NASDAQ warranted the extension of the test period to include an expanded number of issues beyond the 33 stocks that have been under examination. Consequently, the Board approved adding to the NASDAQ system on a test basis any listed issue in which two firms register as a market maker, providing the issue meets all other NASDAQ qualifications.

This expanded test will begin on October 18 and continue for a three month period until January 14, 1972 with the listed securities remaining in the system after that date, pending an analysis of the test results and a final determination by the Board of the effect on the public, exchange markets and third market trading patterns.

The scope of the expanded study will include an examination of short sale activities of third market makers, block purchases and sales activities within the third market, and purchases or sales affected on exchanges by third market firms for the purpose of adjusting their positions.

The expanded study will also embrace all of the considerations and factors that have been under study for the past three months on a selected but limited list of 33 exchange securities. These factors were: (1) the size and significance of over-the-counter trading of listed securities; and (2) an analysis of changes which may have occurred as a result of including listed issues in the NASD automated quotation system. The latter objective requires a comparison of exchange and OTC markets in listed stocks prior to the implementation of the NASDAQ system. The NASD Board believed that it was desirable to open the NASDAQ system to all eligible listed securities for the test period in order to have inclusive data on which to base its final determination.

NASDAQ has been in operation since February 8, 1971—electronically providing quotations on OTC securities to investors, brokers, traders, and market makers. The NASDAQ system, at present, provides instantaneous bid and ask quotations on approximately 2800 OTC stocks and ties together the brokerage community through a network of high speed transmission lines and terminals so that the prices of all of the firms making a market in a NASDAQ security are immediately available to retail broker/dealers throughout the country. Members of the public and newspapers have access to a representative bid and ask price computed instantaneously by NASDAQ throughout the day as well as various industry indices on the stocks in the system. NASDAQ volume figures are expected to be released to the public along with closing bid and ask prices through the wire services by November 1, 1971.

During the past three months, 33 securities which are listed on national and regional stock exchanges have been included in NASDAQ on a test basis. As a

result of the Board's decision, this test will be continued and opened to all securities listed on any exchange that meet the following criteria:

- (1) The security must be an equity security.
- (2) The issue must meet similar qualifications as those required under Section 12(g) of the Securities Exchange Act of 1934.
- (3) The issuing company must have over one million dollars in assets.
- (4) There must be a public distribution of at least 100,000 shares.
- (5) The minimum bid price must be \$3.00 or more.
- (6) There must be two or more NASDAQ market makers registered in each security.

The expanded test period and study of the effect of including these securities in NASDAQ is a necessary prelude to the Board's final consideration of whether or not the system should carry any and all stocks that meet its criteria.

**Ralph L. Gustin
Chosen NASD Governor**

Ralph L. Gustin, Jr., Senior Vice President and General Counsel for John Hancock Mutual Life Insurance Company in Boston, Massachusetts, was elected in August to a three-year term as an "At Large" Governor on the NASD Board. Mr. Gustin was appointed so the NASD could benefit from his experience in the life insurance industry and his background in insurance equity products.

Mr. Gustin serves as Chairman of the Task Force on Variable Life Insurance, a joint effort of the American Life Convention and the Life Insurance Association of America. The Task Force is charged with studying variable life insurance and discussing this new insurance company product with the Securities and Exchange Commission.

Active in insurance industry organizations, Mr. Gustin is currently Chairman of the Joint Committee on the Practice of Law and serves on the Subcommittee on Variable Contracts and Separate Accounts, American Life Convention—Life Insurance Association of America. He is a member of the Legal Section of the American Life Convention and has served as a member of the Executive Committee of the Association of Life Insurance Counsels.

Prior to his position with John Hancock, Mr. Gustin was in private law practice in San Francisco. His practice included extensive experience with securities law.

He is a member of the Bar of the United States Supreme Court, the State Bar of California and the Massachusetts Bar. As a member of the American Bar Association, he serves on numerous committees, including the Committee on Life Insurance Law and the Committee on Corporation, Banking and Business Law.

He received his undergraduate degree from Harvard College and his degree in law from Harvard Law School.

**NASD Backs Payment
Plans for Oil
And Gas Programs**

The NASD has asked the Federal Reserve Board to reconsider a recent determination made by its staff and the staff of the Securities and Exchange Commission that would, in effect, prevent broker/dealers from selling oil and gas programs with periodic or deferred payment provisions.

The NASD said that in April the SEC stopped approving broker/dealer distribution of any new oil and gas programs with deferred payment plans, but did not stop the sale of plans already in effect.

In a letter to the FRB, the Association pointed out that for the past 15 years NASD members have been marketing these oil and gas interests which are covered by prospectuses specifically disclosing the details of the payment provisions.

It was the opinion of the Federal Reserve and SEC staffs that, because payment in full is not made immediately for these oil and gas programs, the broker/dealers distributing them are actually arranging credit for the investor in violation of Regulation T of the Federal Reserve Board. However, the Association emphasized that these same deferred payment oil and gas programs, if sold directly by the development company, would not be considered illegal or in violation of Regulation T.

