

Radio Broadcast**Association Moves Promptly When "True or False" Program Gives Wrong Definition of Bucket Shop.**

As is usual in all such instances, the Association acted promptly when a national radio program recently cast reflections upon securities dealers who are not members of a stock exchange. Not only did the program carry a "correction" but its producers promised further constructive action and asked the Association's assistance in preparing the additional material.

The program was the "True or False" broadcast over the Mutual Network early in the evening of June 19. This program is sponsored by the Shotwell Manufacturing Company and has outlets in many cities from coast to coast. This is an audience participation program in which questions are asked requiring a "true" or "false" answer. In the June 19 program one participant was asked "Is a bucket shop a place where they make buckets?" Upon the reply of "False," the master of ceremonies continued: "You are right," adding in effect that "a bucket shop is a securities dealer who is not a member of a stock exchange."

Members of the Association in several widely scattered cities immediately communicated with NASD, asking what could be done. The Association, after ascertaining the origination of the program, the advertising agency and radio producer involved, and the sponsor, protested and asked as to the steps being taken to correct the damaging impression created by the broadcast.

"The statement undoubtedly has caused widespread damage to the reputation of securities dealers whose membership in the National Association of Securities Dealers is an assurance of reliability in the investment

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World Bank Legislation Fails of Action**Formal opposition of NASD Governors an important factor in slowing consideration and ultimate tabling of Bill by House Committee.****MR. BLACK THANKS NASD**

Following is a copy of a telegram of appreciation sent by Mr. Eugene R. Black, together with the chairman's acknowledgment and comments upon the amendment:

June 3

Mr. L. Raymond Billett
Chairman Board of Governors
National Association of
Security Dealers

GREATLY APPRECIATE BROAD ATTITUDE YOU AND OTHER MEMBERS OF YOUR EXECUTIVE COMMITTEE HAVE SHOWN IN WITHDRAWING YOUR OPPOSITION TO OUR PROPOSED LEGISLATION stop IF BILL BECOMES LAW I WANT TO ASSURE YOU THAT IT WILL CAUSE NO CHANGE IN OUR REPEATEDLY EXPRESSED POLICY OF COOPERATING IN EVERY POSSIBLE WAY WITH MEMBERS OF YOUR ASSOCIATION AND OF SHOWING NO PREFERENCE TO ANY PARTICULAR FIRM OR FIRMS OR BANKS WITH BOND DEPARTMENTS stop IT IS MY SINCERE CONVICTION THAT IF THIS BILL PASSES IT WILL MEAN BETTER BUSINESS FOR THE MEMBERS OF YOUR ASSOCIATION DUE TO THE BROADENING OF THE MARKET stop IN ANY EVENT I FEEL THAT THE PROPOSED AMENDMENT WILL CERTAINLY GIVE YOU AMPLE PROTECTION IN AFFORDING AN OPPORTUNITY TO REGISTER A PROTEST IF THE NEW LEGISLATION CAUSES YOUR MEMBERS

(Continued on page 10, column 3)

When the Eightieth Congress adjourned on June 20, after a frantic and uninterrupted 44-hour scramble to push through all pending legislation, it left buried a bill which would have exempted World Bank bonds from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934; the bill would further have permitted banks to underwrite and deal in World Bank bonds, both the direct obligations and those guaranteed by the Bank.

The National Association of Securities Dealers, Inc. formally objected to the legislation, feeling that it deserved public discussion in view of the possibility that the proposed action might prove contrary to the best interests of investors and to the securities business. Later, upon introduction of a qualifying modification, or amendment, the NASD withdrew its objection.

Determination of the Association's position in regard to the proposed legislation, which had been requested by the National Advisory Council, over the signature of John W. Snyder, Secretary of the Treasury, as chairman, required many hours of work by a special committee and long discussion by the Board of Governors, at the meeting in White Sulphur Springs, W. Va. on May 24-25. It was finally determined that the sentiment of the Board was that:

- (1) The exemption from registration of the direct obligation bonds of the International Bank should not be opposed
- (2) The exemption from registration of foreign government loans guaranteed by the Bank and loans of foreign corpora-

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tions guaranteed by the Bank should be opposed.

- (3) The proposed amendment to the National Banking Act which would permit National banks to deal in the bonds of the International Bank and in foreign government and corporation loans, guaranteed by the Bank, should be opposed.

Telegrams were immediately sent by the Board to Senator Charles W. Tobey, chairman of the Senate Banking and Currency Committee and Congressman Charles Wolverton, Chairman of the House Committee on Interstate and Foreign Commerce, a copy also going to John J. McCloy, President of the International Bank. (Text of the telegram in an adjoining column.)

The Board had acted reluctantly and only after hearing Eugene W. Black, Executive Director for the United States and E. Fleetwood Dunstan, Director of Marketing, of the International Bank for Reconstruction and Development, both of whom had appeared before the meeting at the invitation of the Chairman. They had explained the need for the legislation, the desire of the Bank to cooperate with security dealers, and offered reassurance on some of the points raised by members. It was decided that despite the faith in the present management of the Bank, and assurance as to the intentions of the management, that the Association should act in order to insure a permanent future position. Mr. Black later sent a telegram to the chairman expressing appreciation for the Association's cooperation. (Telegram and reply also in an adjoining column.)

So swiftly had the legislative machinery been placed in motion after the National Advisory Council asked for it, the Senate already had acted before the Association held its Board meeting. The Senate committee had favorably reported the bill out, with Senator Bricker of Ohio recording the only dissenting vote, before the Association acted. While there was some discussion about recommitting the bill it finally was determined to await the action of the House committee.

After receipt of the Association telegram the House committee called a public hearing and requested that the Association present its viewpoint. Then, at the request of International Bank officials, there ensued conferences on the Association's points of

objection and an effort was made to arrive at some modification that would meet these and still not obstruct the principal objectives of the legislation. These objectives were:

1. To exempt securities of the International Bank from the requirements of the Securities Act of 1933, primarily from the requirement of filing an elaborate registration statement before a public offering of securities could be made.

2. To exempt such securities from the provisions of the Securities Exchange Act of 1934 in its provisions for regulating security exchanges and over-the-counter markets and transactions on such exchanges and markets.

3. To permit national banks

and State member banks of the Federal Reserve System to deal in securities of the Bank, which is prohibited under Section 5136 of the revised statutes and the regulations of the Comptroller of the Currency.

President McCloy, in replying to the Association's telegram, had stated that he was "greatly concerned that the Association on whose valued cooperation we have heretofore counted" should object to legislation which he considered "essential if the Bank is to do its full part in the financing of European recovery and the reconstruction and development of the productive facilities of its members. (Full text of telegram on Page 2.)

