

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

January 6, 1972

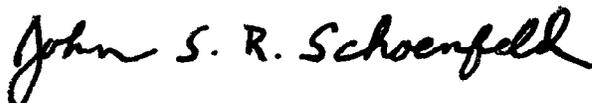
To All NASD Members:

The NASD's Uniform Practice Committee has determined that members may use the immediate close-out procedures under Section 59h of the Uniform Practice Code for open trades with

F. O. Baroff Company, Inc.  
15 Maiden Lane  
New York, New York 10038

Please refer to 59h for the detailed procedure. Questions regarding this notice may be directed to the NASD Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 212-269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

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REGULATION

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

January 12, 1972

To: All NASD Members

Re: F. O. Baroff Company, Inc.  
15 Maiden Lane  
New York, New York 10038

Mid-Continent Securities Co., Inc.  
200 W. Douglas - Ste. 700  
Wichita, Kansas 67202

E. P. Seggos & Co., Inc.  
79 Wall Street  
New York, New York 10005

It has come to the attention of the Uniform Practice Committee of the National Association of Securities Dealers, Inc. that trustees have recently been appointed for the above-mentioned firms. Pursuant to this, the Committee has ruled that members may avail themselves of the immediate close-out procedure as provided in Section 59(h) of the Uniform Practice Code. All money differences and other matters of business should be taken up with the below named trustees.

For: E. P. Seggos & Co., Inc.  
Trustee: Clark J. Gurney  
Roth, Carlson, Kwitt, Spengler  
& Goodell  
280 Park Avenue  
New York, New York 10017  
Telephone: (212) 682-4444

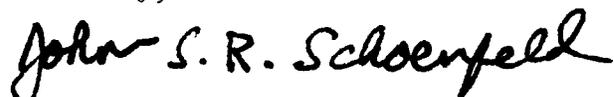
For: Mid-Continent Securities Co., Inc.  
Trustee: Thomas R. Brunner  
222 Brown Building  
Wichita, Kansas 67202  
Telephone: (316) 263-9363

On January 6, 1972, the Association advised members that they may utilize the provisions of Section 59(h) of the Uniform Practice Code in the case of F. O. Baroff Company, Inc. The Committee has been advised that the trustee for the Baroff firm is as follows:

For: F. O. Baroff Company, Inc.  
Trustee: Edward S. Davis  
Hughs, Hubbard & Reed  
One Wall Street  
New York, New York 10005  
Telephone: (212) WH-3-6500

Questions regarding the above may be directed to the Uniform Practice Department, NASD, Inc., 17 Battery Place, Room 1325, New York, New York 10004 - (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

Mr. Gilleran

Please Post

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 4, 1972

To: NASD Members

We are listing below the NASD 1972 Schedule of Holidays. When a decision has been reached as to whether the major markets will be open or closed on Good Friday, March 31, and Election Day, November 7 (marked with an asterisk), we shall inform you promptly.

Although October 9 (Columbus Day) and October 23 (Veterans' Day) are legal holidays, the markets will be open and all NASD offices will be staffed sufficiently to handle service calls and inquiries.

February 21	Washington's Birthday
March 31*	Good Friday*
May 29	Memorial Day
July 4	Independence Day
September 4	Labor Day
November 7*	Election Day*
November 23	Thanksgiving Day
December 25	Christmas Day

*John S.R. Schoenfeld*

John S.R. Schoenfeld  
Executive Vice President

~~EDM~~

**NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 7, 1972

To: All NASD Members

Re: John E. Samuel & Co.  
76 Beaver Street  
New York, New York 10005  
Telephone: (212) BA 7-9600

The NASD's Uniform Practice Committee has been advised that a receiver has been appointed for the above-mentioned member. Pursuant to this, the Committee has determined that members may use the immediate close-out procedures under Section 59 (h) of the Uniform Practice Code for open transactions with the Samuel firm.

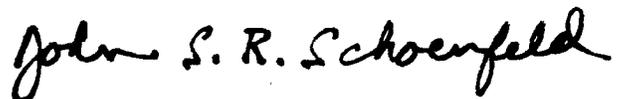
All money differences and other matters of business should be taken up with the receiver, Mr. Henry J. Smith, in care of the address of the Samuel firm.

Mr. Smith is associated with the law firm of:

McCarthy, Fingar, Gaynor & Donovan  
175 Main Street  
White Plains, New York 10601  
Telephone: (914) 946-3700

Please refer to Section 59 (h) for the detailed procedures. Questions regarding this notice may be directed to the NASD Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

See other side

SECURITIES PROTECTION FORUM  
March 7, 9:30 a.m. to 5:00 p.m.

Presented last year, this annual SECURITIES PROTECTION FORUM will be scheduled again on March 7th. This one-day seminar will be held at the Bankers Club, where you will meet law enforcement officials, brokerage operations consultants and exchange officials.

Among the topics discussed will be recent legislation providing member firms with access through New York State agencies to the finger print files of the FBI. In addition, the recent McClellan Committee hearings regarding stolen securities will be discussed.

The luncheon speaker will be Richard B. Howland, Executive Vice President, New York Stock Exchange. Frank Zarb, Assistant Secretary of Labor and former Executive Vice President, CBWL-Hayden, Stone Inc. will be the opening speaker.

James O'Neill, Co-Chairman of the Joint Industry Committee on Security Protection, American Stock Exchange, will act as Moderator. Other participants scheduled for the seminar are:

Eli Weinberg - Lybrand, Ross Bros. & Montgomery; Gerard McDavitt - Merrill Lynch, Pierce, Fenner & Smith, Inc.; Lt. Thomas Dolan - New York Police Department; Harry Hack - Marsh & McLennan Inc.; Walter Smock - Vice President, SCI-TEK; William Barry - President, Smith & Wesson, Security Services.

The registration fee is \$150 per person, including luncheon. If you have questions about this program, please phone Robert E. McGrath, Assistant Vice President, New York Institute of Finance, (212) 422-9835.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 15, 1972

To All NASD Members:

Re: S. J. Salmon & Co., Inc.  
77 Water Street  
New York, New York 10005  
Telephone: (212) 422-1700

The NASD's Uniform Practice Committee has been advised that a trustee has been appointed for the above-mentioned firm. Pursuant to this the Committee has determined that members may use the immediate close-out procedures under Section 59(h) of the Uniform Practice Code for open transactions with the Salmon firm.

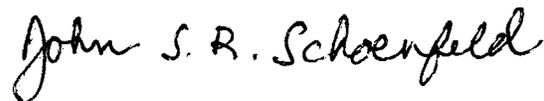
All money differences and other matters of business should be taken up with the trustee, Mr. John C. Fontaine, in care of the address of the Salmon firm.

Mr. Fontaine is associated with the law firm of:

Hughs, Hubbard & Reed  
One Wall Street  
New York, New York 10005  
Telephone: (212) WH 3-6500

Please refer to Section 59(h) of the Uniform Practice Code for the detailed close-out procedures. Questions regarding this notice may be directed to the NASD's Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

*Parriello*

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 15, 1972

## I M P O R T A N T

To Selected NASD Members:

On February 1, 1972 a Joint Industry Committee, of which the Association is a member, recommended to the Securities and Exchange Commission an alternative method of protecting customers' funds and securities. This recommendation was submitted by the Committee in response to the Commission's invitation to all interested persons to submit their views and comments on its November 8, 1971 proposal to adopt Rules 15c3-3 and 15c3-4 under the Securities Exchange Act of 1934 and to amend Rules 8c-1 and 15c2-1 under that Act. As stated in a December 15, 1971 Notice to Selected NASD Members, the purpose behind the Commission's proposed rules is to afford as complete protection as possible to customers by the establishment of reserve requirements and otherwise with respect to their funds and securities in accordance with the intent of Congress (as mandated by Section 7(d) of the Securities Investor Protection Act of 1970), without depriving the industry of necessary and legitimate means to carry on customer oriented business.

Although the Association agrees in principle with the concept underlying the Commission's efforts to improve customer protection, it concluded from a survey of approximately 1,300 members that the countless operational difficulties involved in implementing the mechanics of these proposals would negate the potential benefits to be derived. From both the number and substance of comments received by the Association on these proposals, it appears that there are many in the industry who also share this same view.

