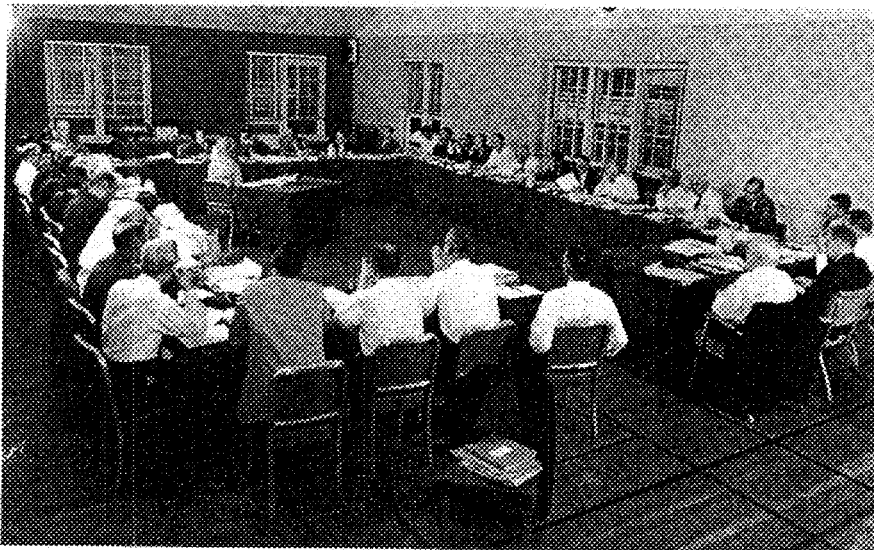


SEC SPECIAL STUDY OF SECURITIES BUSINESS RESULTS IN COORDINATED INDUSTRY ACTION TOWARD CHANGES IN LAW



NASD Board of Governors met in Hot Springs, Virginia, on May 6-8, with the Advisory Council (Chairmen of District Committees) to continue their discussion of the SEC's proposed legislative package which began at a special Board Meeting called a week earlier.

The release on April 3 of five chapters of the SEC's long-awaited Special Study of the Securities Markets initiated many changes in regulation, in new ideas and patterns of doing business that will have far-reaching effect on the over-the-counter market for at least the next decade. This is how it happened and what has taken place since:

The first four chapters and Chapter IX of the Report were released April 3. The report was distributed simultaneously in Washington, New York and Chicago. Limited quantities were made available to the industry and only 500 copies in all were duplicated.

A 28-page press summary was sent along with the Report as well as a letter of explanation from Study

Director Milton Cohen to SEC Chairman William Cary. A transmittal letter was also released from SEC Chairman Cary to the President of the Senate and Speaker of the House outlining proposed legislation which would be requested by the SEC.

The titles of the chapters in the Report released so far are:

1. *General Introduction*
2. *Qualifications of Persons in the Securities Industry*
3. *Broker-Dealers, Investment Advisors and Their Customers*
4. *Primary and Secondary Distributions to the Public*
9. *Obligations of Issuers of Publicly Held Securities*

Chapters still to be released:

5. *Introduction to Structure and Problems of the Market*
6. *The Exchange Markets*
7. *The Over-the-Counter Markets*
8. *The Inter-Relationship Between Trading Markets and Pattern of Distribution*
10. *Credit and Margin Regulations*
11. *Open-End Investment Companies and Mutual Funds*
12. *Evaluation of the Self-Regulatory Pattern*
13. *The May, 1962 Market Break*
14. *General Topics and Summaries which did not fit into previous categories.*

Also on April 3, the SEC Commissioners and Directors of the various phases of the Special Study met with Rep. Oren Harris, Chairman of the House Interstate and Foreign Commerce Committee which originally considered legislation authorizing the one million dollar study, and Representative Harley Staggers and other members of his House Subcommittee that will consider any

(Continued on page 2)

SEC REPORT AVAILABLE

Copies of the first four chapters and chapter nine of the SEC Special Study of the Securities Markets may be obtained from:

Superintendent of Documents
U. S. Government Printing Office
Washington 25, D. C.

