

M E M O R A N D U M

December 20, 1988

TO : All Regional Administrators

FROM : Sarah Ackerson, Assistant Director *SA*  
Division of Market Regulation

SUBJECT : Penny Stock Manipulation Data and Meetings

The Chairman's Task Force on Penny Stock Manipulation, headed by Joe Goldstein, Associate Director in the Division of Enforcement, has been working on a variety of initiatives. One area of concern is enhanced coordination and information exchange between state and federal regulators on penny stock frauds. For this reason each Regional Office has been asked to host a one day meeting with the appropriate NASD District office(s), state regulators and, if you deem it helpful, representatives from other Federal agencies such as U.S. attorney's offices, IRS, and the FBI. Once you have scheduled a date in January or February for your meeting please let me know since Joe and I would like to attend. We hope these sessions will strengthen the Commission's regulatory and enforcement efforts to reduce penny stock fraud and also facilitate better public education on the current risks of investing in penny stocks. Enclosed is a list of topics for discussion at these meetings which you are free to modify.

Also attached are three printouts of broker-dealer data. The first (List A) is an alphabetical listing of all broker-dealers the Division has identified as being either underwriters or market makers of penny stocks. It contains the name, home office location by city and state, NASD exam category, number of branch offices and number of registrations underwritten for each broker-dealer. The second list (List B) contains similar information for those broker-dealers whose main office is headquartered in your region. Presently, my office is working with OEA to obtain a list of stocks each broker-dealer claims in the pink sheets to be making a market. If we are successful in compiling this information, it will be forwarded to you. Lastly, we've enclosed a list (List C) of mostly penny stock firms opening branch offices between January 1988-October 1988. We intend to monitor branch office changes through CRD on a quarterly basis in order to keep tabs on national growth patterns.

These lists are intended to assist your broker-dealer examination staff in identifying the primary penny stock population in your region and the securities they were making markets in over the last 30 days according to the pink sheets. We have seen significant branch office expansion by some of these firms and equally rapid closings. For this reason the NASD has been asked to start monitoring branch office growth patterns more

closely. At our request they will begin in January 1989 conducting routine exams of (1) those branch offices of penny stock firms which are the subject of a customer complaint, market making or underwriting activity or are otherwise flagged for suspicious activity; (2) branch offices set up under a franchising agreement; and (3) branch offices employing a statutorily disqualified person (now will be subject to annual exams).

The NASD's Electronic Pink Sheet Reporting System should be fully operative by March 1989. The NASD currently is "debugging" the software based on the 6,000 NSCC eligible securities in the system and will add the other 40,000 plus low priced stocks to the system in the next couple of months. This information will be made available to your staff, we hope, as soon as the Districts are able to get it.

Also in response to a Task Force recommendation the Division is drafting several rules directed at plugging regulatory holes which are subject to abuse in penny stock schemes. NASAA also is working on a broad based set of regulations for consideration by its state members. We also encourage you to consider what public relations initiatives your office could undertake. The NASD Districts and NASAA will be seeking to do more in public education as well.

Please let me know if you have any questions or suggestions (272-7471).

Suggested Topics for Meeting on  
Penny Stock Manipulation

1. Techniques for detecting manipulation
  - what works best
  - problem areas
2. Current and anticipated Enforcement investigations
  - anticipated sanctions
  - violations involved
3. Scope of Problem in Region
  - specific patterns in growth
  - list of key people
  - any international aspects
4. Public Education
  - what is being done
  - what should be done
5. Data collection and data sharing
  - should it be done
  - limitations on sharing information
6. Are duplicate enforcement actions helpful?
7. Criminal investigation:
  - what firms
  - how can SEC, NASD and states assist?
8. What broker-dealer exams are planned for year? By whom?
9. Who is looking at the issuers?
10. Should group reconvene again?