In response to the problems cited above, a Joint Industry Committee on Reserves for Customer Balances and Segregation of Securities was formed to develop an acceptable alternative to the Commission's proposal. In addition to the Association, the Committee includes representatives of the American, Midwest, New York, and Pacific Coast Stock Exchanges, the Security Industry Association, and six major firms. In formulating its recommendation, the Committee developed an all-inclusive cash reserve formula which it believes will provide a level of protection at least equivalent to the Commission's proposal. In using data which is readily available and consistent with the method of operation of many members, the Committee is of the opinion that its formula could be implemented within the near future and would not require the expenditure of substantial sums for the creation of new accounting procedures.

The Committee concluded that the SEC proposal did not sufficiently take into consideration the interfacing of the various components of the regulatory scheme and the corrective measures which have been adopted and built into the conduct of the business of a broker-dealer since the crisis years of 1967 through 1970. In addition, the Committee is of the view that its alternative proposal complies with the aforementioned Congressional mandate and as such extends the scope of existing customer protection. In view of the fact that the Committee's formula is based upon information which, subject to minor exceptions, is and will be readily available on a daily basis, a daily computation of and contributions to the reserve is made possible. Consequently, customers are protected against any time lag inherent in a system, such as the SEC's recent proposal, which is based primarily on a monthly calculation. In addition, at the request of the NASD the Committee also recommended to the Commission that appropriate provisions, to be determined later, should be made for small broker-dealers who because of their unique position would encounter considerable difficulty in making daily calculations of the reserve formula.

Under the Commission's proposal, it is envisioned that customers' property would best be safeguarded by the establishment of three separate reserve accounts. Proposed SEC Rule 15c3-3 would require the maintenance of a "Special Account for the Exclusive Benefit of Customers" and a "Cash Reserve Bank Account". Proposed SEC Rule 15c3-4 would require the maintenance of a "Security Reserve Bank Account". Under the Committee's proposal there is only one reserve account with the amounts required to be set aside therein computed on the basis of a single all-inclusive cash reserve formula.

For the review of each member, the Committee proposed formula is attached to this notice. Basically, the excess of a member's credit items over his debit items constitutes the proposed reserve requirement. This reserve could be funded by either deposits of cash or qualified securities and would be designated for the exclusive benefit of a broker-dealer's customers. A detailed explanation of each component and the reason for its inclusion in the formula is contained in the Committee's statement to the Commission. All requests for copies of the statement should be directed to: NASD, c/o the Regulation Department, 1735 "K" Street, N. W., Washington, D. C. 20006.

In summary, the Committee believes that its formula approach toward customer protection is more compatible with the operational programs and systems found in the industry today. In this connection, the Committee believes that its recommended alternative proposal will afford improved protection to customers of a broker-dealer without the danger of the impairment or the breakdown of advanced technological improvements in operations.

In concluding its comments to the Commission, the Committee stated that the SEC's proposed implementation date of April 1, 1972 is totally unrealistic because of the massive operational problems described

in its report. Further, the Committee suggested that any revision of the proposals deemed necessary by the Commission would warrant republication and a new request for comments. Finally, it was suggested that, concurrent with the adoption of the new reserve rule, appropriate revisions to the capital rules should be considered in order to eliminate duplication.

Should you have any comments or questions regarding the Committee's statement to the Commission or proposed formula, please contact either Mr. Gerard F. Foley at (202) 833-7320 or Mr. Robert L. Smith at (202) 833-7350.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gordon S. Macklin".

Gordon S. Macklin  
President

Attachment

COMPONENTS OF THE ALL-INCLUSIVE CASH RESERVE FORMULA

	<u>DEBIT</u>		<u>CREDIT</u>
1. Customer net debit or net credit balances	\$XXXXX	or	\$XXXXX
2. Customer unsecured accounts			XXXX
3. Deficits in customers' partly secured margin accounts and non-bona fide cash accounts			XXXX
4. Monies borrowed collateralized by customers' securities			XXXX
5. Drafts payable to customers and bank overdrafts			XXXX
6. Drafts receivable based on securities deliveries	XXXX		
7. Securities borrowed	XXXX		
8. Securities loaned			XXXX
9. Fails to deliver	XXXX		
10. Fails to receive			XXXX
11. Proprietary short positions			XXXX
12. Market value of stock dividends receivable over 30 days			XXXX
13. Short market value of security differences over 45 days			XXXX
14. Suspense account short positions and credits over 45 days			<u>XXXX</u>
	<u>\$ XXXX</u>		<u>\$XXXXX</u>
Excess of credits over debits constitutes the amount of the reserve			<u><u>\$XXXXX</u></u>



# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 18, 1972

To: All NASD Members and Interested Persons

Re: Proposed Rule of Fair Practice  
Concerning Best Efforts Underwritings

The Board of Governors of the Association has recently proposed a rule of fair practice which would have for its purpose the establishment of a system of regulation and procedures for the distribution of offerings made to the public on a best efforts basis. This proposed rule is being published by the Board at this time to enable all interested persons an opportunity to comment thereon. Such comments must be in writing and be received by the Association by March 19, 1972, in order to receive consideration. After the comment period has expired, the proposal must again be reviewed by the Board. Thereafter, the proposed rule must be submitted to the membership for a vote. If approved, the proposed rule must be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

## Explanation of Proposed Rule

The proposed rule results from a study made by the Association because of what appeared to be improper activity in connection with the distribution of certain best efforts underwritings and secondary market trading in them. Though proof is difficult, the Association developed data which has led its Board of Governors to conclude that in certain situations, primarily involving small, low-priced, speculative best efforts distributions, some underwriters have subsidized or had agreements with market makers which have created an artificial demand for the securities which were the subject thereof. This was accomplished by maintaining strict control over the supply of shares in the market by refusing to deliver to purchasers in the offering and by discouraging or refusing to accept sell orders entered by their own customers. Thus, it appeared to the Board that in a significant number of cases the underwriter was able to have an aftermarket price

established and maintained at a predetermined or continuously increasing level. This was apparently done while the distribution was still in process for the purpose of assisting the underwriter in disposing of the securities which were the subject thereof. In some cases, after the distribution had been completed the inflated price was maintained for the purpose of assisting the underwriter in selling his next speculative issue by pointing to the success of the earlier one.

Essential to the successful consummation of this scheme is the unavailability of the certificates representing the shares sold in the offering and the ability of broker/dealers to make a market and publish quotations while the distribution is still taking place or, where the distribution has been completed, prior to the time certificates have been distributed to purchasers. In many cases certificates were not made available for several months after the offering had been completed. By not making these shares available they could not be disposed of by purchasers through other broker/dealers due to the strictures of the Association's Prompt Receipt and Delivery Interpretation (page 2036 of the Association's Manual) which prohibits a member or associated person from executing a customer's sell order unless the criteria spelled out therein have been satisfied. As noted, the distributor would discourage or refuse to permit his customer to sell the shares through him. The purchasers were, therefore, effectively prevented from taking advantage of aftermarket prices thereby enabling those prices to remain at artificially inflated levels. In some cases the distribution had not been completed and was even "sticky" (sometimes it took several weeks) yet there were premium bids. If the purchasers had their shares in their possession it is not unlikely that a significant percentage of them would have attempted to take advantage of such. The result of that would be greater difficulty for those so inclined to continue the inflated, artificial prices.

Without any reference to the quality or merits of a particular issue, the Association believes it has an obligation to insure the maintenance of bona fide and orderly markets and to protect investors from being lured into purchasing securities of a speculative new issue by relying upon an inflated published market. The solution to the problem, therefore, lies in making the certificates representing the securities sold available to purchasers at the earliest practicable time after trading commences (if they had their securities to sell the quotations could not remain at inflated values unless there were a corresponding demand for them) and to restrict trading activities and the publication of quotations until after termination of the offering (false quotations could not cause purchases of the new issue securities).

