chapter III.C, and a number of statements made here are considered more fully there.

The essential function of persons evaluating securities and security prices, whether employed by a broker-dealer or a registered investment adviser, is to formulate opinions as to the intrinsic merits of a security or its desirability as an investment at a particular time. However, the actual duties of the analysts employed by broker-dealers are in some respects distinguishable from those of the analysts employed by registered investment advisers, and the statutes, regulations, and agencies affecting the two groups are sufficiently distinct to warrant their separate consideration.

There are no complete statistics on the number of persons engaged in analysis and research, but the information gathered by the study indicates that the growth in their number has generally kept pace with the growth of the industry. For the most part, their increase has paralleled that in the number of sales personnel, according to the information supplied to the study by the group of broker-dealer firms responding as to the activities, education, experience, and compensation of their research personnel.[188] For example, between 1955 and 1961 Eastman Dillon, Union Securities Co., increased its research and advisory personnel from 5 to 19; at Shields & Co. the number rose from 4 to 11; at Ira Haupt & Co., from 5 to 12; and at Dominick & Dominick, from 5 to 14. An analysis of investment adviser registrations and applications filed with the Commission shows substantial growth in the number of investment advisers and in their rate of entry into the business. From July 1, 1950, to July 1, 1955, while the number of effective registrations rose slowly from 1,043 to 1,203, or less than 200, the number of applications filed increased from 119 in 1950 to 199 in 1955.[189] By June 30, 1962, there were 1,836 effective registrations, and 315 applications were filed during the preceding fiscal year. Another index of the increasing importance of the role of the analyst in the industry has been the rapid growth in membership of various analysts' organizations. The New York Society of Securities Analysts, which was founded as recently as 1937, had a membership of over 2,945 as of March 1963, while the Financial Analysts Federation, of which the New York Society is a member group, was founded in 1947 with 1,637 members, and as of March 1963, had some 7,775 members in 29 analysts' societies located in the larger cities of the United States and Canada.

### 2. ADVISORY PERSONNEL OF BROKER-DEALER FIRMS

#### *a. Broker-dealer research activities*

Generally, insofar as their advisory activities are concerned, broker-dealer firms fall into one of three categories: (*a*) Those which do not claim to have any research department, and in which any research and advisory service is carried on by salesmen or outside sources; (*b*) those whose research departments consists of a small number of partners and registered representatives who spend part of their time in

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[188] A representative group of 66 firms were requested to submit such information on research activities and to submit copies of all advisory material published by them over a 3-month period. For factors considered in selecting the group see ch. III.C, below.
[189] See table I–15.

research and part in selling securities; and (*c*) those with organized research departments with personnel who, in most instances, devote all of their time to analysis. It should be noted that while larger firms presumably can afford and often have fully staffed research departments, there is no general correlation between the size of a brokerage firm and the size or qualifications of its research staff. From those firms which have research departments, the personnel may perform one or more of a number of research and advisory functions. They ordinarly prepare the market letters, bulletins, or reports which are distributed by the firm, prepare internal publications and recommended lists, answer individual inquiries concerning particular securities for salesmen and their customers, review and make recommendations for portfolios of customers and potential customers, and often prepare special research reports for institutional customers.

A number of firms making retail sales to the public, including New York Stock Exchange member firms, reported to the study that they had no research departments. Among these was 1 with 32 registered representatives, which advertised the availability of its "Velocity Studies." Such printed investment advice as is distributed by firms in this category generally consists of material obtained by them from the statistical and financial services, or occasionally from correspondent firms or outside sources. As one such firm with 58 registered representatives reported:

> * * * [N]one of the firm's officers or employees perform any original research or investment advisory services, other than the normal functions of the customer's man in recommending the purchase or sale of securities based on his personal knowledge of the security and the market.

A Pacific Coast Exchange member firm with 19 registered representatives noted:

> When a client requires portfolio review or special advice this is done on an individual basis and we employ the services of other investment advisers to cover this area.