Part I, Chapter 1-4 (House Document 95) price—\$2.25 a copy.

Part III, Chapter 9 (House Document 95) price—\$.50 a copy.

proposed legislation. Chairman Cary explained that the SEC was anxious to submit legislation based on recommendations in the five chapters in the following areas:

1. Authorize standards of character, competence and financial responsibility as conditions for entry into the business.

2. Require all firms and individuals to be subject to the authority of one of the self-regulatory agencies.

3. Grant the Commission direct disciplinary controls over individuals.

4. Provide the Commission with intermediate sanctions over firms and individuals.

Congressmen present at the meeting seemed quite concerned that the recommendations in the Report were not specifically those of the SEC but of the Special Study Group. Chairman Cary explained that while the Commission felt that the Study was a substantial document, it had not had time to specifically endorse each of the recommendations, which were still under review by the Commission. It was also stated that the remaining chapters in the Report would be released by May 1 and the SEC would submit to Congress at that time proposed legislation in the four areas outlined by Chairman Cary in his covering letter. Rep. Oren Harris stated that the Government Printing Office would reproduce copies of the first five chapters in about two weeks.

Press reaction to the Report was extensive with many newspapers picking up the catch phrase "grave abuses" used in Chairman Cary's covering letter but taken out of context in the statement, "Serious shortcomings are apparent and the report, of course, has concentrated on their examination and analysis. Yet it is not a picture of pervasive fraudulent activity and in this respect contrasts markedly with the hearings and findings of the early thirties pre-

ceding the enactment of the Federal securities laws. The Study confirms the strength of those laws and the heightened sense of obligation of the financial community. At the same time the report makes very clear that important problems do exist, grave abuses do occur, and additional controls and improvements are much needed."

Later newspaper stories were more analytical and pointed out that the Report did not uncover any widespread wrongdoing. Industry representatives wisely refused to comment on the Report until they had a chance to study all of the recommendations and digest the complex and detailed material presented.

On April 5, the SEC held a press conference in which Chairman Cary stated that letters had been sent to industry representatives asking that special liaison committees be formed to work with the SEC. Letters were sent to Amyas Ames, President of the Investment Bankers Association; Keith Funston, President of the New York Stock Exchange, and Hudson B. Lemkau, Vice-Chairman of the NASD. The men selected for this Securities Industry Liaison Group were as follows:

For the over-the-counter markets, investment banking and other industry matters—Avery Rockefeller, Jr., Chairman of the NASD Study Group Legislation Committee; Wallace H. Fulton, NASD Executive Director; Amyas Ames, Investment Bankers Association President, and Bayard Dominick, President of the Association of Stock Exchange Firms.

For the stock exchanges—Keith Funston, NYSE President; Edwin D. Etherington, American Stock Exchange President, and James R. Day, President of the Midwest Stock Exchange. For the investment companies — Dorsey Richardson, President of the Investment Company Institute.

In addition, the NASD also named its own internal committee to study

proposed legislation affecting the Association. Members of this special legislative study committee are Avery Rockefeller, Jr., Committee Chairman; and Governors Robert Haack, Milwaukee; A. Jackson Goodwin, Chicago; G. Shelby Friedrichs, New Orleans; Gus G. Halliburton, Nashville; Craig Severance, New York, and Hudson B. Lemkau and Merl McHenry, Vice Chairmen of the Board. Former Governors William H. Claflin, Glenn E. Anderson, Robert L. Cody, Paul L. Youmans and Edward H. Ladd were also appointed to the Committee along with Wallace H. Fulton, ex officio member.

On April 8, Senator Harrison Williams, (D, N. J.), Chairman of the Securities Subcommittee of the Senate Banking and Currency Committee, announced that he planned to hold Congressional hearings on the SEC Report as soon as the rest of the chapters were submitted to Congress. Senator Williams stated that his primary concern was the question of how the securities industry ties in with the Nation's economic development and growth.