The proposed rule, therefore, prohibits trading in the secondary market or the publication of any quotations for any security which is the subject of a best efforts offering until a formal notice of release of the issue for trading has been filed with the District Committee of the Association in the District where the underwriter's main office is located. Simultaneously with such filing the offering will be required to be discontinued except for the purpose of replacing previously confirmed transactions at the public offering price subsequently cancelled. The rule also requires that such notice shall specify the date and time of release, the total number of shares, units or other appropriate designation of certificates representing the completed offering and a copy of the prospectus relating to the offering. It also specifies that notwithstanding the number of shares registered as part of the offering the size of the distribution shall be limited to and fixed at no more than the number of shares specified in the notification filed with the Association's District Office. This restriction on the number of shares would thus fix the size of the offering as of the number of shares sold by that date.

Also, the rule requires that within seven days of the date of filing of the notice of release settlement shall be effected by the underwriter with the issuer and certificates shall be placed in the mails or otherwise delivered in negotiable form to all of the purchasers. All purchasers at the original public offering price would, therefore, have the opportunity of reselling their securities immediately if they so desired and a market would not be permitted to develop or be quoted where no supply of securities existed. If, in fact, a premium market immediately developed purchasers would be able to take advantage of the higher price and liquidate their securities if they so desired since they could sell through any broker/dealer if the underwriter refused to execute their orders. It is anticipated, therefore, that the normal forces of supply and demand would have a better opportunity to stabilize the price at a proper level regardless of whether that was above or below the offering price.

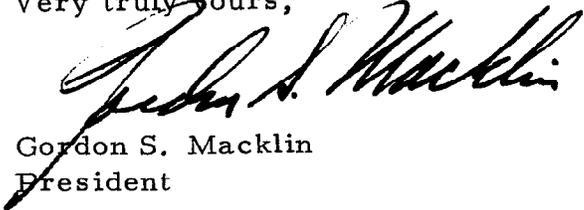
As noted, the rule requires that within seven days of the filing of the notice the certificates to be mailed to the original purchasers. Further, however, the rule would require that each confirmation of sale at the public offering price to the purchaser would contain a notice to the purchaser advising that the securities would be so delivered unless the customer originates, after receipt of such notice, written instructions to the contrary identifying the issue and specifying the alternative distribution of the certificates. Thus, the rule would require that the delivery of the certificates could not be avoided other than as a result of a purchaser's instructions in writing originated by him.

Provisions of the rule contained in subparagraph (f) would make the same provisions applicable to an issuer distribution or to a distribution by a non-member of the Association by preventing members from trading such securities in the aftermarket or publishing quotations in respect to such unless the issuer and/or the non-member underwriter has undertaken in the prospectus to comply, and has complied and will continue to comply, with all of the provisions of the rule to the same extent as though he were a member of the Association.

Admittedly, if the distribution took several days or weeks to complete, purchasers would in effect be locked into their investment until the issue was released by the underwriter for trading. The Board believes, however, that the alternate situation described above is so inimical to the public interest that best efforts distributions must be regulated as suggested herein and that the beneficiary of this regulation, notwithstanding the temporary "lock-in," is the purchaser, that is, the public.

All interested persons are invited to submit their views and comments to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, Inc., 1735 K Street, N. W., Washington, D. C. 20006, on or before March 19, 1972. All communications will be considered available for inspection.

Very truly yours,



Gordon S. Macklin  
President

PROPOSED RULE OF FAIR PRACTICE  
CONCERNING BEST EFFORTS UNDERWRITINGS

(a) Definitions

For the purposes of this section the following words shall have the stated meanings:

- (1) Best efforts offering -- an agreement between an issuer and an underwriter to distribute a new issue of securities but in respect to which the underwriter's obligation to distribute is limited, in whole or in part, to using his best efforts.
- (2) Tax sheltered program -- a program offered to the public in which flow-through tax benefits are a material factor to the investor regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate syndications (except real estate investment trusts), citrus grove developments, cattle programs and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof.
- (3) Prospectus -- shall have the meaning given to that term by Section 2(10) of the Securities Act of 1933; provided, however, that such term as used herein shall also include an offering circular as required by Rule 256 of the General Rules and Regulations under the Securities Act of 1933 and in the case of an intrastate offering any document, by whatever name known, which is required by any state in connection with the offering of securities to the public.

(b) The provisions of this section shall apply to all best efforts offerings and to all offerings made by an issuer without the services of an underwriter; provided, however, offerings of units of tax sheltered programs, shares of investment companies registered with the Securities and Exchange Commission pursuant to the provisions of the Investment Company Act of 1940, as amended, and units of a separate account as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended, shall be exempt from the provisions hereof.

(c) Before the securities of an offering subject to the provisions hereof may be traded by a member in the secondary market, or before a member may publish any quotation or bid for any security which is or has been part

of such an offering, a "Notice of Termination and Release of Issue for Trading" shall be filed with the District Committee in the District where its main office is located. Such notice shall specify that the offering has been terminated as of the time of the filing of the notice (except for the purpose of replacing previously confirmed transactions at the public offering price subsequently cancelled), the date and time of release of the issue for trading, and the total number of shares, units or other appropriate designation of certificates representing the completed offering. Such notice shall also be accompanied by a copy of the prospectus relating to the offering. Notwithstanding the number of shares registered as part of the offering, the size of the offering shall be limited to and fixed at no more than the number of shares specified in the notification filed with the Association's District Office.

(d) Within seven calendar days following the date of the filing of the notice of release of the issue for trading settlement shall be effected and certificates shall be placed in the mails or otherwise delivered in negotiable form to all original purchasers of the issue at the public offering price unless the purchaser has specified otherwise as provided in paragraph (e) of this section.

(e) A member who participates in an offering subject to the provisions of this section shall deliver to the purchaser with each confirmation of sale at the public offering price a notice which advises the purchaser that certificates will be delivered as provided in paragraph (d) hereof unless the customer originates, after receipt of such notice, written instructions to the contrary identifying the issue and specifying the alternative disposition of the certificates.

(f) In those cases where a non-member issuer is making a distribution of an issue of securities subject to the provisions hereof without the services of an underwriter, or where the underwriter is a non-member of the Association, no member shall trade such securities in the secondary market, nor shall a member publish any quotation or bid for any such security, unless the issuer and/or the non-member underwriter has undertaken in the prospectus to comply, and has complied and will continue to comply, with all of the provisions of this section to the same extent as though he were a member of the Association.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

March 3, 1972

To: All NASD Members and Interested Persons  
Re: Proposed Amendments to Schedule C of the By-Laws

Enclosed herewith is a Board of Governors proposal to amend Schedule C to the Association's By-Laws which is authorized by Article I, Section 2(d) thereof. The proposal is being published by the Board at this time to give all interested persons an opportunity to comment. Such comments must be in writing and be received by the Association by April 2, 1972, in order to receive consideration. After the comment period has expired, the proposal must again be reviewed by the Board for consideration of the comments made. As subsequently approved by the Board, the proposal must be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

## Explanation of Proposed Amendments

The proposed amendments would make both substantive and technical changes to Schedule C. Initially, it would designate the existing language of Part I thereof as paragraph (1) and reletter the subparagraphs thereof. It would also add to Part I new paragraphs (2) and (3) which are substantive in nature and impose new requirements on members. A new Part VI would also be added to Schedule C relating to the confidentiality of Qualification Examinations given to registered principals and registered representatives.

New paragraph (2) of Part I is designed to create a new class of "financial principals" and to establish higher qualification requirements for them over the requirements for an ordinary registered principal. The Board expects that these changes will result in improved controls being exercised over the financial operations of members. In the case of applicants for membership, paragraph (2)(a) would provide that every broker-dealer so applying must designate an officer, a partner, or himself in the case of a sole proprietor, as a "financial principal." The person so designated must successfully complete the special examination requirements described in subparagraph (ii) before the membership shall be

declared effective. With respect to existing members, paragraph (b) would provide that after an effective date to be determined by the Board of Governors, any person becoming registered as a principal with a member who will have specified financial responsibilities must be designated as a "financial principal." Also, any registered principal whose duties are changed by a member after the effective date to involve such matters would have to be designated as a "financial principal." In certain instances a person designated will be required to satisfy special examination requirements.