The practice of having a research department consisting of one or more persons who double in brass as analysts and salesmen appears to be common. From the information available to the study on the compensation of the employees operating in the dual capacity, one can conclude that in some cases selling is the major activity while in others it is more a method of supplementing the salaries of the analysts. Typical of the first group was a west coast firm with 30 registered representatives and "1 employee performing research services and also servicing approximately 50 individual customer accounts"; his salary for 1961 was $4,800 but he also drew $12,331.96 in commissions. A number of the reporting firms in this group indicated that the research department consisted of or was headed by a partner or partners who also serviced customer accounts.

Among the firms which reported research departments with some personnel giving full time to analysis, in some instances with as many as 22 analysts or researchers on the staff, classification of staff members is customary. Inexperienced persons are typically hired as "trainees," "junior analysts," or "statisticians," and after some experience are elevated to the rank of "analyst," and finally to "senior analyst." Some firms have training programs for their analysts. Some hire only experienced research personnel. For firms with large research staffs the matter of supervision of the inexperienced members becomes important. One firm requires that its analysts have a minimum of 4 years of supervision by a senior analyst before taking on unsupervised responsibilities. In a number of firms, however, inexperienced analysts are assigned with little or no supervision to research tasks such as portfolio analysis or the answering of salesmen's inquiries, in both functions providing information, and in some instances formulating recommendations, on which the customer might be expected to rely. On the other hand, the educational level of those engaged in research and investment advisory activities among firms which reported having research departments was generally high. Few had not attended college, most had received a college degree, and a considerable number had undertaken graduate studies of one form or another.

*b. Controls*

Such entry standards as exist in the securities industry concerning persons performing particular functions for broker-dealers relate almost exclusively to the salesman's function, although, as has been seen, attention has recently been given to the functions of supervisors also As to the performance of the function of research and analysis as such, there are no entry controls at all.

This is not to say that any person, regardless of his past record in the securities business, can be hired by a broker-dealer as an analyst. The Commission's power to deny or revoke the registration of a broker-dealer where a person "controlled by such broker-dealer" is subject to specified statutory bars [190] in effect bars from employment as analysts the same persons who would be barred as salesmen or broker-dealers.[191] The bylaws of the NASD similarly bar from membership, except with Commission approval, any broker-dealer if "any person directly or indirectly * * * controlled by such broker or dealer" is subject to similar disqualification.

Requirements relating to competence, on the other hand, are not imposed at the employee level by any of the regulatory or self-regulatory agencies.[192] It is true that research personnel employed by broker-dealers who supplement their salaries by servicing accounts are required to meet the competence standards of exchanges and the NASD applicable to registered representatives. However, these standards are not directed to competence in research and analysis, and in any event even these requirements are only applicable to those analysts who engage in selling.

The question of competence of analysts in brokerage firms has probably received little attention because the analyst does not, as an analyst, deal directly with the public, while the salesman does. This rationale ignores two important points: The salesman is frequently no more than a conduit for the recommendation of the analyst, whose skill is thus a matter of direct public concern; and, quite apart from the salesman, the analyst responsible for the preparation and dissemination of written investment information and advice, in the form of

[190] Exchange Act, sec. 15(b).
[191] See pts. B.2.a and C.3.a, above.
[192] The Uniform Securities Act, in sec. 204(b)(6), gives the administrator authority to require examinations of employees or other persons "who represent or will represent an investment adviser in doing any of the acts which make him an investment adviser." Persons performing the same functions for broker-dealers not deemed to be investment advisers under the act are not clearly included in a class which may be examined.

market letters or otherwise, directly influences the public in its selection of securities. The public has a legitimate interest in the training and experience of analysts, especially those whose unsupervised analyses and recommendations may form the bases of investment decisions.

### 3. REGISTERED INVESTMENT ADVISERS AND THEIR PERSONNEL

#### *a. The activities and qualifications of registered advisers*

The investment advisers who are required to register with the Commission under the Investment Advisers Act are certain firms (or individuals) engaged in the business of advising others for a fee on the value of securities or the desirability of buying or selling securities.[193] For the most part they fall into one of two groups: Those publishing advisory services and periodic market reports for subscribers, and those offering supervision of individual clients' portfolios. These categories may blur, however. A number of advisory publishers also offer individual portfolio supervision, either to their subscribers or to other categories of clients. A number of firms which handle securities transactions as registered broker-dealers are also registered as investment advisers, either because they manage portfolios for a fee or, more rarely, because they publish a market letter for which they charge a subscription fee. Only those registered investment advisers who, unlike broker-dealers, principally act as investment advisers and who are substantially involved in providing "investment supervisory services," or individual portfolio management, are entitled to represent they are "investment counsel."[194]