As a result of the conferences there was drafted an amendment to the bills which officers of the Association felt

NASD PROTESTS

Following is the text of the telegram sent by the Association Chairman to the Chairman of the Senate Banking and Currency Committee and to the Chairman of the House Committee on Interstate and Foreign Commerce, a copy of which was sent to the President of the International Bank for Reconstruction and Development:

WHITE SULPHUR SPRINGS, W. VA.

SENATOR CHARLES W. TOBEY,
CONGRESSMAN CHARLES WOLVERTON,
JOHN J. MCCLOY

I have been instructed by the Board of Governors of the National Association of Securities Dealers, Inc. to advise you that while we do not oppose provisions in Bills HR-6443 and S-2636 which would exempt direct obligations of the International Bank from the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, we do oppose Bills HR-6443 and S-2636 insofar as the bills, as presently drafted, exempt obligations or securities guaranteed by the International Bank from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 and insofar as such bills as drafted make obligations or securities issued or guaranteed by the International Bank eligible for underwriting and dealing by the national banks and members of the Federal Reserve System.

The Board of Governors believe the provisions so objected to raise the whole question of dealing in and underwriting of securities and obligations by the banks as expressly forbidden by Section 5136 of the revised statutes and the regulations of the Comptroller of the Currency. While we understand that it is the intention of the present administrators of the International Bank not to sell publicly through banks and without registration under the Securities Act of 1933 issues of foreign corporations or foreign governments when guaranteed by the International Bank, the bills, by their terms, would permit this, and, furthermore, the administrators of the International Bank admit that if the bills were passed banks would not be bound to hold such securities and would be free to sell them as underwriters and distributors.

The Board of Governors is frank to admit that in the short time the Association has had to study the bills all the implications and consequences thereof have not been thoroughly covered and thought out but with the possible drastic implications of change of public policy involved the Board of Governors believes the matter deserves thorough investigation and consideration.

(s) L. R. BILLET, *Chairman.*

met their immediate objections. The text of the proposed addition to HR 6443 and S 2636 follows:

*Proposed Addition to HR 6443
and S 2636*

"Sec. 4. In order that the Congress may from time to time review the operation and effect of the provisions of this Act, the National Advisory Council on International Monetary and Financial Problems shall transmit to the President and to the Congress special reports on the operation and effect of the provisions of this Act as hereinafter in this paragraph provided. The first report shall be made not later than two years after the approval of this Act and a report shall be made every two years after the making of the first report. Each report shall cover and include: the extent to which the exemptions herein provided for have accomplished their purposes; the operations and the policies of the Bank in the marketing of obligations issued or guaranteed by it; the extent to which such exemptions have aided the Bank in the marketing of such obligations; the extent, if any, to which modifications of this Act may be advisable in the opinion of said Council in order adequately to protect the interests of investors and securities dealers; and the recommendations of said Council with regard to the advisability of continuing, modifying or terminating such exemptions, with particular reference to the extent to which the discontinuance or modification of such exemptions may affect the Bank in respect of the aid which it may be able to afford under its Articles of Agreement in the financing of European recovery and the reconstruction and development of the economic resources and facilities of its members. Before making any such report said Council shall afford to any association of brokers or dealers which shall be registered with the Securities and Exchange Commission as a national securities association under Section 15 A of the Securities Exchange Act of 1934 an opportunity to present to said Council its views with regard to the matters to be covered and included in such report as hereinafter provided."

As a result of this compromise the Association was able to notify Chairman Wolverton that it was withdrawing its formal protest. The Executive Director appeared at the hearing, at the request of the committee chairman, and when he was asked why the
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THE BANK REPLIES

Following is the text of a telegram signed by John J. McCloy, President, International Bank for Reconstruction and Development, dated May 27:

L. R. BILLET, Chairman, Board of Governors
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
White Sulphur Springs, W. Va.

I received yesterday evening a copy of your telegram to Senator Tobey and Congressman Wolverton setting forth certain objections by your Association to HR 6443 and S 2636.

Your objections appear to be twofold. First, while you do not object to the exemption from the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 of direct obligations issued by the International Bank, you do object to the exemption from such requirements of obligations guaranteed by the International Bank.

The basis of that objection appears to be the fear that members of your Association will lose business because foreign borrowers will seek the guarantee of the International Bank in order to avoid the necessity of registering their securities. You apparently disregard the fact that paragraph two of Section 4 of Article third of the Articles of Agreement of the Bank expressly provides that before the Bank shall make or guarantee any loan it shall be satisfied that in prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower. That provision is intended to insure that the Bank will not compete with private capital in making or guaranteeing loans.

As you know the Bank has strictly conformed and I can assure you that it will continue strictly to conform to that provision. Any fear, therefore, that the Bank will compete with the members of your Association in the making or guaranteeing of loans to foreign borrowers is utterly groundless.

Your second objection is to the proposed amendment to Section 5136 of the revised statutes which would permit national banks and member banks of the Federal Reserve System to deal in obligations issued or guaranteed by the International Bank. That objection appears to be based on the fear that such banks will compete with members of your Association in dealing in such obligations. You are undoubtedly aware of the importance to the accomplishment of the purposes of the International Bank of maintaining as broad a market as possible for its securities. You are also aware of the difficulties which have heretofore existed in maintaining a broad and orderly market for securities of the Bank.

I have heretofore appreciated and valued the cooperation of the members of your Association in the marketing of the Bank's securities. While the Bank does not now contemplate any general public offering of securities guaranteed by it the Bank must be free whenever an appropriate opportunity arises to sell securities held by it in its portfolio with its guarantee.

I had anticipated that in the future the members of your Association might be of great assistance to the Bank in placing securities which it held in its portfolio. You will appreciate, of course, that the practical and technical difficulties of registering such securities under the securities acts would make any such placement extremely difficult and would tend to force the Bank to confine itself to private sales of such securities directly to banks, insurance companies and other institutional investors which would buy for investment only and not for resale.

Apart, therefore, from the fact that your objections to the proposed legislation run counter to the general public interest in having as broad a distribution as possible of the Bank's securities they seem to me to run counter to the real self-interest of the members of your Association.

I am greatly concerned that your Association, on whose valued cooperation we have heretofore counted, should object to legislation which is essential if the Bank is to do its full part in the financing of European recovery and the reconstruction and development of the productive facilities of its members.

JOHN J. MCCLOY, *President,*
*International Bank for Reconstruction
and Development.*

Group Insurance Plan Proves Popular

Hundreds of firms signing up under Association master policy. Those not yet in are urged to enroll at soonest possible moment. Don't Delay!

The Group Insurance Plan is meeting with increasing acceptance from members of the NASD. Hundreds of firms in every state of the Union already have been enrolled and new inquiries are being received daily at the Association offices.