On the House side, Representative Oren Harris declared that Congressional hearings under the jurisdiction of his Committee would start approximately two weeks after the submission of the final chapters in the Report.

Upon receipt of its allotment of seven copies of the Report, the NASD staff immediately made an analysis of all recommendations contained in the Study as well as significant statements on NASD activities. These analyses were sent to the members of the Association's special legislative study committee who had already received copies of the five chapters.

On the 18th of April, the SEC released to the Association copies of the proposed draft legislation it intended to send to Congress. The Commission requested that this pro-

(Continued on page 3)

posed legislation should be studied in detail by the Association's Board of Governors so that the industry's ideas and positions could be considered in final drafts.

A special meeting of the Board of Governors was called on April 26 in New York for the purpose of discussing the proposed SEC legislation.

Meanwhile, Representative Oren Harris requested in a letter to Chairman Cary that the Commission outline to Congress specifically what recommendations in the study report it endorsed and what legislation it would ask Congress to enact.

In his reply to the Harris letter, Chairman Cary said that the Commission would ask for laws that would:

"Authorize the SEC to suspend trading in over-the-counter se-

curities for the same ten day period it currently can suspend trading in securities listed on exchanges.

"Require OTC companies to report financial and proxy information on a similar basis to listed companies."

In addition to these proposals, Chairman Cary stated that the Commission would also submit drafted legislation covering the areas outlined in his original letter to Congress.

He stated that while some of the Report's recommendations require legislation, others can be accomplished under present law with the SEC's rule-making powers and still others call for industry action by the NASD and the exchanges. Mr. Cary outlined the Commission's position

on all of the recommendations contained in the Report. In general, the Commission supported almost all of the recommendations of the Study Group.

After this exchange of letters, the SEC asked for and was granted an extension of time in submitting its legislative proposals to Congress as well as the remaining chapters in the Report.

At the NASD Board Meeting on May 6-8, Association Governors continued their study in detail of the SEC's legislative proposals. Four subsequent meetings were held between the Commission staff and members of the NASD special legislative committee.

On June 3, the Commission sent its legislative package to Congress for consideration. Also on this date, the Government Printing Office announced that copies of the first four chapters in the Report were available in quantity.

As the NASD News goes to press, Senator Williams and his Securities Subcommittee of the Senate Banking Committee have begun hearings on the Report on June 18. According to SEC spokesmen, the new target date for final submission of the remaining chapters of the Report is several weeks away.

OTC CLEARING TO BEGIN

The National OTC Clearing Corporation will begin operations early in July with a pilot clearance program in approximately 100 different issues. Quickly, thereafter, the facilities will swing into full operation in clearing from 1200 to 1500 over-the-counter issues.

Educational training seminars for participating firms' back office personnel were held June 10-20. Detailed information on the facilities and the services offered by the Clearing Corporation may be obtained by writing to: National OTC Clearing Corporation, 12 Albany Street, New York City.

NASD PRESS STATEMENT ON SEC LEGISLATION

Since late in April this year, representatives of the Board of Governors of the National Association of Securities Dealers, along with representatives of other industry organizations, have been consulting with the Securities and Exchange Commission concerning the legislation introduced in Congress on June 3, 1963. We support these bills and are hopeful that Congress will see fit to enact the basic concepts embodied in all of them.

This legislation, stated briefly, deals with the following:

1. Disclosure of information by companies whose securities are traded over-the-counter and the conformance by these companies with many of the reporting and proxy requirements of listed securities.

2. Amendments to the Securities Act of 1933 to increase the time period for the use of prospectuses of issues going to the public for the first time.

3. Amendments to the Securities Exchange Act of 1934 to permit the Commission to proceed against individuals in disciplinary actions without necessarily joining his employer in the action.

4. Making other changes in the 1934 Act to implement certain suggestions of the Special Study of the Securities Market.

It is the position of the NASD Board with respect to these bills that they represent constructive proposals by the Commission and a sincere effort to further the protection of the public. We have appreciated the attitude of the Commission throughout our meetings and discussions and their willingness to consider industry views.