The level of experience in the securities business or related fields[195] and the educational level of the principals of the firms registering as investment advisers were determined by an analysis by the study of all investment adviser registrations which became effective during a 3-month period in 1961.[196] In this period 79 firms registered, with a total of 141 principals (i.e., partners, corporate officers, or individual proprietors). The registration forms revealed that 89 of these principals, or 63 percent, had no prior experience in the securities business. Among the principals of all firms, 58, or over 40 percent, held no academic degrees higher than a high school diploma. Forty-two of the seventy-nine firms, or 53 percent, had no experienced principals (table II–14). These 42 firms without any experienced principals proposed to engage in a wide variety of activities. Nine proposed to render investment supervisory services, that is, continuous individual investment advice to clients; 23, to issue periodic publications on a subscription basis; and 15, to prepare special reports and charts to evaluate securities (table II–15). Nine of these inexperienced firms intended to have complete discretionary authority over clients' accounts, and three of these nine intended to have custody or possession of securities or funds of their customers (table II–16). (Several of the firms intended to engage in more than one of the stated activities.)

The study also obtained information concerning the organization and personnel of their research and personal investment guidance departments from 16 subscription publishers chosen from firms of

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[193] Investment Advisers Act of 1940, secs. 202(a) (11), 203.
[194] Investment Advisers Act of 1940, sec. 208(c).
[195] Experience as a bank official or an economics or finance professor was treated as experience in a "related field."
[196] May 1 to July 31, 1961.

various sizes, including most of those with publications having a sizable public following as well as several with a substantial number of clients receiving portofolio management.[197] This sample suggests that while these firms, like their counterpart broker-dealer firms, may hire research personnel or analysts without prior experience in the securities business, new employees of the larger firms at least are rarely in a position where their recommendations are likely to be transmitted to the public or acted upon by clients without prior approval by experienced supervisory personnel.

Of greater concern are some small investment adviser firms, often sole proprietorships, from which totally unqualified persons may transmit their recommendations, evaluations, and suggestions to their clients or the investing public. While the principals of many small advisory firms unquestionably are experienced and competent, the existence of many inexperienced persons operating advisory firms was made evident by a review of a large number of Commission investigation reports on registered investment advisers as well as by a study of the investment adviser registration forms filed with the Commission. The brief career of one publication which was investigated by the study is described below,[198] not as typical of the small investment advisory firm, but as illustrative of the extreme situation which can arise under the present lack of controls.

On May 21, 1962, there appeared on several newsstands in downtown New York City the first copy of a publication entitled "The Trading Floor," selling for 50 cents a copy and advertised in posters as a daily investment advisory service. The first issue of the Trading Floor enunciated its goal and policies in the following manner:

> In predicting the future movements of a stock, the staff of the Trading Floor makes use of the latest methods of both market analysis and security analysis. * * * Resulting predictions in the opinion of the staff [are] the most logical and the most possible ones which could follow in the light of all pertinent information in the opinion of the staff.

It was further indicated that this publication would recommend 11 new stocks each day, 6 of them from issues traded on the New York Stock Exchange and 5 from the American Stock Exchange list, "plus a followup on all these stocks which have been recommended which have not been completely transacted in buying and selling."

The entire "staff" and the publisher of this ambitious undertaking turned out to be a 19-year-old boy, who between the time he had dropped out of college after a year and a half and the time he started his publishing venture had had seven different jobs, including 2 months as a mail clerk at Carl M. Loeb, Rhoades & Co., 2 months as a beginning clerk at Bache & Co., and other periods of employment as bookkeeper, bank teller, billing clerk, encyclopedia salesman, and post office clerk.[199] Asked where he had acquired his knowledge of the securities market, he answered:

> I have no formal education in it. I have—this might sound corny, but I have sort of assimilated it from the surroundings that I have been in in the brokerage business; plus, I have had an interest in it, which has even—which has exposed

[197] See ch. III.C.2, below, for the method of selecting these firms.

[198] The registrant's registration became effective Apr. 20, 1962, and was withdrawn on June 13, 1962.