As of July 15 there were enrolled under the Associations Group plan 420 member firms, insuring 2,265 lives for a total of \$12,810,000.

In order to facilitate the enrollment program and the providing of complete and accurate information the Trustees under the Group Insurance Plan have six full time men engaged in servicing members. One is located on the Pacific Coast, one in Chicago, another in Detroit, one in New England, and one each in New York and the Washington headquarters. Wherever you are there is a representative of the Trustees and of the Plan conveniently available to assist in enrolling your employes or ready to provide information, answer questions or aid in any other way desired.

This Group Insurance Plan has been hailed as a great forward step, affording, as it does, an opportunity for low-cost, complete coverage of all employees in the securities business, for every firm that is a member of the National Association of Securities Dealers. With its potential membership of nearly 2700 members in the NASD this Group Insurance Plan promises to be one of the most extensive in the country, bringing financial protection and full coverage to many families not heretofore covered.

All present full-time employees, actively employed Officers, Partners and Proprietors are eligible for insurance under this Plan, *irrespective of age and without medical examination.* Many men who could not previously obtain insurance are now being covered through the participation of their firms.

Each month since the Plan was first announced, in January, there has been a substantial increase in the number of Participating firms enrolled under its terms. The number is steadily mounting and every State in the Union is now represented in the roster of Participating firms. Thousands of individuals are covered in the enrollments.

The rates for the first policy year

are: \$1.20 per month, per \$1,000 for Group Life; and 10 cents per month per \$1,000 for Accidental Death and Dismemberment.

One feature of the operation of the Plan that appeals greatly to the Participating members is the few records involved and the simplicity of the bookkeeping necessary in the administration. The fact that premiums are paid monthly, on a bill sent by the Trustees, is regarded as an important feature in the simplification of the administration. There is no accumulation of large sums at any one time of the year, the premiums being spread out over twelve months.

The fact that ALL employes of a firm must be enrolled under its participation is an important factor in the establishment of a low rate per employee. On each anniversary date of the master policies the combined loss experience of all member firms will be ascertained by the insurance company. The rates for the ensuing year will be determined on the basis of such experience. Any divisible surplus will be apportioned annually.

Large and small firms alike are enrolling under the Association's Group Insurance Plan.

Become a Participant. Your firm too, should be enrolled. Extend the benefits of group insurance to all your employes.

DEATH CLAIM PAID

The first death claim under the NASD Group Insurance Plan was paid late in June. The widow of the deceased received a \$10,000 check from the Trustees, although the firm with which he was associated had been enrolled under the Plan only a few days before death.

In this instance the deceased was a partner in a Philadelphia securities firm. The firm applied for participation in the Group Insurance Plan on April 26, and their participation became effective on May 1. Two days later this partner became disabled and on May 11 he died, age 61 years.

His firm had been one of the first to enroll under the Plan.

89 Violations

Regulation T Non-observance Brings Fine on Each Count; Costs Assessed.

A member was fined ten dollars for each of 89 violations of Section 4(c)(2) of Regulation T, it was announced recently. Such violations were held to constitute violations of Section 1 of Article III of the Rules of Fair Practice.

This finding by a District Business Conduct Committee is particularly important in view of the memorandum concerning the provisions of Regulation T, which is printed in another part of this issue of the NEWS.

In 1947 a Business Conduct Committee alleged violations of Regulation T, particularly Section 4(c)(2) thereof, by a member, along with other matters set forth in a complaint. After respondent's answer and hearings the Business Conduct Committee found that the respondent had violated Regulation T and that such violation constituted violations of Section 1 of Article III of the Rules of Fair Practice and censured the respondent for such violations.

This firm was again examined by regular Association examiners in the Spring of this year. At that time a series of 89 apparent violations of Regulation T were disclosed. The Business Conduct Committee filed a complaint, conducted an independent audit of the firm and subsequently set the matter down for hearing. The respondent in its answer had in effect admitted the violations and was of the opinion the violations were inadvertent and stated that a new bookkeeping system had been installed and that such bookkeeping system would prevent further violations.

After full consideration of the facts by the District Business Conduct Committee, it was determined that this member should be fined ten dollars for each of 89 violations of Section 4(c)(2) of Regulation T.

In addition to the fine the member was assessed the costs of the proceedings. These proceedings will be reviewed by the Board of Governors.

REGULATION T

A copy of Regulation T will be sent soon to all broker/dealers by the Federal Reserve Board in cooperation with the Securities and Exchange Commission. Members of NASD are urged to become familiar with it.

Quotations

Committee Acts to Obtain Local Publication

Information obtained from 280 corporations about the geographical distribution of their stock will be sent to District Secretaries, the National Quotations Committee reported to the Board of Governors.

The committee had sent out questionnaires to 520 corporations to obtain the geographical stockholder data. The requested information was supplied by 280 corporations with a total of 1,243,964 holders of unlisted stocks. At the last meeting of the Quotations Committee held in Chicago it was unanimously decided to send the data applicable to each District to the Secretary of the District, it was reported by George Geyer, committee chairman. District Secretaries will be asked to obtain the active cooperation of local dealers on local Quotations Committees, for the purpose of contacting the principal newspapers in the larger cities of each District.

This data should serve as definite proof of substantial local ownership of specified unlisted stocks and as tangible evidence of reader interest, the committee reported, and expressed the hope that newspapers approached might be induced to pick up from their wire services, and publish, the available quotations on the stocks owned locally.

"It also is hoped that this direct and specific effort to achieve a very basic purpose of the Quotations Committee—the publication of more quotes in more papers—may be achieved without expense to the Association," the report declared.

At the Chicago meeting, the Committee discussed thoroughly the advisability and possibility of integrating quotation activities within certain Districts, and between certain Districts, for the primary purpose of publishing more uniform prices for the same securities in different localities. However, majority sentiment within the Committee was plainly opposed to the publication of uniform quotations of the same security in different Districts, the committee's report stated.

"Different philosophies as to pricing policies exist, not only between Districts but between individual members of the Association who furnished quotations within the same District," the

committee reported. "It was also pointed out that merely the difference in times at which quotations are filed in different Districts would tend to result in different quoted prices for the same security.

"However, the Committee was in agreement that effort should be made to eliminate flagrant variations in quotations of the same security at approximately the same time, but in different Districts."

The Committee also discussed fully the conflicting viewpoints about quoted spreads. Numerous members of the Association feel that the prices of unlisted securities as published in newspapers are too narrow; a smaller number of dealers and brokers feel that the quoted spreads should be narrowed.