The enactment of this legislation would be a progressive step in carrying out the Commission functions. The Commission has done an excellent job on this project under a difficult time schedule.

NASD-EXCHANGE COORDINATED EXAMINATION TO BEGIN ON JULY 1, AT 67 TEST CENTERS

The NASD, NYSE and ASE coordinated examination system will begin on July 1, 1963, in 67 Association Test Centers throughout the 50 states.

Candidates seeking registration with the NASD, the New York or American Stock Exchange will fulfill their test requirements at a single session at any of the NASD centers.

The NASD Qualification Examination, consisting of a 100-question General Securities section and a 25-question NASD section, will be taken along with a special Exchange section by applicants from members of the NASD and/or New York Stock Exchange and American Exchange. Under certain circumstances, a registered representative moving from an over-the-counter firm to a Stock Exchange firm will not have to retake all sections of the test, depending on the policy of the Exchanges.

The substance or difficulty of the NASD examination as it is now given to registered representative applicants will not be affected by the new co-ordinated system. However, a new NASD test will be introduced on July 1. The improvements in the testing program are designed to promote standardization for the benefit and convenience of

NASD and Exchange member firms.

During 1963, nearly 1,400 examination sessions will be held at the 67 centers. Viewed as an average, more than five examination sessions will be held every business day. In New York City the examination center will move on July 1, to the Psychological Corporation, 304 45th Street, where two day sessions and one evening session will be held each week. The evening session will be limited to those applying for NASD registration only. Five new test centers in different states have also recently been added to the program.

Now in preparation by the NASD is a new and comprehensive "Training Guide" for registered representative candidates. The Guide, to be used with recommended text books, is designed to afford the candidate a broad acquaintance with the basics of the securities business while preparing for his qualification examination. Copies of the publication will be mailed to all member firms upon its completion in late summer.

The Qualification Examinations Department is now under the direction of Bruce J. Simpson who joined the NASD after serving as a consultant with the SEC's Special Study.

PHONY QUOTES ON STOCKS BILK DEALERS

A unique scheme involving the pledging of stock certificates of phony corporations to obtain bank loans and the publishing of fictitious quotations in the "pink sheets" has been uncovered recently by the SEC in New York, New Jersey, Florida, Ohio and Illinois.

Llewellyn P. Young, Regional Administrator of the SEC's New York Office, warned broker/dealers and banks not to accept without close scrutiny published price quotations for over-the-counter securities of obscure companies about which little or no information is available. He said that a number of banks and several broker/dealers have suffered losses on securities whose issuing company was wholly fictitious or the merest shell.

Mr. Young pointed out that the criminal rings operating this fraudulent scheme first print stock certificates and an impressive letterhead, complete with fictitious officers, firm address and telephone number. Then a broker/dealer is approached to put quotations for the stock in the "pink sheets" with promises of substantial profits. This is followed up by a telephone campaign to larger firms asking about the availability of the stock. These firms in turn make inquiries of the dealer quoting in the "pink sheets." The result has been the appearance of a market, on which banks and brokers have relied, to their sorrow.

A number of banks misled, by the appearance of a market for the stock have accepted worthless certificates as collateral for thousands of dollars in loans.

Mr. Young said that although the rings have operated in hit and run fashion, so far the SEC has been able to spot the fraud and move quickly enough to prevent any general public injury. Recent examples of such securities are those of the Argyle Corporation, involving counterfeit stock certificates of a dormant company, and United Gas Transmis-

(Continued on page 8)

WHEN APPLYING FOR REGISTRATION AS A REGISTERED REPRESENTATIVE

NASD members who are also members of NYSE or ASE *must use after June 17* white form R-100-L which replaces yellow form R-100-K. Copies of R-100-L may be obtained from NASD District Offices.

For members of the NASD only, yellow form R-100-K will continue to be accepted until your supply runs out. Thereafter use R-100-L.