[199] The form ADV which he filed showed that he had no prior experience in the securities industry, but the form has no question relating to the age of the registrant.

me to, you know, various printed matter, periodicals, and the like, and I have picked up a knowledge of it.

He further indicated that his "major source of this information" was two cousins who were "fanatically interested in the stock market and * * * send away for all this free advice." One of the cousins was a 20-year-old college student, while the other was a freshman in high school and 14 years of age. His only other assistant in putting out the Trading Floor was his mother, who helped him collate and staple the pages after he had run them off on a mimeograph machine in the kitchen of their Brooklyn apartment. His recommendations were put into written form between the hours of 11 p.m. and 1 a.m., after their author had reviewed the daily closing prices in the New York World Telegram & Sun. His knowledge of the recommended companies was based on such information as he had acquired through reading newspapers, talking to his cousins, or obtaining free market material through them.

*b. Entry controls for registered investment advisers*

As the Trading Floor suggests, controls over entry into the business of acting as an investment adviser are for the most part nonexistent. The requirement of registration with the Commission brings into play the minimal statutory bars which also apply to broker-dealers and their employees.[200] In fact, the statutory bars applicable to registered investment advisers [201] are, as a result of 1960 legislative amendments,[202] expressed in language slightly broader than that contained in the equivalent sections applicable to broker-dealers and salesmen,[203] and exclude registrants with convictions involving "embezzlement, fraudulent conversion, or misappropriation of funds or securities" [204] as well as those who have "aided, abetted, counseled, commanded, induced, or procured the violation" of the Federal securities laws or rules promulgated thereunder.[205] However, these controls relate only to a record of prior dishonesty.

Nothing in the Federal law aims at any control over the competence or experience of registered investment advisers, their principals, or their employees. There is no governmentally sanctioned self-regulatory organization for advisers, although as noted, a small number of broker-dealers who for one reason or another have registered as investment advisers may be subject to the general controls of the NASD and the exchanges. However, those organizations are little concerned with advisory activities. By far the greater number of advisers are not themselves engaged in the business of buying or selling securities, have no need to be members of the NASD or the exchanges, and are thus beyond any effective self-regulation.

Some States have concerned themselves with controls over investment advisers, 25 requiring some sort of registration, and 14 permitting their securities administrators to establish standards of experience and other qualifications. Under the Uniform Securities Act, investment advisers are subject to registration requirements similar to those governing broker-dealers, but in addition must furnish the quali-

[200] See pt. B.2.a, above.
[201] Investment Advisers Act of 1940, sec. 203(d).
[202] Public Law 86-750, 74 Stat. 885.
[203] Exchange Act, sec. 15(b).
[204] Investment Advisers Act, sec. 203(d)(3)(B)(iii).
[205] Id., sec. 203(d)(3)(E).

fications and business history of any employee. Some of the States with controls authorize their administrators to give a written or oral examination, as provided in the Uniform Act.[206] The limitations of State coverage and staffs, however, suggest that these statutes provide but little effective protection to the public.

### 4. INDUSTRY ATTENTION TO QUALIFICATION STANDARDS

The qualification of persons engaged in investment advisory work or financial analysis has concerned at least two industry groups—the Institute of Chartered Financial Analysts (the institute) and the Investment Counsel Association of America (the ICAA). Interesting though the activities of these organizations may be in this area, they are of but limited public benefit because of the limited objectives and powers of the organizations themselves. On the other hand, they serve as indications of the standards which some industry members and leaders view as desirable.

The institute was formed in 1959 by the Financial Analysts Federation. Included on its board of trustees are representatives of one mutual fund, three banks, two broker-dealer firms, and one insurance company. Its stated objectives include fostering higher education standards in the field of financial analysis, conducting examinations designed to test individual competence and skill, and recognizing "with the professional designation 'chartered financial analyst' persons who have met the standards established by the institute for the professional practice of financial analysis." To qualify as a chartered financial analyst, a candidate must be a member of a constituent society, be of good moral character, have a bachelor's degree from an accredited institution (or its equivalent in training or work experience), and pass three 4-hour examinations, only one of which may be taken in any year. The first examination, which cannot be taken by a candidate less than 24 years old, is expected to "test the candidate's knowledge of basic investment principles and analytic techniques." The second, for which one must be 26 or more, tests "ability to apply skills and information to financial analysis and to analyze the nature and functioning of the economic system." The third, for candidates who are over 30, "will test the candidate's ability to organize and administer research activities and to formulate and implement investment policies." Exemptions from the requirement of taking the first and second examinations—but not the third—are made for analysts of stipulated age and experience under a "grandfather" clause. The determination of good moral character will be made by the institute on the basis of confidential reports, and the professional designation can be rescinded upon a determination of the board of trustees, after a hearing, that "professional ethical standards have been violated."