"As those published quotations are furnished under our present system by individual member firms of the Association, who supply bid and asked prices which represent their opinion of a fair range within which the public should be able to sell or buy stock at the time the prices are filed, it was agreed that the Committee could do no more than review published quotations regularly, and call attention to prices which seem 'out of line,'" the report said.

TRANSFER TAXES DISCUSSED

The Board of Governors held lengthy discussion at the May meeting of the so-called "California transfer tax deduction system," in relation to Section 14 of the National Uniform Practice Code. The Committee on National Uniform Practices had conducted a study of the situation and delivered a report to the Board in which there was presented the differences followed in the system of deducting and paying various transfer taxes in California as compared with that in other areas. Various letters were introduced presenting the opposing viewpoints of some of the dealers involved in the respective practices.

The Board authorized the Chairman to appoint a special sub-committee to review the matter of transfer taxes with the National Uniform Practice Committee. This committee is to report back to the Board at a subsequent meeting, if possible at the September meeting.

Kaiser-Frazer Action

Board Urges Prompt Filing of Necessary Complaints.

In a resolution adopted May 25, the Board of Governors urged District Business Conduct Committees to file complaints against any members of the Association who may have "violated high standards of commercial honor and just and equitable principles of trade" in connection with the offering of Kaiser-Frazer common stock in February of this year.

The full resolution adopted by the Board follows:

RESOLVED, That in view of the implications of possible violations of the Association's Rules of Fair Practice arising from information made public as a result of the current hearings in the Kaiser-Frazer matter; and

In view of the fact that the information presently available discloses possible violations of the Association's Rules of Fair Practice by the underwriters, distributing dealers, and other members of the Association; and

In view of the obligation of this Association to enforce its Rules of Fair Practice; and because

It is desirable in the interest of all members of this Association, the investment banking business at large, and the particular members who may or may not have violated the Association's Rules, that all facts and circumstances in this matter be fully disclosed;

FURTHER RESOLVED, That:

1. It is the consensus of this Board that the District Business Conduct Committees of this Association should promptly file complaints against any members of this Association, if such committees have reasonable grounds to believe that any such member may have violated high standards of commercial honor and just and equitable principles of trade in connection with this offering of Kaiser-Frazer Common stock in February of 1948; and

2. That the handling of any such complaints be expedited with a view towards the earliest practicable disposition; and

3. In the interest of efficient and economical handling, the District Business Conduct Committees are urged and hereby authorized, subject to arrangements satisfactory to the Executive and Finance Committees to retain single Counsel for the purpose of representing the various Districts.

Examination Program

Report Shows All Districts Have Regular Campaign in Progress and Increased

The examination program is being consistently maintained in practically all Districts of the Association, it was shown in a condensed report delivered at the recent meeting of the Board of Governors. Some Districts have had difficulties but on the whole the various offices report examinations being made regularly, on a specified schedule for the most part, or as conditions permit, such as the availability of examiners.

A brief summary of the report on examinations as to the respective Districts follows:

DISTRICT #1

(Idaho, Oregon, Washington)

One examination of each member is made by the field secretary each year. Secretary has aided District #3 and District #6 so far this year; upon completion of this work the examinations of all members in District #1 will be completed.

DISTRICT #2

(California and Nevada)

The 1947 examinations not previously made were completed and all members have now been examined.

DISTRICT #3

(Arizona, Colorado, New Mexico, Utah, Wyoming)

The examination program is in the process of completion.

DISTRICT #4

(Minnesota, Montana, North Dakota, South Dakota)

Examination of the 49 members completed the latter part of 1947.

DISTRICT #5

(Kansas, Oklahoma, Western Missouri)

Practically all of the members were examined in 1947; a total of 47 members were visited by staff examiners.

DISTRICT #6

(Texas)

Examination of the 68 members completed. District Committee has arranged to have yearly examinations made of the membership.

DISTRICT #7

(Arkansas, Eastern Missouri and Western Kentucky)

44 members were examined last October.

DISTRICT #8

(Illinois, Indiana, Iowa, Michigan, Nebraska, Wisconsin)

A continuing examination program is conducted in this District through two staff accountant-examiners. Between January 1, 1947 and April 30, 1948 a total of 230 members were examined.

DISTRICT #9

(Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina, Tennessee)

A program of examinations has been initiated and 25 members in Atlanta, Charleston and Birmingham have been examined.

DISTRICT #10

(Ohio and Eastern Kentucky)

21 members were examined in 1948 to date; the same number as were examined last year.

DISTRICT #11

(District of Columbia, Maryland, North Carolina, Virginia, West Virginia)

The Secretary conducts a continuing examination program; 23 members were examined in 1947 and 8 thus far in 1948.

DISTRICT #12

(Delaware, Pennsylvania)

32 members examined in 1947 and 10 thus far in 1948.

DISTRICT #13

(Connecticut, New Jersey, New York)

So far in 1948 three complete examinations and six limited examinations have been made. Arrangements have been initiated for borrowing examiners from other Districts in order to launch a complete examination program.

DISTRICT #14

(Maine, Massachusetts, New Hampshire, Rhode Island, Vermont)

In the early part of 1947 16 members were examined. So far in 1948 20 members have been examined.

There were comparatively few letters of censure sent or complaints filed, it is revealed in the analysis of the complete District reports. In borderline cases—and even these were limited—a warning usually was given by the District Secretary or the District Business Conduct Committee.

The report delivered to the Governors proved conclusively that material progress has been made in the endeavor to have regular examinations made of all members.

Legislative Progress

Advisory Committee reports cooperation with IBA, NASA in legislative efforts

The Legislative Advisory Committee, appointed to study securities laws, reported to the Board of Governors that it is cooperating with the IBA and the National Association of Securities Administrators in efforts to work out uniform Blue Sky legislation throughout the forty eight States.

The committee reported that NASD representatives have been invited to the Securities Administrators' July convention in Portland, Oregon, and that contacts have been made both with the National Legislative Committee and the State Legislative Committee of the IBA. In conjunction with cooperating organizations, the committee has held several extended conferences with SEC Commissioners.

In its report, the Legislative Advisory Committee urged that efforts be continued toward amendment of the Securities and Exchange Acts of 1933 and 1934.

Some districts are cooperating with the IBA at the local level also, the committee reported. Shortly after its formation, the Advisory Committee had suggested that each local district appoint a committee to advise of any legislative problems that might develop in its area. All but three of the Districts reported that steps would be taken either through the formation of their own committee, or through affiliation with the IBA Committee, or otherwise, to search out opportunities to assist in the study of securities laws.

NASD OFFICE MOVED

The Washington office of your association has moved.

The new address is 1625 K Street, n.w., and members are invited and urged to visit the office when in the nation's capital. This is the headquarters of the National Association of Securities Dealers, Inc.