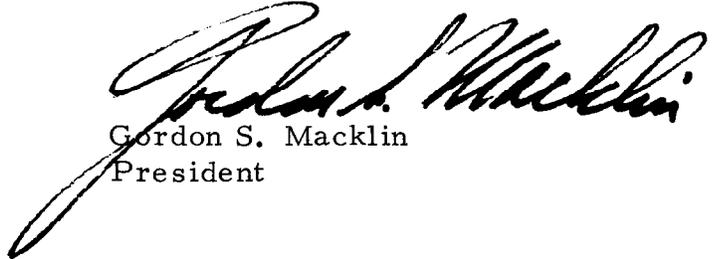
New paragraph (3) of Part I would provide, in substance, that an application for membership shall not be declared effective unless the applicant has at least two persons who have qualified to be registered as principals pursuant to the provisions of paragraph (1). The purpose of this provision is to prevent a firm from engaging in the securities business without a minimum number of qualified principals. The Board believes this normally should be more than one. The requirement would not, however, apply in the case of a sole proprietor applicant. Authority is also given to the President to waive the requirement for two registered principals in situations which indicate conclusively that only one person associated with a member should be required to register as such. This authority will be exercised very sparingly and is intended primarily to cover the family-type corporation which in many cases has a parallel to the sole proprietorship except for the corporate structure of the entity.

As noted, the proposal would add a new Part VI to Schedule C entitled "Confidentiality of Examinations." New Part VI would provide that any improper use of the Association's Qualification Examinations is a violation of the Association's Rules of Fair Practice. This amendment to Schedule C merely restates existing policy of the Association. It is being included in Schedule C to make unmistakably clear that the Board of Governors considers any breach of the confidentiality of the Qualification Examinations to be an extremely serious matter. Such breaches would include stealing an examination, copying one for later use, use by a person not associated with the original misappropriation to take an Association examination, use of such an examination to teach prospective examinees and any other misuse of any kind whatsoever.

Any comments should be addressed to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, Inc., 1735 K

Street, N. W., Washington, D. C. 20006, on or before April 2, 1972.  
All communications will be considered available for inspection.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Gordon S. Macklin". The signature is written in black ink and is positioned above the typed name and title.

Gordon S. Macklin  
President

New language is indicated by underlining.  
Deleted language is indicated by lining out.

PROPOSED AMENDMENTS TO SCHEDULE C TO THE BY-LAWS

Part I of Schedule C to the By-Laws of the Corporation shall be amended by designating the existing language thereof as paragraph (1), by relettering the subparagraphs thereof, by adding two new paragraphs (2) and (3) and by adding a new Part VI thereto as follows:

(1) Registration Requirements -- All persons associated with a member who are designated as Principals must be registered and must pass a Qualification Examination for Principals before their registration can become effective:

~~(1)~~ (a) Persons associated with a member, enumerated in ~~(a)-(e)~~ (i)-(v) hereafter, who are actively engaged in the management of the member's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member for any of these functions, are designated as Principals. Such persons shall include: ~~(a)~~ (i) Sole Proprietors; ~~(b)~~ (ii) Officers; ~~(c)~~ (iii) Partners; ~~(d)~~ (iv) Managers of Offices of Supervisory Jurisdiction, and ~~(e)~~ (v) Directors of Corporations.

~~(2)~~ (b) Any person who was registered with the Corporation on or before October 1, 1965, and designated as a Sole Proprietor, Officer, Partner, Manager of Office of Supervisory Jurisdiction or Director is not required to pass a Qualification Examination for Principals, subject to the provisions of paragraph ~~four~~ (d) ~~herein,~~ hereof.

~~(3)~~ (c) Any person associated with a member as a representative whose duties are changed by the same member after October 1, 1965, so as to require his classification as a Principal will be allowed a reasonable period of time following such change to pass a Qualification Examination for Principals.

~~(4)~~ (d) Any Principal whose most recent registration has been terminated for a period of two years or more immediately preceding the filing of a new application shall be required to pass a Qualification Examination for Principals.

(2) Registration of Financial Principals --

(a) New Members --

(i) Effective every broker and dealer making application for admission to membership must

designate with the Corporation an officer or partner, or himself in the case of a sole proprietorship, as a "Financial Principal." The duties of a "Financial Principal" shall include, but not necessarily be limited to, the actual preparation and/or approval of financial statements together with supporting schedules and net capital computations. The designation of a "Financial Principal" shall not relieve other persons of their responsibilities in this area of operations.

(ii) Before a broker or dealer shall be admitted to membership in the Corporation the designated "Financial Principal" must pass or have passed separately Parts I and II of a two-part Qualification Examination for Principals unless he is currently qualified to be registered as a principal pursuant to paragraph (1) hereof in which case he must pass Part II, only.

(iii) After a broker or dealer has been admitted to membership he must continue to have a designated and registered "Financial Principal" who must satisfy the requirements of subparagraph (b) hereof.

(b) Existing Members --

(i) Every member of the Corporation must designate with it as a "Financial Principal" any person becoming registered as a principal after \_\_\_\_\_ whose duties will involve the actual preparation and/or approval of financial statements together with supporting schedules and net capital computations as well as any person whose duties with a member are changed after the referred to date to involve such matters. If any such designated "Financial Principal" is required to take an examination pursuant to paragraph (1) hereof he must pass separately Parts I and II of a two-part Qualification Examination for Principals. If such "Financial Principal" is qualified pursuant to the provisions of paragraph (1) hereof but satisfied such requirement after the above date he must nevertheless pass Part II of the two-part Qualification Examination for Principals.

(ii) Any designated "Financial Principal" who was registered or qualified to be registered under paragraph (1) hereof on the above date and has been continuously so registered or qualified

since then shall not be required to take either Part of the two-part Qualification Examination for Principals unless such person becomes subject to the provisions of subparagraph (a) of this paragraph (2) in which case he shall be required to take Part II.

(3) Requirement of Two Registered Principals for New Applicants for Membership --

(a) An applicant for membership in the Corporation, except a sole proprietorship, shall have at least two officers or partners who are qualified to become registered as principals pursuant to the provisions of paragraph (1) or (2) hereof, whichever is applicable, before it shall be admitted to membership.

(b) The President of the Corporation may in situations which indicate conclusively that only one person associated with a member should be required to register as such, and upon a written request for such, waive the provisions of this paragraph (3).

VI

CONFIDENTIALITY OF EXAMINATIONS

The Corporation considers all of its Qualification Examinations to be highly confidential. The removal from an examination center, reproduction, disclosure, receipt from or passing to any person, or use for study purposes of any portion of such Qualification Examination, whether of a present or past series, or any other use which would compromise the effectiveness of the Examinations and the use in any manner and at any time of the questions or answers to the Examinations are prohibited and are deemed to be a violation of Article III, Section 1 of the Rules of Fair Practice.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

March 7, 1972

To: All NASD Members  
(This notice should be directed to operational officers)

Re: CUSIP Number

This is a follow up to the NASD notice dated August 13, 1971, concerning the possible mandatory use of the CUSIP number by member firms sometime in 1972.

The Board of Governors of the NASD has determined that the CUSIP number will be mandatory on Uniform Forms, developed by the Banking and Securities Industry Committee, in accordance with the following implementation schedule originally set by BASIC:

Transfer Instruction Form - September 1, 1972  
Delivery Ticket - December 1, 1972  
Comparison/Confirmation - December 1, 1972

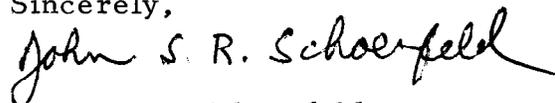
The above is not intended to limit the use of the CUSIP number to the three mentioned forms. CUSIP numbers may be used on any document where the security identification would be beneficial. Those communications and documents used by mutual fund dealers and underwriters must carry the CUSIP number by December 1, 1972. Other forms on which the CUSIP number will be mandatory may be added from time to time at a future date.

The Uniform Forms themselves, which are designed for use in all general securities transactions, are not to be used in mutual fund share transactions since they don't give all the information needed for that purpose.

It should be noted that the NASD District Offices (except New York) now have the CUSIP Directory and are prepared to furnish the required number to small firms. (Less than 12 transactions per day.)