IMPORTANT NOTE

Fill out the perforated sections at the bottom of page 3 on white form R-100-L before filing the Application, *but do not detach.*

Each application must be accompanied by a \$15 Registration Fee. An additional \$15 fee must also be enclosed if the applicant is required to take the Qualification Examination.

BOARD ADOPTS NEW PRESS NOTICE RULE

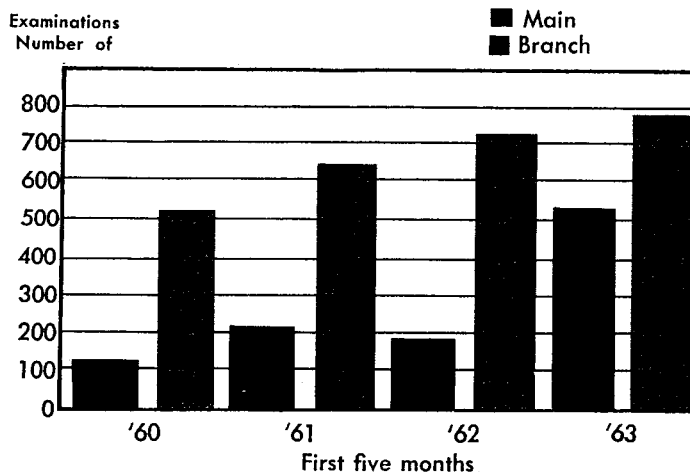
At the May Board Meeting, the NASD Governors adopted a resolution establishing a new procedure for handling notices to the press on expulsions, suspensions and revocations from the Association.

This new interpretation, which will replace H-10 in the Manual, reads:

"Notice of expulsion or suspension from membership in the Association of any member firm or notice of revocation or suspension of the registration of any registered representative, shall be released to the press when all appropriate periods of appeal or review within the Association have expired."

"Information about any case may be published in the NASD News provided, except in the case of expulsion, revocation or suspension, the name of the member or registered representative involved is not disclosed."

BRANCH OFFICE EXAMINATIONS UP 195 PERCENT COMPARED WITH THE SAME PERIOD LAST YEAR



Complaints and Penalties

First five months		Pending	Filed	Closed	Expulsions		Suspensions		Fines		Censure		Dismissed	
					M	RR	M	RR	M	RR	M	RR	M	RR
'63		346	195	227	28	61	7	11	118	64	135	82	41	32
'62		424	188	141	11	17	6	11	94	13	99	18	14	14
'61		229	118	134	16	12	5	3	49	21	69	17	31	10
'60		256	180	104	6	4	4	3	81	24	54	9	26	14

M = Member

RR = Registered Representative

PUBLIC OFFERING GUIDE NEW BOOK AVAILABLE

"A Complete Guide to Making a Public Stock Offering" is the descriptive title of a new book by Elmer L. Winter, President of Manpower, Inc., one of the largest temporary employment agencies serving the business community.

Mr. Winter practiced tax and corporate law before organizing Manpower, Inc., in 1948. The firm now has 260 offices in the United States and Canada as well as offices in 15 European and Near Eastern countries.

Mr. Winter, whose company went public in 1959, relates in an easily read, step by step style the problems faced by many small companies searching for outside capital.

Further information about the book and its price may be obtained from the publisher, Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

A five-month statistical summary recently completed by the NASD found that branch office examinations were up 195 percent over the same period in 1962.

Five hundred twenty-five branch offices were examined between January 1 and May 31, 1963, as opposed to 178 last year.

Main office examinations also have increased 12 percent over last year. Total examinations, main and branch offices, as of May 31, reached 1,324. In 1962, a year in which the NASD member examination program achieved a record high, only 889 examinations of main and branch offices were accomplished in the first five months. At present, the annual rate of examinations is at 41 percent for main offices and 27 percent for branches.

Almost 200 complaints against member firms have been filed by

the Association in the first five months of this year. Three hundred forty-six complaints were pending or in process at the beginning of the year and since that time 227 have been closed by action of the District Committees and/or Board of Governors.