A somewhat similar plan has been adopted on an experimental basis by the ICAA, an organization of 54 firms "primarily engaged in the giving of continuous advice as to the investment of funds of clients on the basis of the individual needs of each client." [207] In recent years

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[206] Uniform Securities Act, sec. 204(b)(6); see sec. 2.b, above.

[207] ICAA bylaws, art. II, sec. 1. The requirement for membership is based upon the definition of the term "investment counsel" in the Investment Advisers Act as it existed prior to the 1960 amendments to the act. See sec. 208(c). For a description of the purposes of the ICAA, see ch. III.C.5, below.

a committee of qualifications of the ICAA has developed an accreditation program under which it will confer the designation "qualified associate" upon certain associates of its member firms. In recognition of experience and education as the two standards required for qualified investment counseling services, the program requires an associate of a member firm to earn 10 credits before accreditation, 4 of which may be earned through formal education, 3 by passing an examination, and the balance at the rate of 1 credit for each year in the investment advisory field or a related field. In a letter of June 11, 1962, to the study the ICAA noted:

> The association * * * expects to be able to start conferring the designation "qualified associate" * * * within the next few months. The program is frankly experimental and is not being made mandatory at this time. It is anticipated, however, that after some experience the program will be reexamined with a view to making such qualification mandatory for two-thirds or three-fourths of the individuals in each member firm who deal directly with clients.

Both the institute and the ICAA seem to have embarked on a course aimed at ultimately achieving professional recognition, much in the manner of accountants, whose drive for professional recognition started at the end of the 19th century. To whatever extent this may indirectly lead to a general raising of industry standards, it appears that the immediate result of these programs will be to confer an industry "cachet" upon certain analysts. So long as these organizations lack the power and determination to exclude unqualified persons from engaging in analytic activities without supervision, the program would seem to point to only limited benefits for the public.

## F. Summary, Conclusions, and Recommendations

The large numbers of new investors and new broker-dealer firms and salesmen attracted to the securities industry in recent years have combined to create a problem of major dimensions. Among the new investors have been the naive, the unsophisticated, and those with slender resources, while the new broker-dealers and salesmen have included persons who were inept, ignorant, or rapacious. The protection of the former from the errors and depredations of the latter has imposed a heavy burden on the governmental and self-regulatory agencies charged with the protection of the public interest in the area of securities and securities markets.

More than a generation of experience with the Federal securities laws has demonstrated, moreover, that it is impossible to regulate effectively the conduct of those in the securities industry, unless would-be members are adequately screened at the point of entry. Neither the industry nor the Government nor the investing public can afford the burden of a policeman on every corner. The steady growth in the very numbers of investors and participants has made obsolete the concept that entry into the industry should be the right of anyone, regardless of fitness or capability, except those guilty of recent securities violations. The right to carry on those functions of the industry which involve the public investor should be available only to those who shall have demonstrated their ability to meet at least minimal standards of integrity, competence, and financial responsibility.

### 1. THE REGULATORY STRUCTURE

The agencies with jurisdiction over members of the securities industry, and which are therefore in a position to determine who may enter, include the Commission, the National Association of Securities Dealers, Inc., the various stock exchanges, and the securities administrators of the several States. The present restrictions upon entry into the business that are established by this polycentric system of controls form, as might be expected, an unfortunately irregular and erratic pattern, involving both considerable overlapping of effort and serious deficiencies in total result. No national securities exchange that may wish to set higher standards for its membership should be discouraged from doing so, but there should be a rise in the minimum level of standards applicable to all firms and persons in the securities business.