The NASD believes that Regulation T should not be applied to the periodic payment plans of oil and gas programs because the public interest would be adversely affected by limiting the availability of this type of security. This new SEC staff determination could also drastically change the oil and gas industry's financing methods.

The Association said that the oil and gas industry does not want or need the full payment of investor monies until land is acquired and drilling begins, but rather needs the assurance that enough funds will be available for these activities. Thus investors, required to pay in full at the time of purchase, are forced to needlessly tie up capital.

The Association also stated that this recent interpretation of Regulation T was not intended by Congress when it passed the Securities Exchange Act of 1934, which is the underlying legislative authority. The Congressional intent was to prevent extensive use of credit for the purchase or carrying of securities and to protect small investors from overspeculation by making it difficult for them to acquire securities on thin margin. Additionally, Congress sought to prevent undue fluctuation in the securities markets and to provide a means of stabilizing the economy generally through limitations on a broker/dealer's ability to extend credit.

The Association also pointed out in the letter to the FRB that members of the Association that sell interests in oil and gas programs do not participate in setting the payment provisions covered in the prospectus. The Association argued that the oil and gas industry should not be prevented from utilizing the marketing and distribution of the securities industry merely because the prospectuses for these programs contain deferred payment provisions which are separated from the control, interest and responsibility of broker/dealers. In the past, the NASD said that availability of these programs through broker/dealers appeared to serve the interests of investors rather than work against them.

The Association of Stock Exchange Firms recently published an operations handbook for brokerage firms. The handbook, "Solutions to Operations Problems in Stockbrokerage Firms," was prepared by the ASEF in consultation with Lybrand, Ross Bros. & Montgomery.

It is based on actual case histories from firms that have used techniques which have had positive results in solving operations problems. The handbook contains more than 125 pages of procedures, suggestions, and illustrations. Included are chapters on: Money Management, Cashier's Department, Stock Record, and Planned Approach to Analyzing Data Processing Requirements. In addition there are chapters on Purchases and Sales, Order Department, Credit, Fail Control and Receive and Deliver, Box Section, Money Cage, Stock Record, Dividend Department and Transfer.

The cost of the handbook is \$15 for ASEF members and \$30 for non-members. It can be ordered from Mr. John J. Quirke, Association of Stock Exchange Firms, 120 Broadway, New York, New York 10005.

**Operations Handbook
Published By ASEF
Is Now Available To
NASD Member Firms**

BASIC Proposes Uniform Forms

The Banking and Securities Industry Committee recently distributed for comment a proposal which would standardize transfer instruction, delivery tickets, comparisons, and reclamation forms within the banking and securities industries. BASIC has recommended that the uniform forms which it has developed be adopted by July 1, 1972, by the financial community.

In explaining its proposal, BASIC stated that the use of standardized forms, rather than the wide variety of forms now in use, will lead to ease of extracting securities transaction information. This in turn, according to BASIC, should save time in processing securities transactions and should reduce errors made by brokerage firm and bank personnel. BASIC further stressed that the proposed forms will not only facilitate processing transactions in the immediate future, but will also be "essential if machine-to-machine transmission and processing is to take place."

Copies of the BASIC proposal can be obtained from the Uniform Practice Committee, National Association of Securities Dealers, 17 Battery Place, New York, New York 10004. The Uniform Practice Committee would appreciate comments on the proposal from NASD members. These comments should also be directed to the above address.

IMPORTANT NOTICE FOR NASDAQ LEVEL I USERS

October 1, 1971

Dear Level I User:

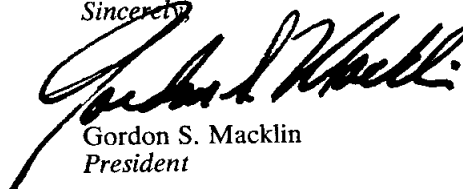
The recent interruption of NASDAQ Level I Service has been followed by a period of mediation and conciliation between the parties and subsequent meetings, under NASD auspices, between all Level I Distributors to discuss this matter.

As a result of the discussions, it became clear that certain NASD members may not be entirely without fault. Individuals apparently have experimented with key combinations on Level I receivers and may have manipulated the internal workings of Level I devices in order to obtain Level I Service on terminals not authorized to receive it. Any tampering or illegal receipt of the Service by our members should be stopped immediately since they involve violation of the Association's Rules of Fair Practice as well as provisions of Schedule D of the By-Laws.

In order to be certain that this activity be eliminated, examiners from the Association will routinely include as part of their examination agenda inspection of all terminals capable of receiving Level I Service. If the examination demonstrates manipulation of any kind, it may result in complaint action against the individual and possibly against the member if it appears that it has not taken steps to supervise properly in this respect. In this connection, I also ask that you notify District Directors of the Association of any instances of misuse of terminals which come to your knowledge.

Overall, the entire System is functioning very well. Your cooperation with the Association has contributed greatly to System efficiency. Your continued cooperation in this matter will also be greatly appreciated.

Sincerely,



Gordon S. Macklin
President