Penalties imposed as a result of complaints in this five-month period have resulted in expulsion of 28 members and 61 registered representatives, seven members and eleven registered representatives suspended, 118 members and 64 registered representatives fined, 135 members and 82 registered representatives censured, while complaints against 41 members and 32 registered representatives have been dismissed.

The Board of Governors has handled 27 cases on appeal or called up for review. Nine decisions

(Continued on page 8)

BANK LEADER CALLS FOR WIDER USE OF FULLY REGISTERED BONDS BY INDUSTRY

The American Bankers Association has appointed a special committee to study and make recommendations concerning the increased use of fully registered bonds instead of the present widely used coupon bond issues.

Committee Chairman Russell H. Johnson, Executive Vice President of the United States Trust Company of New York, emphasized in a recent speech the growing interest in registered bonds among institutional investors and members of the public.

Talking to the Municipal Finance Officers Association at their 57th Annual Conference in Detroit on June 6, 1963, Mr. Johnson stated that some 283 million coupons are cut each year by bond holders at a cost of 452 man years of effort. He said that few people, financial or otherwise, are aware of the many advantages accruing to the holder of fully registered bonds whose use is minute compared to coupon bond distribution.

Mr. Johnson cited the following advantages registered bonds have over coupon bonds in corporate, municipal and government issues:

- (1) Eliminates cutting, counting, auditing and cremating of coupons.
- (2) Reduces insurance and mailing costs by 80 percent.
- (3) Protects against the use of stolen bonds or counterfeiting for loan collateral.
- (4) Interest and call notices are received by mail.
- (5) Closes tax loopholes.
- (6) Increases safety in the event of disaster.
- (7) Reduces space requirements substantially, and

(8) Tends to eliminate price differentials.

"Disadvantages of registered bonds are hard to find," according to Mr. Johnson. He stated that the registered bond issue may be harder to sell because of departures from accepted practice and transfers as well as closings could not be handled in the usual manner. Also, foreign buyers may express a lessened interest because their identity could not be concealed with a registered bond.

Mr. Johnson stated that his Committee had letters from over 50 large insurance companies declaring emphatically that they favored registered bonds. In addition, he read a resolution filed by major Pennsylvania banks which said that they were willing to buy fully registered corporate bonds with no concession in market price, provided that the issuing company arranges for authentication and transfer within the four-day settlement period, the seller receives interest to date of settlement and adequate provision is made for handling partial calls.

As for the individual investor, Mr. Johnson used as an example a letter he had received from a woman who presented \$5,000 worth of coupons to her bank for collection on the first of January and was told that the bonds had been called for redemption the previous July. This meant that she had \$5,000 not earning interest for six months.

In conclusion, Mr. Johnson called for the investment community to get together and make a concerted effort for wider use of fully registered bonds.

SEC SUTRO DECISION DEFINES REG. T RULES

A recent case before the SEC, in which Sutro Bros. & Co. was suspended from the NASD for 15 business days, served to define officially for the first time what a broker/dealer can and cannot do in arrangements for extension of credit with non-regulated lenders (securities factors).

The Commission stated in their findings and opinions in the case the following:

"Where salesmen of a registered broker/dealer arranged for customers to obtain from factors credit for the purchase of securities in excess of the amount of credit which registrant itself was permitted to extend under Regulation T issued by the Federal Reserve Board (the Commission), held, willful violations of the margin restrictions of Section 7 of the Securities Exchange Act and Regulation T issued thereunder.

"Prohibitions against arranging for credit in excess of that permitted under Regulation T apply to arrangements for such credit made by salesmen of a registered broker/dealer whether arrangements are for the accounts of the salesmen themselves and members of their families or for unrelated customers.

"Clearance loans, in which credit is extended in connection with a transaction where a security is purchased and resold within four days, are loans on securities or for the purchase of securities, and are subject to the margin requirements of the Act and Regulation T.