Broker/dealers who are not CUSIP subscribers and wish to obtain information about this service should contact the Director of Marketing, CUSIP Service Bureau, Standard Statistics Company, Inc., 345 Hudson Street, New York, New York, 10014.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

March 14, 1972

To: All NASD Members

Re: Taxpayer Identification Number (TIN)  
(Social Security)

The Association has been asked by the Internal Revenue Service to cooperate in obtaining the Tax Identification Number from customers and in submitting these numbers on Transfer Instruction Forms.

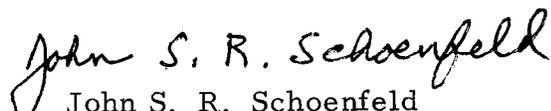
Approximately 20% of the Transfer Instruction Forms sent to transfer agents do not contain the Tax Identification Number. In an effort to increase the number of Transfer Instruction Forms which include the number, we would like to suggest that you review your procedures in order to obtain maximum response from your customers.

The NASD suggests that members utilize two basic procedures:

1. Members should request the TIN whenever a new customer opens an account, (irrespective of whether or not the securities are to be held in street name and also irrespective of whether the securities are income producing).
2. Members should include the TIN on all transfer instruction forms prepared by members and sent to the transfer agent.

The Association will appreciate all efforts made by the membership to cooperate with the above request.

Sincerely,

  
John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

March 16, 1972

To: All NASD Members ( Attention: Operational Officers)

Re: Murray, Lind & Co., Inc.  
One Exchange Place  
Jersey City, New Jersey 07302

J. R. Radin & Co. Inc.  
70 Wall Street  
New York, New York 10005

The Securities Investor Protection Corporation has appointed trustees for the above-mentioned firms. Pursuant to this, the Uniform Practice Committee has ruled that members may avail themselves of the immediate close-out procedure as provided in Section 59 (h) of the Uniform Practice Code. All money differences and other matters of business should be taken up with the below named trustees:

For: Murray, Lind & Co. Inc.

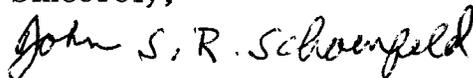
Trustee: Mark Hughs  
Kraft & Hughs  
Gateway #1  
Newark, New Jersey 07102  
Tel: 201-622-5656

For: J. R. Radin & Co. Inc.

Trustee: William W. Golub  
Rosenman, Colin, Kaye, Petschek, Freund & Emile  
575 Madison Avenue  
New York, New York 10022  
Tel: 212-688-7800

Questions regarding this notice may be directed to the National Association of Securities Dealer's Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 10004. Telephone 212-269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

57  
↓  
NOTICE TO MEMBERS:

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

57 March 20, 1972

To All NASD Members:

The Board of Governors has declared that the emergency conditions stemming from back office and "fails" problems still exist.

Thus, Emergency Rules of Fair Practice Nos. 70-1, 70-2 and 70-3 are still in effect. The full text of these Emergency Rules can be found on page 2005 of the NASD Manual.

This action was taken on the basis that conditions in the industry do not warrant discontinuance of the emergency.

The Emergency Rules will be in effect from March 22, 1972, and will remain in effect for a six-month period unless rescinded earlier by action of the Board of Governors.

Sincerely,



Gordon S. Macklin  
President

Note: The resolution of the Board of Governors regarding these Emergency Rules appears on the reverse side of this notice.

RESOLUTION CONTINUING EMERGENCY CAUSED  
BY FAILS AND BOOKS AND RECORDS PROBLEMS

WHEREAS, the Board of Governors has previously on September 20, 1971, declared an emergency to continue to exist as a result of the large number and dollar amounts of "fails to deliver" securities to a buyer and/or "fails to receive" securities from a seller and because of the lack of currency of books and records of many members of the Association, each of which factors has a potential adverse effect on a member's net capital position; and

WHEREAS, the conditions which gave rise to the previously declared emergency have not abated sufficiently to warrant a change in procedures at this time; and

WHEREAS, the Board of Governors of the Corporation has been informed of and/or has knowledge, and/or is aware of information which is indicative of the continuation of the previously declared emergency situation; and

WHEREAS, the Board of Governors believes that the said emergency condition continues to exist; and

WHEREAS, the National Association of Securities Dealers, Inc. is charged with the responsibility and function of carrying out the purposes of the Maloney Act, codified as Section 15A of the Securities Exchange Act of 1934, as amended, 15 U.S.C. 78o-3, et seq; and

WHEREAS, the aforesaid Act authorizes and requires rules of the Corporation to be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade and, in general, to protect investors and the public interest and to remove impediments to and perfect the mechanism of a free and open market and that they are not designed to permit unfair discrimination between customers, or issuers, or brokers or dealers; and

WHEREAS, pursuant to the provisions of Article VII, Section 1 of the By-Laws of the Corporation the Board of Governors is authorized to reassess the facts and circumstances which gave rise to an emergency previously declared to exist and to declare by resolution, if it deems such appropriate under the facts and circumstances then existing, the emergency to continue to exist for successive six-month periods as required;

NOW, THEREFORE, BE IT RESOLVED, that based upon information which has been supplied to and is before the Board, an emergency condition is hereby found to continue to exist.

March 17, 1972

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

## MAIL VOTE

IMPORTANT!

OFFICERS \* PARTNERS \* PROPRIETORS

To: Members of the National Association of  
Securities Dealers, Inc.

Date: March 28, 1972

Re: Mail Vote On Proposed Rule Of Fair Practice  
Concerning Best Efforts Underwritings

LAST VOTING DATE IS April 27, 1972.

Enclosed herewith is proposed new Section 31 of the Association's Rules of Fair Practice concerning best efforts underwritings. This new rule must be approved by the membership and submitted to and not disapproved by the Securities and Exchange Commission before it can become effective. It was previously sent to the membership on February 18, 1972, for comment. Subsequently, the matter was again presented to the Board of Governors in view of the comments received and it made appropriate changes as will be explained hereafter.

### Explanation of Proposed Rule

The proposed rule was explained in detail in a notice to all members and interested persons dated February 18, 1972. In sum, the proposal results from improper activity which the Board of Governors discerned in connection with the distribution of certain best efforts underwritings and secondary market trading in them. The rule would have the effect of correcting such improper activity by prohibiting any trading in the secondary market or the publication of any quotations for any security which is the subject of a best efforts offering until a formal notice of release of the issue for trading has been filed with the District Committee of the Association in the District where the underwriter's main office is

located. Simultaneously with such filing the offering will be required to be discontinued except for the purpose of replacing previously confirmed transactions at the public offering price subsequently cancelled. The rule also requires that such notice shall specify the date and time of release, the total number of shares, units or other appropriate designation of certificates representing the completed offering and a copy of the prospectus relating to the offering. It also specifies that notwithstanding the number of shares registered as part of the offering the size of the distribution shall be limited to and fixed at no more than the number of shares specified in the notification filed with the Association's District Office. This restriction on the number of shares would thus fix the size of the offering as of the number of shares sold by that date. These provisions are contained in paragraph (c) of the proposed rule.

Paragraph (d) of the proposed rule would require that within seven business days (this changes the proposal as released for comment which said seven "calendar" days) of the date of filing of the notice of release settlement shall be effected by the underwriter with the issuer and certificates shall be placed in the mails or otherwise delivered in negotiable form to all purchasers. All purchasers at the original public offering price would, therefore, have the opportunity of reselling their securities immediately if they so desired and a market would not be permitted to develop or be quoted where no supply of securities existed. If, in fact, a premium market immediately developed purchasers would be able to take advantage of the higher price and liquidate their securities if they so desired since they could sell through any broker/dealer if the underwriter refused to execute their orders, an abuse which, partly at least, has led to this rule. It is anticipated, therefore, that the normal forces of supply and demand would have a better opportunity to stabilize the price at a proper level regardless of whether that was above or below the offering price. The language of paragraph (d) contained in the February 18, 1972, release has been amended by adding a provision which would enable the granting of extensions of time to deliver upon written application made to the Association by the underwriter, or by the issuer in the case of a non-underwritten issue. These extensions would not be granted unless the applicant is able to clearly demonstrate that delivery within the stated seven day period will not be possible because, for example, of the size of the issue, the number of purchasers or some other similar reason.