The new offices are not elaborate but they provide more room, greater efficiency and increased comfort for the personnel.

While the address is changed, the telephone number is the same, Executive 4970.

Executive Director's Report to Board

Summary and Review by Wallace H. Fulton Covers Membership Growth, Work With Government Bureaus, Disciplinary Actions, Secretaries' Meeting and Other Association Activities.

Following are excerpts from the report of Wallace H. Fulton, Executive Director, to the meeting of the Board of Governors, May 24-25 at White Sulphur Springs, W. Va.:

Membership

Membership as of May 15 amounted to 2,672, the largest membership total of the past six years. We have enjoyed uninterrupted monthly gains in membership since the end of the war. Membership today is approximately 300 less than the high point in 1941, but is 500 greater than the low point reached in 1944.

As of May 15 there were registered with the Association 26,233 "Registered Representatives," being the personnel, including officers, partners and proprietors, who handle over-the-counter transactions of members. As of January 16, 1946, when the registration requirement went into effect, there were 21,351 individuals registered.

Secretaries Meeting

In keeping with the decision of the Board in January, a meeting of District Secretaries was held in Washington March 18 and 19. The Chairman of the Board attended sessions of this meeting, as did secretaries and examiners from the District offices, the Executive Director and four members of the Executive Office Staff.

This meeting was a most constructive one, from which all who attended derived measurable benefit, the Executive Office Staff as well as the field forces.

California When-Issued

The Board will recall that I have, from time to time, reported on the situation which arose in California early last year in connection with the interpretation of Section 8 of the Corporate Securities Act of California.

Section 8 relates to certain formalities and procedures to be followed in the instance of installment contracts. A case arose concerning a contract to purchase certain securities "when-issued," in connection with which the customer had made a mark-to-the-market. The customer disavowed the contract and brought suit against the broker for a refund of his deposit,

contending that such a contract coupled and was void inasmuch as the requisite formalities and procedures had not been followed by the broker. The California courts upheld the customer's contention. Subsequently, in another case this doctrine of installment contracts was broadened to include margin contracts. The seriousness of this situation was quickly noted by all in the business and the Corporation Commissioner of California. It was everyone's belief that the court had erred in so interpreting Section 8. The result has been that an amendment to the California Securities Act to clarify the situation was submitted to the State Legislature and was passed and signed by Governor Warren on April 27, 1948.

This statute states specifically that:

"(c) A 'margin' contract, 'when-issued' contract or 'when distributed' contract, as generally known in brokerage practice or securities business, or any contract involving the purchase or sale of securities used by a broker, shall not be deemed to be an 'installment purchase contract' within the meaning of this section merely because such contract involves a deposit or down payment and an implied or express agreement for the payment of the balance or any part thereof * * *."

IT-3828

In December, 1946, the Bureau of Internal Revenue adopted an interpretation known as IT-3828, which in effect provided that profits realized in the sale of securities by securities dealers would be subjected to the normal income tax and would be regarded as income, and not as capital gains, no matter how long the securities had been held. The foregoing would be applicable if the securities were of a type common to that which the securities dealer normally dealt in with customers.

The Association was active thereafter in urging an alteration of this interpretation and pointing out to the officials of the Internal Revenue Bureau the unfairness of the interpretation. On February 23, 1948, the Bureau of Internal Revenue issued a

bulletin which amended the former IT-3828 and stated in part as follows:

"* * * securities owned by a dealer in securities, if acquired and held for investment rather than for sale in the ordinary course of business, are capital assets subject to the limitations of Section 117 of the Code."

The foregoing amended interpretation considerably relaxes the application of the provision of the Internal Revenue Code as interpreted in IT-3828.

Membership Cases

At the January meeting eight cases were decided by the Board in connection with questions of membership arising out of situations in which an employee, as a result of previous Exchange or Commission action, was barred under Section 15A(b)(4). In addition the Board approved the application of Sisto & Co. All of these cases are still pending before the Commission. Commission decisions with respect to six of these should be forthcoming in the near future. The Sisto matter and the application of Janarelli & Company with Chester C. Burley as an employee thereof, have not been set down for hearing and at this time it appears there will be some delay in the disposition thereof.

In addition to the foregoing, a situation has recently come to our attention which will in all likelihood result in a membership case in the near future. An individual registered with the Association in January, 1946 as a "Registered Representative" of a member firm. This individual did not state, and the Association was not apprized until recently, that he had been expelled by order of a registered stock exchange in 1937 for violation of Section 2, Article XII of the Constitution of the Exchange. This presents a situation in which the membership of the firm is involved because of the employment of such person, and in addition presents an instance of untrue responses to the Association's request for information

DIRECTOR'S REPORT—Continued from preceding page

in connection with registration as a "Registered Representative."

Income Taxes

The Bar Association of the City of New York has had under discussion a proposal to amend the income tax statute providing that individuals or partnerships should be permitted to provide for pension or retirement plans on a basis comparable, tax-wise, to present corporate laws. The tax statutes presently do not permit an individual or a partnership to set up for their principal partners or employees pension or retirement plans and deduct costs thereof for income tax purposes, as corporations may do.

The plan of the Bar Association would permit an individual or partners within certain limits to set aside certain sums of money in either non-interest bearing or low interest bearing government bonds, and the amount so set aside would not be included in taxable income. The money so set aside would be taxable as income only in the year the bonds were cashed. Such a plan has appeal to all partnerships, professions and sole proprietorships.

DeWitt Investment Company

At its June, 1947, meeting, the application of the DeWitt Investment Company, of Wilmington, Delaware, for membership in this Association was denied by the Board. This denial was based upon two premises, namely, that the applicant was not engaged in the investment banking business within the meaning of Section 1 of Article I of the By-Laws. The applicant had only five transactions in the period of 14 months, three of which had been cancelled; and, secondly, because one of the officers, Mr. Guthrie, had been suspended from the Philadelphia Stock Exchange in 1922.

The applicant subsequently appealed the Board's denial to the Securities and Exchange Commission. A hearing before a trial examiner was held and briefs were filed. The Commission's decision in effect states that the action of the Philadelphia Exchange, having taken place prior to the passage of the Securities Exchange Act of 1934, a prior suspension is not contemplated as a cause within the meaning of Section 15A (b) (4) of the Exchange Act and Sec-

tion 2 of Article 1 of the By-Laws. The Commission, in addition, in substance, stated that the Association could not require prior to admission to membership a showing by the applicant that it is actively engaged in the securities business as a requisite for admission to membership.

Documentary Transfer Tax Stamps

The Board will recall that at various times in the past I have mentioned that discussions have been had with representatives of the Bureau of Internal Revenue in connection with an endeavor to obtain a ruling which would provide in substance that federal transfer taxes may be made by some method other than the present system of affixing tax stamps.