"Within the meaning of the Act and Regulation T, arranging for the extension of credit by others includes such activities by a broker/dealer or its representatives as obtaining or filling out for the customers the forms or documents necessary to carrying out the credit transaction.

"Where registered broker/dealer and its managing partner failed to maintain proper and effective system of supervision and to act diligently

(Continued on page 8)

CONGRESS CONSIDERS BANK TRUST AUTHORITY

The continuing debate between the Securities and Exchange Commission and the Comptroller of the Currency over which should regulate sales by banks of interests in common trust funds is now before the Congress.

A subcommittee of the House Government Operations Committee conducted hearings recently on this matter. Cause of the dispute is a new regulation by the Comptroller permitting banks to operate their common trust funds on a commingled account basis and to offer interests in them to the public.

SEC Chairman William L. Cary testified at the hearing that the Comptroller's action puts banks virtually in the position of offering investment company securities without any of the protections afforded the public by the securities laws, particularly as to disclosure.

Comptroller James Saxon countered Cary's case with the contention that SEC was simply seeking to expand its authority and that in any event, the Comptroller's office would maintain much stricter control over the bank offerings than the SEC.

There is no indication at this time what congressional action may be taken.

EXCHANGE LOSES CASE IN THE SUPREME COURT

The United States Supreme Court has ruled in favor of a broker/dealer (Harold J. Silver doing business as Municipal Securities Company) in an anti-trust case brought against the New York Stock Exchange for causing the removal of private, direct wire connections between certain Big Board members and the non-member firm. In a lower court decision in the case, which was instituted in 1959, the Exchange had been upheld in its plea of immunity to the anti-trust laws by nature of its registration under the 1934 Securities Exchange Act.

The Supreme Court stated in its 7 to 2 decision that the Exchange immunity to anti-trust action is justified only to the extent necessary to protect the aims of the Securities Exchange Act. The unexplained removal of the wire circuit without affording benefit of a hearing denied the plaintiff the procedural safeguards to which he was entitled, according to the Court.

The lower court judgment was reversed and remanded for further proceedings consistent with the Supreme Court opinion.

PAR FOR PAR EXCHANGE CALLED RULE VIOLATION

At the recent Board Meeting, May 6-8, a District case was called up for review and a decision rendered in an unusual and seldom found situation involving "par for par" exchanges of corporate bonds between a broker/dealer and an insurance company.

The original complaint charged prices not reasonably related to the current market and violations of Section 1 and 4 of Article III of the Rules of Fair Practice.

At the instigation of the insurance company, the firm involved had effected an arrangement whereby low-coupon corporate bonds held in the insurance company's portfolio would be exchanged by the dealer for other bonds offering increased yields. The exchanges took place on a "par for par" basis, (\$1000 face amount of debt security for \$1000 face amount of another debt security), with no payment involved other than accrued interest.

Prior to effecting any of the exchanges, the firm was advised by the State Insurance Commissioner that the program was acceptable. The firm also checked the plan with its counsel and obtained clearance.

In 1958, the Board ruled that simultaneous transactions of purchase and sale for the purpose of adjusting insurance company portfolios at other than the current market was a violation of the Rules of Fair Practice.

In making its current decision, the Board referred to the 1958 ruling and found that the practice of "par for par" exchanges was also inconsistent with just and equitable principles of trade and violated the Rules of Fair Practice, even though not involving an actual sale. In view of the obvious good faith of the firm, no penalty was assessed.

FundScope, NASD Cooperating on Performance Data Revision

FundScope Magazine and the NASD Investment Companies Department are working actively on practical means for the magazine to revise its performance data so as to be in compliance with technical requirements of the Statement of Policy.

The discussions are in response to a request from the magazine for advice as to how investment company performance details may be shown with reasonable relation to space available in the magazine.

Successful completion of these discussions, expected during the summer, will make it possible for NASD members and their salesmen to use FundScope as sales literature in the offering of shares.