Paragraph (d) requires that the delivery be made unless the purchaser has directed otherwise as provided in paragraph (e). Paragraph (e) provides that each confirmation of sale at the public offering price to the purchaser would contain a notice to the purchaser advising that the securities would be so delivered unless the customer originates, after receipt of such notice, written instructions to the contrary identifying

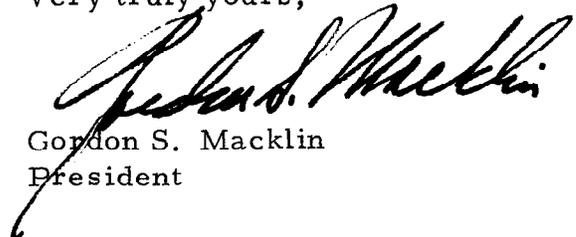
the issue and specifying the alternative distribution of the certificates. Thus, the rule would require that the delivery of the certificates could not be avoided other than as a result of a purchaser's instructions in writing originated by him.

Provisions of the rule contained in paragraph (f) would make the same provisions applicable to an issuer distribution or to a distribution by a non-member of the Association by preventing members from trading such securities in the aftermarket or publishing quotations in respect to such unless the issuer and/or the non-member underwriter has undertaken in the prospectus to comply, and has complied and will continue to comply, with all of the provisions of the rule to the same extent as though he were a member of the Association.

This proposed Rule of Fair Practice is considered important by the Board of Governors and merits your immediate attention. Please mark your ballot according to your convictions and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than April 27, 1972.

The Board of Governors believes this proposed Rule of Fair Practice is necessary and appropriate and recommends members vote their approval.

Very truly yours,



Gordon S. Macklin  
President

PROPOSED SECTION 31 OF THE  
RULES OF FAIR PRACTICE

(a) Definitions

For the purposes of this section the following words shall have the stated meanings:

- (1) Best efforts offering -- an agreement between an issuer and an underwriter to distribute a new issue of securities but in respect to which the underwriter's obligation to distribute is limited, in whole or in part, to using his best efforts.
- (2) Tax sheltered program -- a program offered to the public in which flow-through tax benefits are a material factor to the investor regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate syndications (except real estate investment trusts), citrus grove developments, cattle programs and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof.
- (3) Prospectus -- shall have the meaning given to that term by Section 2(10) of the Securities Act of 1933; provided, however, that such term as used herein shall also include an offering circular as required by Rule 256 of the General Rules and Regulations under the Securities Act of 1933 and in the case of an intrastate offering any document, by whatever name known, which is required by any state in connection with the offering of securities to the public.

(b) The provisions of this section shall apply to all best efforts offerings and to all offerings made by an issuer without the services of an underwriter; provided, however, offerings of units of tax sheltered programs, shares of investment companies registered with the Securities and Exchange Commission pursuant to the provisions of the Investment Company Act of 1940, as amended, and units of a separate account as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended, shall be exempt from the provisions hereof.

(c) Before the securities of an offering subject to the provisions hereof may be traded by a member in the secondary market, or before a member may publish any quotation or bid for any security which is or has been part

of such an offering, a "Notice of Termination and Release of Issue for Trading" shall be filed with the District Committee in the District where its main office is located. Such notice shall specify that the offering has been terminated as of the time of the filing of the notice (except for the purpose of replacing previously confirmed transactions at the public offering price subsequently cancelled), the date and time of release of the issue for trading, and the total number of shares, units or other appropriate designation of certificates representing the completed offering. Such notice shall also be accompanied by a copy of the prospectus relating to the offering. Notwithstanding the number of shares registered as part of the offering, the size of the offering shall be limited to and fixed at no more than the number of shares specified in the notification filed with the Association's District Office.

(d) Within seven business days following the date of the filing of the notice of release of the issue for trading settlement shall be effected and certificates shall be placed in the mails or otherwise delivered in negotiable form to all original purchasers of the issue at the public offering price unless:

- (1) the purchaser has directed otherwise as provided in paragraph (e) of this section, or
- (2) upon written application made to the Association by the underwriter, or by the issuer in the case of a non-underwritten issue, an extension of time for doing so has been granted. Extensions shall not be granted unless the applicant is able to clearly demonstrate that delivery within the stated seven day period will not be possible because, for example, of the size of the issue, the number of purchasers or some other similar reason.

(e) A member who participates in an offering subject to the provisions of this section shall deliver to the purchaser with each confirmation of sale at the public offering price a notice which advises the purchaser that certificates will be delivered as provided in paragraph (d) hereof unless the customer originates, after receipt of such notice, written instructions to the contrary identifying the issue and specifying the alternative disposition of the certificates.

(f) In those cases where a non-member issuer is making a distribution of an issue of securities subject to the provisions hereof without the services of an underwriter, or where the underwriter is a non-member of the Association, no member shall trade such securities in the secondary market, nor shall a member publish any quotation or bid

for any such security, unless the issuer and/or the non-member underwriter has undertaken in the prospectus to comply, and has complied and will continue to comply, with all of the provisions of this section to the same extent as though he were a member of the Association.

EJS

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

April 3, 1972

To All NASD Members:

In order to assist members in meeting their responsibilities, the Association wishes to review the major provisions of two rules recently adopted by the Securities and Exchange Commission. In this connection, it is suggested that each NASD member review the pertinent SEC releases which set forth and describe these rules in order to be more fully aware of the obligations imposed under each. In accordance with standard procedures, the inspection for compliance with these regulations will automatically become part of the Association's enforcement program.

## SEC RULE 17a-13 AND RELATED AMENDMENTS

On December 28, 1971, the Securities and Exchange Commission submitted to Congress its "Study of Unsafe and Unsound Practices of Brokers and Dealers". This study noted that a contributing factor to the severe industry problems of 1968-1970 may have been the inability or reluctance of the management of troubled firms to identify and promptly resolve financial and operational problems. In order to establish a minimum standard of control over securities for the industry, the Commission adopted Rule 17a-13, effective January 1, 1972. 1/ This rule requires a quarterly box count and a verification of all securities not in a broker's physical possession.

Under this rule each broker-dealer is required, once every calendar quarter, to perform the following:

1. Physically examine and count all securities held, (firm and customer securities);
2. Account for all securities subject to the member's control or direction but not in his physical possession by means of examination and comparison of the supporting detail records with the appropriate ledger control account;

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1/ See Securities Exchange Act Release No. 9376 (November 8, 1971)

3. Verify all securities subject to the firm's control or direction but not in its physical possession if the securities have been in this status for more than thirty (30) days;
4. Compare the results of the examination and verification with the firm's records;
5. Post any unresolved differences to the books and records within seven (7) business days.

Broker-dealers who limit their business to the sale and redemption of securities of registered investment companies and interests or participations in an insurance company separate account and those who solicit accounts for federally insured savings and loan associations are exempt from the provisions of this rule, provided that they promptly transmit all funds and securities received in connection with their activities as brokers or dealers and do not otherwise hold customer funds and securities. For further details concerning these exemption provisions, please refer to paragraph (a) of the rule.

The quarterly count and verification can be accomplished by either of two methods. First, the entire task can be performed as of a particular date. If this method is used, the Association recommends that a member correspond this date to the Form Q reporting period date so that responses to question 53 in the operational section of the Form Q report will reflect current conditions. Secondly, the quarterly box count may be performed on a cyclical basis. This method requires that each security be reviewed at least once during each calendar quarter year. For example, a third of a firm's security positions could be reviewed at each month end. In this manner, the complete security review would be concluded within the prescribed period of one calendar quarter.

Regardless of the method employed, the rule requires that the quarterly box count be made and supervised by persons who ordinarily do not handle the securities or make the subject records. For this reason, the Association recommends that each member develop procedures detailing not only the method of compliance, but the personnel to be involved in performing the tasks prescribed by the rule as well.

In line with the "box-count" rule, the Commission has amended Rule 17a-3 to require the creation of a ledger account to which all unresolved security differences found during quarterly counts must be posted. In a further change in Rule 17a-3, a firm's securities record or ledger must reflect all long and short security count differences discovered during each box-count. In a related area, members must record the total number of securities differences and their dollar amount at market value in the quarterly financial report made to the Association (see item 53 of Form Q).