Representatives of the Uniform Practice Committee and Counsel have recently had another conference with representatives of the Bureau of Internal Revenue and have re-explored the possibility of interpretation of the present law which would effect the desired end. It has presently been concluded that a system that would permit the payment of such transfer taxes by a return or by some comparable method would require an amendment to the Internal Revenue Code. Representatives of the Uniform Practice Committee plan to develop a concrete proposal and discuss it some time in the near future with

representatives of the Legislative Counsel's Office in the Treasury Department.

Non-Member Brokers and Dealers

The Association has periodically checked the SEC lists of registered brokers and dealers to obtain the identity of non-members and insofar as possible to ascertain the types of business engaged in by these non-members. One such investigation was completed recently.

On December 31, 1947 there were 4,011 broker/dealers registered with the Securities and Exchange Commission. On the same date the Association had 2,648 members—a difference of 1,363. The Executive Office assembled cards on these non-members according to their geographical location and sent the cards to District Offices, requesting that the individuals or firms named on the cards be identified insofar as possible. The District Offices supplied information on 1,199 registered brokers and dealers who are not members of the Association.

Most of these non-members fell into general categories, such as real estate and insurance, oil royalties, exempt securities and the like. Insofar as the facts received in the Executive Office could be interpreted, it appears that close to 25% of non-member registered brokers and dealers engage in a

(Continued on page 10, column 2)

Breakdown of Non-member Brokers and Dealers

Nature of Activity	No. of Broker/Dealers	Per Cent
Stock and Commodity Brokers Exclusively	164	13.7
Real Estate Securities, Mortgages, Insurance and Property Management	109	9.1
Oil Royalties	69	5.8
Municipal and Government Securities	53	4.4
Mining Stocks	37	3.1
Puts and Calls	19	1.6
Religious Securities	9	.7
Foreign Securities and Currencies	7	.6
Local Securities	3	.2
Private Dealers	40	3.3
Not in Securities Business	89	7.3
Inactive	45	3.8
Unable to Locate	275	23.0
	919	76.6
Engaged in General Securities Business	280	23.4
Total	1199	100.0

Regulation T

Some members show unfamiliarity with Reserve Board's credit rules.

Examinations in various districts in recent months have revealed that many members of the Association are not fully familiar with the provisions of Regulation T issued by the Federal Reserve Board, pursuant to the provisions of the Securities Exchange Act of 1934. Under this Act the Board is required to prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on securities.

Regulation T includes requirements with regard to "Cash Accounts" as well as the better known rules applicable to "Margin Accounts." In order that members may be fully conversant with the provisions in Regulation T, and more especially those applicable to "cash accounts" the Association recently prepared a memorandum setting forth the various provisions.

The memorandum was approved by the Board of Governors and follows herewith:

Special Cash Accounts

The Cash Account (technically termed the "Special Cash Account"), described in the Regulation is one in which customer transactions are effected with the understanding that they will be settled *promptly*—that is, within the two or three days required by use of the usual transmittal facilities.

On purchase transactions the Regulation further states that, if full payment is not made within seven days after the trade date, the broker/dealer shall cancel or otherwise liquidate the transaction, or the unsettled portion thereof. There are exceptions to this requirement:

If the amount of money due from any customer in a special cash account does not exceed \$50.00 this amount may be disregarded for the purpose of the Regulation.

If the security when purchased is an unissued security the period of seven days begins to run from the date on which the security is made available by the issuer for delivery to purchasers.

If any shipment of securities is incidental to the consummation of the transaction the seven-day period is extended by the number of days re-

quired for such shipments, but not by more than seven additional days.

If a purchase is made by a customer with the understanding that payment is to be made on delivery, the broker/dealer may treat the transaction as one in which the applicable period is not seven but thirty-five days, but the broker/dealer has the obligation to deliver and obtain payment as soon as possible and he may not deliberately delay delivery. Delivery to a bank for the account of a customer is equivalent to delivery to the customer.

Delivery of a security to another broker/dealer for the account of a customer entails a special restriction. The Regulation provides that if a security is either delivered to another broker/dealer or is sold before being paid for in full, the account must be frozen for a period of 90 days. Subsequent purchases can be effected only if cash is on hand prior to execution, or if proper authorization, based upon exceptional circumstances, is obtained from the appropriate sources indicated below under "Extensions of Time."

In all the foregoing provisions the term "days" means calendar days, but if the last day of any period falls on a Saturday, Sunday, or holiday, such period extends to the next full business day.

Extensions of Time

If any exceptional circumstances have prevented payment for securities within periods specified in the Regulation, application for limited extensions of time to obtain such payment may be made to any national securities exchange or to the National Association of Securities Dealers, Inc. The authority of the National Association of Securities Dealers, Inc. to grant extensions of time is limited to transactions in special cash accounts. The Association provides a special form upon which applications may be made and requires that only such form shall be used. These forms are obtainable at the District Offices of the Association.

The Regulation is clear in its statement that applications for extensions of time must be based upon exceptional circumstances, and clear recitation of those circumstances is necessary. If the periods of time allotted by the Regulation have expired, a violation has already occurred, and no authorization exists to grant an extension on such a transaction. In fact, an extension erroneously granted after a violation has occurred is of no value.

The foregoing is a brief review of those portions of Regulation T with

Statements

Board Asks SEC Not to Publish the Financial Statements of Members

The Board of Governors has gone on record with the SEC as opposed to publication of financial statements of registered brokers and dealers.

At the White Sulphur meeting the following resolution was adopted by the Board:

BE IT RESOLVED

That the Executive Director be, and hereby is, instructed to express to the Commissioners and staff of the Securities and Exchange Commission the sense of this Board with respect to the publication of the financial statements of registered brokers and dealers as follows:

(1) That such financial statements filed pursuant to rules and regulations should be available to all state, federal and quasi-public regulatory agencies, such as stock exchanges and NASD;

(2) That such financial statements be available to any customer or broker dealer or anyone with whom a broker is currently transacting business;

(3) That the information be made available to members of the public only upon signing of a statement to the effect that the individual or concern is then currently transacting business with the registered broker dealer whose financial statement is requested, and does not request the information for purposes of public dissemination.

The matter of such publication is now under consideration by the SEC.

which a broker/dealer is ordinarily concerned. There are many other provisions in the Regulation which could be very important to any broker/dealer whose business involves other than merely cash transactions.

(NOTE—Through cooperation of the Federal Reserve Board and the Securities and Exchange Commission the Association has arranged that the Board soon will send a copy of the Regulation to all broker/dealers.)