[REDACTED]

to prevent improper arrangements by salesmen for extension of credit to customers by factors (the Commission), held, such failure constituted participation in violations."

In discussing the status of registered representatives who may not actually make "arrangements" for others, but who effect factored transactions for his own account, the Commission in its opinion stated:

"We cannot agree that a salesman financing his own securities transactions executed through an account with his employer's firm is free of Section 7(c) and Regulation T."

In a broad interpretation the Commission's opinion went beyond the matter of "arranging" and said:

"We believe it is appropriate to indicate our view that a broker who executes both the buy and sell sides of a factored clearance transaction violates Regulation T, whether or not there is any arranging by the broker for the credit extended by the factor or other lender. Section 4(c)(1) of Regulation T provides that in a special cash account a creditor, i.e., the broker, may effect for or with any customer bona fide cash transactions."

45,000 FUND SHARES CERTIFICATE MISSING

Lost, one stock certificate for 45,813 shares of Capital Life Insurance Shares and Growth Stock Fund.

On March 15, 1962, the transfer agent for Capital Life Insurance Shares and Growth Stock Fund sent Certificate No. CU60264 for 45,813 shares of the fund to Mr. Jacob Stewart Urban. Mr. Urban never received the certificate nor has any trace been found of the shares for over a year.

Any person having information concerning Certificate No. CU60264 should contact either Fidelity-Philadelphia Trust Company or Capital Life Fund.

[REDACTED]

sion, a purported New Jersey company whose only claim to reality is a telephone answering service.

The New York Regional Office is currently investigating other dubious companies whose securities are being quoted in the "pink sheets", including one apparent shell for which half a dozen securities firms have been bidding up to \$15 a share in recent weeks.

Mr. Young said that broker/dealers must be constantly vigilant to protect themselves and the public in the discharge of their responsibilities under the federal securities laws. Even inadvertent participation by a broker/dealer in such fraud raises a question of whether these laws have been compiled with by him.

The NASD Executive Office will welcome any current information from members about companies, securities or price quotations of this character.

DIGEST ARTICLE HELPS NEW REGISTERED REPS

An article in the May 20 edition of the Investment Dealers Digest entitled "Return To Basic Investment Principles" by George W. Davis of Davis, Skaggs & Co. presents an interesting and helpful discussion of sales techniques. The article should make beneficial reading for new registered representatives as well as established and experienced securities salesmen. Mr. Davis advocates a return to the idea of selling investments as opposed to high-pressure selling. It is his opinion that a substantial part of the troubles besetting the securities business in 1962 came as a result of a disregard for this basic principle.

In calling the article to the Association's attention, District Committee No. 3 urged that all Association members and registered representatives attempt to obtain a copy.

MEMBER AND SALESMAN RECEIVE STIFF PENALTIES

A District Business Conduct Committee has fined a firm and suspended one of its registered representatives for failure to supervise multiple violations of the Statement of Policy, selling mutual fund shares just prior to distribution date, and unsuitable recommendations.

The firm, which has a national network of branch offices and specializes in the sale of investment company shares, had set up an elaborate system for supervision which the Committee said looked impressive on paper, but did not seem to work in actual practice. Noting previous disciplinary action against the member for failure to supervise, the District Committee directed the firm to employ administrative personnel to improve its supervisory operation. The member was also criticized for thrusting an inexperienced individual into a managerial position.

As to the individual, the Committee found "flagrant abuse" of the Statement of Policy, together with a practice of selling dividends and distributions and an instance of unsuitable advice to a customer.

In making its findings, the Committee rejected the argument of respondent's counsel that violations of the Statement of Policy can occur only if a customer is actually hurt by them and the novel view that selling dividends and distributions saves the customer the sales charge on reinvestment of the dividend or distribution.

[REDACTED]

of the Association have been appealed to the SEC.

In the Association's qualification examination program, the average failure rate during this five-month period on first attempts at the NASD test was 31.2 percent. Failure rates on second, third and fourth attempts at the test were considerably higher. Almost 5,000 qualification examinations were administered during the period.