Form X-17A-5 has been amended to require reporting of unresolved security differences. In this regard, the accountant performing the annual audit must review and comment on the methods employed by a broker-dealer in complying with Rule 17a-13.

In conclusion, the box-count rule should cause firms and their auditors to be aware of problems in the securities area as a matter of routine practice. This will tend to lessen the chance that operational errors will cause serious financial exposure to firms and their customers. As stated previously, this rule seeks to establish minimum control of securities in the industry. Members currently conducting box-counts more frequently than once every quarter are encouraged by the NASD and the Commission to continue such practices.

#### SEC RULE 15c2-11

On September 13, 1971, the Commission announced the adoption of Rule 15c2-11, effective December 13, 1971. <sup>2/</sup> The purpose of this rule is to prohibit a broker-dealer from initiating or resuming quotations in a security unless certain specific information regarding the security and its issuer is available.

In essence, the rule seeks to stem the distribution of securities to the public in possible violation of the registration requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. While the Commission's primary concern involves the securities of "shell" corporations, the scope of the rule is broad enough to include any inactively traded issue.

Under this rule, a broker-dealer is prohibited from submitting a quotation for publication or from publishing any quotation for a security unless at least one of the following conditions prevails:

1. A registration statement has become effective less than ninety calendar days prior to the submission or publication of the quotation and a copy of the prospectus is retained by the broker-dealer; or,

2. A notification under Regulation A has become effective less than forty days prior to the submission or publication of the quotation and the broker-dealer has in his records a copy of the offering circular; or,

3. The broker-dealer has a reasonable basis for believing that the issuer is current in filing reports as required by Section 13 or 15(d) of the Securities Exchange Act of 1934, or such reports and statements as required of issuers covered by Section 12(g) (2) (B)

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<sup>2/</sup> See Securities Exchange Act Release No. 9310 (September 13, 1971)

or (G) of the Act, and the broker-dealer has, as part of his records, the issuer's most recent annual report or annual statement as the case may be, together with any other periodic report filed by the issuer subsequent to the annual report or annual statement.

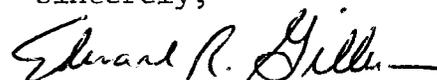
If the security to be quoted does not meet the criteria described above, the broker-dealer must compile certain information prior to the publication or submission of the quotation. This information must be available to any person expressing an interest in the security. The information required consists of sixteen (16) elements and includes, among other things, the nature of the issuer's business, the nature and extent of the issuer's facilities, and the issuer's most recent balance sheet and profit and loss statement. All information collected by a broker-dealer as required by this rule must be retained for the periods specified in Rule 17a-4. For more complete details, see Securities Exchange Act Release No. 9310.

The provisions of the rule do not pertain to the publication or submission of quotations for securities listed on a national securities exchange which were traded the same day or the day before the quotation was submitted. In certain cases, this exemption would also apply to the publication or submission of quotations for securities of foreign issuers. Additionally, quotations for securities which have been quoted at specified prices on each of at least twelve days within the previous thirty calendar days are exempt from the rule. Under this provision, however, no more than four business days may separate each two-way quote.

Members should be aware that this rule is but a part of an overall effort to protect public investors from fraudulent practices by broker-dealers. In this regard, the Commission has stated, "...this rule is not intended to, and does not, excuse brokers and dealers from their duty to comply with applicable registration and other anti-fraud provisions of the federal securities laws and Commission rules, including their duty to make appropriate inquiry. In this connection, brokers and dealers should be aware that the submission or publication of a quotation at a price which does not bear a reasonable relationship to the nature and scope of the issuer's business or its financial status or experience, may constitute a part of a fraudulent or manipulative scheme."

Questions regarding either of these SEC rules may be directed to Gerard F. Foley at (202) 833-7320.

Sincerely,



Edward R. Gilleran  
Vice President  
Regulation

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

April 3, 1972

To All NASD Members:

Please direct this to the person in your firm  
responsible for training and registration of  
personnel.

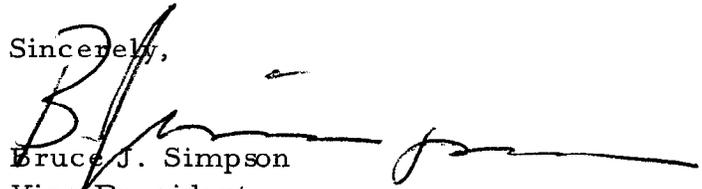
In our continuing effort to keep the Qualification Examination Program current with the needs of the industry, two new forms of the Qualification Examination for Registered Representatives will be replacing the present forms in the near future.

The new examinations will include four new areas of subject matter. These are:

1. The Securities Investors Protection Act.
2. The National Association of Securities Dealers Automated Quotation System. (NASDAQ)
3. Investment Company Amendment Act of 1970.
4. General Economics.

As you know, the Association is now in the process of a major restructuring of the entire qualifications program which will result in specialized and indepth qualification programs for particular positions in the securities business such as mutual fund/variable annuity, general securities, OTC traders and operations principals. The test forms described above, however, are not a part of this new qualification program and were constructed along traditional lines both with respect to testing methods and subject matter.

Sincerely,

  
Bruce J. Simpson  
Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

April 13, 1972

To: All NASD Members

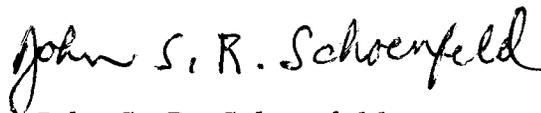
Re: White & Co., Inc.  
7733 Forsyth Blvd.  
St. Louis, Missouri 63105  
Telephone: (314) 862-8700

The NASD's Uniform Practice Committee has been advised that a Trustee has been appointed for the above-mentioned firm. Pursuant to this, the Committee has determined that members may use the immediate close-out procedure under Section 59(h) of the Uniform Practice Code for open transactions with the White firm.

All money differences and other matters of business should be taken up with the Trustee, Mr. Hugh S. Hauck, in care of the address of the White firm.

Please refer to Section 59(h) of the Uniform Practice Code for the detailed close-out procedures. Questions regarding this notice may be directed to the NASD's Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

April 28, 1972

To: All NASD Members

Re: Unit Offerings

"Prompt Reporting of Record Date Information, etc. to the NASD Under Rule 10b-17 of the Securities Exchange Act of 1934"

"Unit Offerings", consisting of two (or more) securities offered at a combined price, are presently being underwritten by NASD member firms. In some cases, the component parts of the Unit are issued as certificates which are attached, but which cannot be transferred or delivered separately until some future date designated after the day of the offering. On the designated date Unit holders can separate the component parts and transfer and deliver them individually.

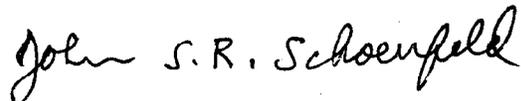
Other "Unit Offerings" may be delivered on the day of issuance in the form of a certificate representing only one component part of the Unit, such as a debenture. However, this certificate will carry a "legend" which states that the other component part(s) of the Unit will be issued to record holders as of a future record date to be designated. The beneficial holder of the first certificate (debenture) prior to the record date must also make sure he is the registered holder on the record date if he wishes to receive the other component part(s) of the Unit directly.

Both types of Unit Offerings mentioned above can create technical and operational difficulties if the issuing company is not aware of its obligations under Rule 10b-17 of the Securities Exchange Act of 1934. Rule 10b-17 involves the prompt reporting of record date information, etc. to the NASD.

As a result, separation date and record date information relating to Unit Offerings should be reported on a timely basis to the NASD's Member Operations Department so it can be announced to the membership. Since separation dates and record dates are jointly determined by the corporation issuing the Unit and the underwriter, member underwriters should advise the issuer of the existence and intent of Rule 10b-17 and make all due effort to insure such information is reported to the office below as much in advance of the separation or record date as possible, preferably ten (10) days in advance.