Radio

(Continued from first page)

business," the protest stated, after having pointed out that "members of the National Association of Securities Dealers are pledged to high standards of commercial honor and just and equitable principles of trade."

The producers of the program acted without delay. Their reply follows:

"... I am extremely regretful and apologetic that such a statement was made on our program.

"We shall take immediate steps in the form of a correction of that statement on our program this Saturday, July 3, in the hopes that we may eradicate any harm that may have been done to legitimate brokers who are not members of any stock exchange.

"We endeavor to check as carefully as possible all the material used on the 'True or False' program, but the human element is ever with us, which makes for an error such as this. As a matter of fact, if it will help you any to know, the writer on True or False responsible for that misstatement is being replaced.

"As soon as possible, we will try and schedule another question on True or False having to do with the brokerage profession, at which time we will give them as much of a boost as possible. If you have any material along this line, please send it on to me, so it can be our guide for such a purpose.

"Please advise me if you think we are taking the right steps to correct the unfortunate statement that was made . . ."

On July 3 the program publicly stated that the previous statement as to bucket shops had been in error, referred to the National Association of Securities Dealers and the standards of its membership.

The Association has prepared material as a guide to another broadcast mentioned by the radio producers for a True or False program.

Director's Report

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general securities business and might be considered qualified for membership in the Association. However, this figure cannot be taken too literally, since obviously the 280 broker/dealers classified as being engaged in a general securities business do not engage in original distribution of securities and therefore have not found it necessary to join the Association. In all prob-

RADIO "CORRECTION"

Following is the "correction" which the "True or False" program producers voluntarily broadcast the night of July 3:

"Recently 'True or False' had a question about 'bucket shops' accompanied by a misleading statement. The accurate definition of a 'bucket shop' according to Funk & Wagnall's dictionary is: 'An office for gambling in fractional lots of stocks, grain, etc., with no delivery of securities or commodities sold or purchased.'

"Not to be confused with 'bucket shops', there are many brokerage offices, large and small in the United States which are not stock exchange members. But as members of the National Association of Securities Dealers, they are pledged to high standards of commercial honor and justice, and equitable principles of trade. These offices could *in no way* be called 'bucket shops.' Our apologies to anyone offended."

WALKER TO SPEAK

Frank L. Walker of Dean, Witter & Co., San Francisco will represent the National Association of Securities Dealers in speaking before the annual convention of the National Association of Securities Administrators, to be held in Portland, Oregon, July 19-23.

This is one of the most important meetings of the year in the securities business and the Association has been asked each year to provide a speaker. Usually one of the officers has accepted this role, but this year it was felt that Mr. Walker could most capably and creditably assume the responsibility of interpreting the NASD to the administrators. He was the first chairman of District 13, and is thoroughly familiar with the growth and development of the Association as well as its present policies and program. His will be a major address at Portland and the Association is indebted to Mr. Walker for accepting this invitation.

ability the study establishes but one thing pretty clearly, and that is that there are several hundred individuals and firms registered with the Securities and Exchange Commission as broker/dealers who are not engaged in the securities business as that term is commonly understood.

Mr. Black Thanks!

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ANY HARDSHIP OR IF THEY ARE DISCRIMINATED AGAINST IN ANY WAY.

EUGENE R. BLACK,

U. S. Executive Director,

International Bank for Reconstruction and Development.

MR. BILLETTS'S REPLY

June 9, 1948.

Mr. Eugene R. Black,

U. S. Executive Director,

International Bank for Reconstruction and Development,

Washington, D. C.

Dear Gene:

Thank you very much for your telegram of June 3rd.

As you point out, it seems to us that if the amendment, as proposed, is added to the pending legislation, it will insure the careful review at periodic intervals of the effects of the legislation. It may be that fears which have been expressed by some of our members are entirely groundless, but at least after a reasonable test period all of us should have a better basis for judgment of the actual effects.

Since receipt of your wire I have been informed that there have been further discussions, as a result of which the amendment itself may be modified somewhat, but I am hopeful that the bill, in a form satisfactory to all of us, will go through at this session of Congress so that the Bank can go forward with its program.

With kindest regards I am,

Sincerely yours,

L. R. BILLETTS,
Chairman.

SEC REVISION

A special committee representing the N.A.S.D. and the I.B.A. has held a series of conferences with the Securities and Exchange Commission to discuss revision of the Securities Acts. These discussions are still in progress and no important decisions have yet been reached.

The purpose of such conversations is to explore possible avenues of compromise on controversial points and to determine the points of agreement as to any possible revisions or amendments, particularly in Section 5, which would permit of advance solicitation and distribution of prospectuses.

'Long' Profit Fine

Member also censured and warned in repeated excessive mark-ups.

A member of the Association was recently fined \$1,000, censured and warned for repeated charges of excessive mark-ups.

Specifically the member was adjudged guilty of having violated Section 1 of Article III of the Rules of Fair Practice and also Section 4 of Article III of the Rules of Fair Practice, and assessed a fine of \$500 on each count.

Upon instructions from the District Business Conduct Committee an Association Examiner made a study of the accused's books and found that in the period Aug. 1, 1946 to June 30, 1947 the defendant had "engaged in the practice of selling securities to customers at prices which were not fair in view of all the relevant circumstances and in a manner inconsistent with high standards of commercial honor and just and equitable principles of trade."

Records were introduced covering 230 computable transactions and revealing the following range of mark-ups:

Mark-Up	No. of Transactions	Relation to Total Transactions
Over 10%	32	13.9%
" 9	50	21.7
" 8	67	29.1
" 7	91	39.5
" 6	124	53.9
" 5	158	68.7
" 3	205	89.1

The District Business Conduct Committee which took the evidence and heard the case found "that the prices charged in a number of these sales were based on the respondent's average inventory cost and bore no relationship whatever to the current market," and the Committee unanimously held that "the respondent's inventory cost offered no justification whatsoever for effecting sales at prices in excess of and wholly unrelated to the current market, and that the practice of the respondent in selling securities on the basis of inventory cost rather than current market was in itself inconsistent with just and equitable principles of trade."

It was further held by the committee that while the respondent had spent "some" time and money in investigating certain of the corporations whose

World Bank

(Continued from page three)

amendment satisfied the objections previously expressed for the Association Mr. Fulton replied:

"The views expressed in the telegram of the Association, especially the fears expressed that this pending legislation would not be in the public interest, in that it would tend in some respects to bring commercial banks back into the securities business may, in the light of the experience and operations of the International Bank in the next two years, prove groundless, and in that event it would not seem desirable or wise to have opposed this legislation, recognizing, as we do, the important role the Bank plays in the European Recovery Program and in the broad field of international finance. If, on the other hand, the report as required by this amendment does reveal information which tends to show that the operations of the Bank, in the marketing of their obligations, do not adequately protect the interests of investors of securities dealers, then the Association, having an opportunity under this proposed amendment to present to the National Advisory Council its views, believes that such views would, of course, receive the serious consideration of the National Advisory Council and the Congress and that corrective legislation would probably be forthcoming."