The Commission's controls which affect the largest number of persons in the industry—though even its jurisdiction does not embrace all elements—constitute the lowest barrier, excluding only those individuals whose previous unreliability in matters of securities has been evidenced by judicial or Commission decision. All other persons are admitted upon their firm's registration, without regard to their character, competence, or original capital commitment. The NASD also has jurisdiction over a wide segment of the securities industry. It has until recently required little more than the Commission. While banning from membership or employment by members roughly the same categories for which the Commission denies registration, the NASD delegates questions of prospective registered representatives' character to the discretion of member firm employers and until 1962 gave a spurious accreditation of competence through a now-discarded examination. The examination which it adopted, and a more recent extension of its examination program to include proprietors, reveals an effort to raise standards in the area of competence. Yet it remains true that the authorities exerting controls over the broadest range of the diverse activities of the securities business—the Commission and the NASD—accomplish little toward excluding undesirable and unqualified persons. Higher standards of character, competence, and capital requirements are imposed by the major exchanges, and particularly the New York Stock Exchange, but the selective nature of exchange membership limits the number of industry members under their control. The States vary widely in the scope of their statutes and regulations and in the vigor with which these provisions are enforced; at best they are handicapped by geographic limitations in dealing with what is essentially a national problem.

Since NASD membership is based on specific economic inducements, there are gaps in its coverage which leave important categories of securities firms—certain mutual fund distributors, and real estate syndication broker-dealers, put-and-call dealers, and registered investment advisers, for example—subject only to Commission controls over the qualifications of their principals and employees. In a qualification system which envisages the complementary efforts of governmental and industry regulatory agencies, all groups subject to governmental controls ought also to be subject to industry controls, either through the existing NASD or through other self-regulatory organizations with similar functions and status.

Customers of any firm subject to Federal jurisdiction should be able to assume that the firm's principals, the salesmen with whom they deal, the salesmen's supervisors, and the persons responsible for the investment advice upon which they rely, have met at least minimal standards of competence and integrity and have at least a minimal commitment to their business. In the light of the findings of the Special Study, such an assumption has less validity than should be the case. National securities exchanges should not be discouraged from erecting higher standards for any categories of persons they deem appropriate, but it is up to the concerted efforts of the Commission and the NASD to determine, establish, and administer the minimum standards for all firms and persons.

In establishing minimum standards, the various lists of so-called statutory disqualifications, which now apply only to misbehaviour relating to securities, should be expanded and made uniformly applicable to all categories of principals and employees. Not every activity which results in the imposition of penal sanctions should disqualify a person from the securities business, but the public is no less concerned with records of theft, fraud, embezzlement, or similar crimes on the part of the salesmen or broker-dealers with whom they deal simply because they involve property other than securities. Particularly important in implementing the establishment of minimum standards, as well as for other regulatory purposes, is the revision of broker-dealer registration forms to require the filing of further information concerning the nature and scope of a firm's business and concerning some categories of its personnel for whom minimum standards must be established, but about whom the regulatory agencies now have no readily accessible information.

### 2. BROKER-DEALERS

The ease with which almost anyone can start his own securities firm and deal with the public has permitted many an amateur to embark on the deep waters of broker-dealer entrepreneurship. The statistics and cases reviewed in this chapter indicate a surprisingly high incidence of inexperience in the securities business on the part of principals of new firms, and concurrently a lack of awareness of and respect for a broker-dealer's obligations to the investing public. They suggest also that the initial capital commitment of a large number of the new firms is nominal or at best unduly modest. Many of these firms quickly become sources of concern to the Commission and the NASD; the Special Study's analyses and observations revealed a distinct tendency on the part of newcomers to become involved in the more serious securities violations more often than experienced firms. New firms often have particular difficulty in maintaining adequate records and complying with the Commission's net capital ratio requirement. Many new firms include among their salesmen "boiler-room" veterans or totally inexperienced newcomers, or both. The training which such firms give their inexperienced salesmen rarely goes beyond a modicum of orientation to the firm and a brief introduction to its merchandise.

The potential of harm to the public from a firm whose principals are unqualified is intensified when, as so often happens, the firm engages in underwriting. This activity generally calls for skills and involves responsibilities beyond those required for an ordinary brokerage business. The study's review of underwriting practices [208] reveals a disquieting tendency for firms with the least experience and least capital to engage in underwriting the most speculative and questionable new issues.