Reports and questions regarding this notice should be directed to the NASD's Member Operations Department, 17 Battery Place, Room 1325, New York, New York, 10004 (212) 269-6393.

Sincerely,

A handwritten signature in cursive script that reads "John S. R. Schoenfeld". The signature is written in dark ink and is positioned above the typed name.

John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

April 28, 1972

To: All NASD Members

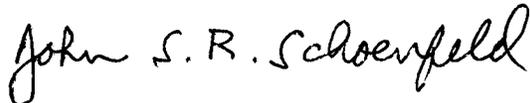
Re: Financial Recordkeeping and Reporting of Currency and Foreign Transactions

The Foreign Committee of the National Association of Securities Dealers, Inc. would like to draw the attention of the membership to a recent rule issued by the Treasury under Title 31 - Money and Finance: Treasury (Chapter I - Monetary Offices, Department of the Treasury) which concerns provisions for recordkeeping and reporting of currency and foreign transactions, implementing a notice of proposed rulemaking of Titles I and II of Public Law 91-508 - published in the Federal Register on April 5, 1972. This document should be available in most law offices.

Certain paragraphs of this rule require your very careful attention and as these rules will take effect, as of July 1, 1972, members are advised to order this release, together with the reporting forms, at an early date. The reporting forms (4789 Currency Transaction Report and 4790 Report of International Transportation of Currency or Monetary Instruments) will be available in all District Internal Revenue Service Offices around June 1, 1972.

Any questions which you may have in connection with this new rule, should be addressed to Lee C. Monett, Vice President - Member Operations, 17 Battery Place, New York, New York, 10004 (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

May 22, 1972

To: All NASD Members

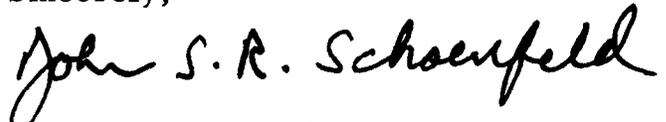
Re: Implementing Four Uniform Forms Developed by the Banking and  
Securities Industry Committee (BASIC)  
Transfer Instruction  
Delivery Ticket  
Comparison  
Reclamation Form

On February 1, 1972, members were advised of the industry-wide plan to standardize key documents used in day-to-day operations. Included as part of that advisory was the report of the Banking and Securities Industry Committee (BASIC) containing final specifications for Uniform Delivery, Transfer, Comparison and Reclamation forms. The implementation schedule calls for member organizations to begin using the Uniform Transfer and Reclamation forms not later than September 1, 1972, and the Uniform Delivery and Comparison forms not later than December 1, 1972.

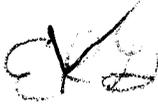
Among the questions received concerning the use and application of these Uniform Forms, were inquiries from a number of firms as to where quantity supplies of "standard sets" of the forms could be obtained.

In this connection, several printing firms have advised the NASD of their intention to stock quantities of the Uniform Forms and make them available to the general membership. Information concerning arrangements these firms are prepared to make may be obtained upon request from the NASD's Member Operations Department, 17 Battery Place, Room 1325, New York, New York, 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

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# NASD

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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

May 25, 1972

To: All NASD Members

Re: Rule 144 of the Securities Act of 1933

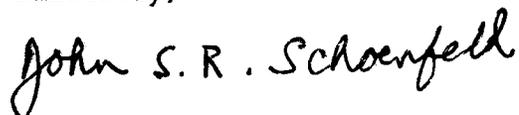
The above-mentioned rule, which was effective as of April 15, 1972, provides a new procedure for the sale of "restricted shares" without the necessity of obtaining the traditional "no action letter" from the SEC. Under the terms of Rule 144 a seller must file with the SEC, concurrent with his sale, a letter and a form (Form 144), which state that the sale is in compliance with SEC rules. The Association has been advised, however, that the aforementioned documents are NOT SUFFICIENT for the purpose of getting "restricted" shares transferred.

In view of the fact that such securities carry a "restriction or special designation" the Association's Uniform Practice Committee has ruled that such securities delivered with the above mentioned documents attached, pursuant to a sale, will NOT be considered a proper delivery as per Section 36 of the Uniform Practice Code.

Members are advised, therefore, that "restricted" securities sold pursuant to Rule 144 MUST BE TRANSFERRED in order for them to be in good delivery form.

Questions regarding this notice should be referred to the NASD's Uniform Practice Department located at 17 Battery Place, Room 1325, New York, New York 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.  
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

June 2, 1972

To: All NASD Members

Re: Bove (Kenneth) & Co., Inc.  
42 Broadway  
New York, New York 10004

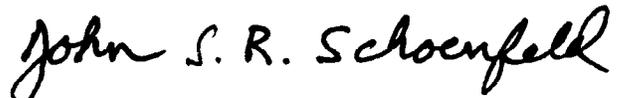
The NASD's Uniform Practice Committee has determined that members may use the immediate close out procedures under Section 59 (h) of the Uniform Practice Code for open trades with:

Bove (Kenneth) & Co., Inc.  
42 Broadway  
New York, New York 10004

Please refer to Section 59(h) for the detailed procedure.

Questions regarding this notice may be directed to the NASD's Uniform Practice Department, 17 Battery Place, Room 1325, New York, New York, 10004, (212) 269-6393.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

June 5, 1972

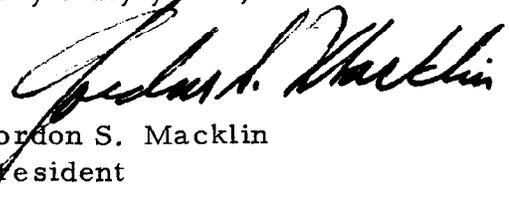
To: All NASD Members and Interested Persons

On May 9, 1972, I forwarded to you proposed rules relating to tax sheltered programs. The comment period for those proposals was announced at that time to end on June 8, 1972. In view of the complexity of the proposals as well as many requests made for an extension of the comment period, that period has been extended to July 8, 1972.

Note should also be made of the fact that in the third full paragraph on page 21 of the proposals the reference to the relationship of an annual expected commitment to tax sheltered programs to net worth was misstated. That sentence, which commences on the eighth line of that paragraph should read as follows:

An annual expected commitment to all tax sheltered programs of one-tenth of net worth would be considered a reasonable relationship, at least where a participant's net worth is under \$200,000.

Very truly yours,



Gordon S. Macklin  
President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

June 7, 1972

TO: All NASD Members

RE: Missing Certificates of Texaco, Inc., Capital Stock

The NASD has been notified by Texaco, Inc., that blank Texaco, Inc., Capital Stock certificates bearing the following control numbers are missing from its office at 135 East 42nd Street, New York, New York:

<u>Less than 100 shares</u>	<u>100 shares</u>	<u>More than 100 shares</u>
1380 through 1405	0072 through 0102	2738 through 2776

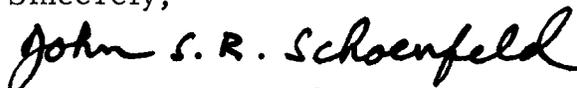
The above identifying numbers were printed on each certificate for control purposes by the American Bank Note Company and are located on the face of the certificates in the lower left hand corner of the margin. Each certificate is dated July 10, 1969, and bears the facsimile signatures of Marion J. Epley, Jr., President; William J. Clayton, Secretary; and R. T. Hazzard, Transfer Agent. The certificates were not registered by Texaco's New York City Registrar, The Chase Manhattan Bank.

Certificate numbers had not been officially printed on the certificates in the upper left hand corner medallion. It is possible, therefore, that the certificates, bearing the above listed control numbers, may have fraudulent certificate numbers printed on them.

The NASD requests that its members check the lower left hand margin of each Texaco certificate surrendered to them for the above listed control numbers. In addition, members should check for certificates with a defaced margin, without a lower margin, or with a certificate number which has not been printed in the usual manner.

If an NASD member comes into the possession of any of the certificates bearing a listed control number or any questionable certificate, he should contact: Mr. A. F. Smith, Assistant Treasurer, Texaco, Inc., 135 East 42nd Street, New York, New York 10017, (212) 953-6586.

Sincerely,



John S. R. Schoenfeld  
Executive Vice President