Despite the withdrawal of Association objections, and the failure of any other important opposition to appear, the House committee later tabled the Bill, which prevented its reaching the floor of the House for action before Congress adjourned.

securities were dealt in in a number of the transactions, "the evidence wholly failed" to show any investigation of such nature or extent as to in anywise justify sales at prices "so substantially above the existing market as those disclosed in this case." On one other score the defense was denied in the committee's findings, namely, the matter of dealings in low priced speculative shares. The Committee was of the opinion that although some of the securities dealt in by the respondent were in low price speculative issues, "the dollar volume involved was in most of these transactions substantial in amount, and that the mark-ups taken were not justified under the circumstances."

The opinion was unanimous in every particular.

Fellowships

Education Committee Announces Appointment of Three University Professors for Study of Securities Business.

Through the efforts of the Joint Committee on Education an important step has been taken in the effort to provide additional public information regarding the scope and operation of the securities business.

Three fellowships were granted early in July, which it is hoped will be followed by others before the summer is out, to enable university professors to devote six weeks to study and research in Wall Street. The three appointments already announced are:

Paul L. Howell, assistant professor of Finance, Northwestern University.

Mr. Howell has done considerable work on competitive bidding, principally during an association with the Securities and Exchange Commission. He will extend these studies from the business or practical operating side; he will also study underwriting mechanics and procedure and write a report to the Committee on his findings and conclusions.

Frank Maxwell Graner, assistant professor of finance, University of Wisconsin.

Prof. Graner will concentrate his studies on the workings of the Stock Exchange, delving into the freedom of the market, its relative importance in a free economy, regulation and the effect of taxation and margin requirements upon investors.

John T. O'Neill, assistant professor, University of North Carolina.

Professor O'Neill has not yet indicated his special field of study. He holds a key position in the university's curriculum in finance.

Each will receive a grant of \$500 and all traveling expenses.

The Joint Committee on Education represents the Association of Stock Exchange Firms, the New York Stock Exchange, New York Curb Exchange and the Investment Bankers Association of America (New York Group) as well as the National Association of Securities Dealers. Chairman of the committee is Amyas Ames, partner of Kidder, Peabody & Co.

Investment Trust Problems

SEC Staff Frowns Upon Charts and Comparisons in Sales Literature.

The Investment Trust Underwriters Committee, under instruction from the Board of Governors, is holding a series of conferences with members of the Securities and Exchange Commission staff and the Commissioners in an endeavor to clarify the Commission attitude toward sales literature, more particularly the construction of performance charts used in annual reports and certain sales literature pertaining to investment company shares.

The Committee reported to the Board of Governors that it understood that the staff had objected, among other things, to the following:

1. The comparison of the performance results of an investment company with any list of securities not continuously managed or with any generally recognized market average.

2. Any comparison or contrast between an investment company which is primarily invested in equities and any type of security which has a fixed maturity and which contains some legal assurance that full principal will be paid. It is understood that the basis of the staff's objection is that the comparison or contrasting of an equity investment with any type of bond or annuity program is *per se* misleading.

The Committee report at White Sulphur said:

"The Securities and Exchange Commission by a recent release has raised serious questions as to the propriety of using of graphs and charts in the ordinary form which summarize the over-all performance of an investment company. These charts are of interest to dealers, stockholders and prospective investors. The action of the Commission effectively prevents the use of such graphs and charts by members of the NASD. It makes necessary the determination of proper procedure in the charting of the 'productivity' of an investment company.

"The release was issued without any consultation with the NASD or with investment companies or their underwriters generally. The Investment Trust Underwriters Committee dis-

agrees with the position taken in the release and requests that it be authorized by the Board of Governors to take steps with the Commission to secure modification of that position along the lines described below."

The views of the Securities and Exchange Commission are presented in the following press release issued by the Commission (Release #1160 under the Investment Company Act of 1940 dated April 2, 1948):

- (1) "Examination of these charts and graphs indicates that they are misleading in that the addition of dividends to the investors' cost of investment introduces a misleading, ballooning distortion in the charts or graphs magnifying the performance history to a level far above that which would result if such dividends were excluded.
- (2) "Moreover, such charts and graphs make it impossible or extremely difficult for an investor to determine what his performance experience would have been if he had made his investment at particular stages of the periods purported to be portrayed by the chart or graph.
- (3) "In addition, such charts and graphs give inadequate consideration or omit entirely the inclusion in the investor's actual cost of the sales load which he would have to pay to obtain a participation in the enterprise.
- (4) "Finally, in nearly all cases the period covered is one arbitrarily selected to cover favorable stock market levels."

The Association's Investment Trust Underwriters Committee has been in consultation with the SEC staff in an attempt to obtain full understanding of the differences and to compose them, if possible. The Association's views are being presented in the conferences now in progress.

WATCH CHARGES!

Section 22 of the Uniform Practice Code says:

"Expenses of shipment, including insurance, postage, draft, and collection charges, shall be paid by the seller.

Members are cautioned to observe this rule. Drafts sometimes are drawn "with exchange." This is contrary to the sense of Section 22.

KIT OF FORMS READY

Members are hereby advised that the kit containing samples of forms and bookkeeping records is now ready for distribution.

These will be sent ONLY UPON REQUEST. The kit will not be mailed to present members, except upon such request.

While new members will automatically receive this kit it is not thought that it will be of value or assistance to established firms, particularly the larger ones. Any member firm that might have use for such specimen records and sample forms is urged to write for it.

The kit contains broker/dealer forms, data relating to group insurance, certain regulations, such as Regulation T, a copy of the NASD By-Laws and Rules and the following sample bookkeeping records: daily blotter, ledger sheet, position record.

Members who desire copies of the bookkeeping forms and specimen confirmation notices and similar master forms are urged to write for them.

Remember This!

Some securities firms which are participants under the Group Insurance Plan or contemplate enrolling have indicated confusion on certain rules followed by the Trustees. For that reason all Participants are reminded that:

1. All participants must insure ALL employees. Only in this way can there be broad coverage, insuring a spread of the risks involved.
2. Participants are billed monthly. Each month the participating firm receives a bill for the amount of the premium due, rather than a semi-annual or annual payment.
3. BOTH copies of the Registration Card must be sent in with the notice of participation.

One copy of this registration and record card is returned to the participating office, after it has been properly signed, but both copies must be sent to the Trustees, care of the NASD office, at the time of enrollment.