A minimum net capital requirement for broker-dealers, with appropriate flexibility to meet the variety of functions—from the underwriter to the very small mutual fund distributor—although not foolproof or sufficient in itself, would substantially add to both responsibility and commitment without imposing an incommensurate burden. The securities business involves dealing in other people's funds and liquid assets; the regulatory scheme is based to a significant extent on the sanction of legal liability to customers for improper conduct; the smooth and speedy functioning of market mechanisms depends on mutual confidence among members of the financial community in each other's stability and responsibility—for these and other reasons, a minimum net capital provision should be deemed an essential qualification for any broker-dealer entering the securities business.

The obligations, duties, and responsibilities of the proprietor go well beyond those of a salesman, and an individual who assumes them should be expected to meet correspondingly higher qualification standards. In the past, no more has been required of an inexperienced principal of a firm applying for NASD membership than that he be free of statutory bars and that he pass the same examination given for registered representatives. The NASD is to be commended on its recent steps toward requiring special examinations for inexperienced broker-dealer principals, as is the NYSE for its recently instituted examinations for members and allied members; but however effective experience proves these examinations to be as tests of knowledge, they cannot adequately substitute for experience or evaluate good character. Although the NYSE and some other exchanges now require an apprenticeship training period for floor members and members who deal with the public, and also investigate the background of all principals of member firms, the NASD still has no rules requiring minimum experience and makes no investigation of principals of prospective members except to check for the existence of statutory disqualifications. Furthermore, foreclosed by the 1942 Commission decision, the NASD has no requirement of a minimum capital commitment to the business.

If the public is to be protected from the perils of incompetent and irresponsible broker-dealers, there should be erected uniform, minimum standards of competence, experience, character, and capital which are applicable to the entire securities industry.

### 3. SALESMEN

The qualifications of salesmen, who more than any other group represent the securities industry to the investing public, require particular attention. Out of the recent rapid growth and heavy turnover of salesmen have arisen two types of problems for the industry: the

[208] In addition to the discussion in pt. B, above, see ch. IV.B.

large number of inexperienced salesmen it has attempted to absorb, and the reservoir of "boiler-room floaters" who circulate from firm to firm.

The growth of the securities industry has forced it to recruit inexperienced sales personnel in large numbers. About 25 percent of all registered representatives employed by NASD member firms as of the end of 1960 had less than a year's experience; for 1961 the percentage was 29, and for 1962 it was about 15 percent. Among firms specializing in mutual fund sales, inexperience is often preferred. This mass of inexperienced salesmen encompasses the broadest range of educational achievement, from those with graduate degrees to those without high school diplomas, and the greatest diversity of backgrounds, from a number with business, supervisory, selling, or professional histories to persons with such occupations as machinist, chef, or baseball player. While approximately half of the incoming salesmen have chosen to work part time, the Special Study has found no evidence which shows a causal link between part-time work as such and a peculiarly high degree of insufficient training or inexperience.

The "floater" represents a problem of an entirely different kind. Because of the brief lifespan of most "boiler rooms" and the large numbers of salesmen they typically use, there exists a fairly sizable group of alumni of these organizations, forming a reservoir of high-pressure salesmen available for employment. While not every salesman who has been employed by a firm involved in disciplinary proceedings with the Commission or the NASD should be barred from future employment as a securities salesman, many floaters actively and willingly participated in the unethical selling practices of their prior employers and are still available for employment in the industry only because administrative considerations, such as limitations of time, budget, or manpower, prevented the Commission or the NASD from naming them as causes in the proceedings.[209] These floaters carry the virus of high-pressure salesmanship from firm to firm, and find inexperienced proprietors and salesmen—often well intentioned—particularly vulnerable to infection with their irresponsible selling practices.

It would be comforting to believe that qualification deficiencies are limited to floaters, and that no other securities salesmen are turned loose to sell their intricate merchandise to the investing public until the firms concerned have checked carefully into their backgrounds and also trained them properly to carry out their functions. The findings of the study indicate that, for many salesmen, the employing firm has not discharged these responsibilities.

The ultimate responsibility for the quality of salesmen must lie in the firms which employ them and which share with the public an interest in having salesmen of good character and thorough training. An unhappily large segment of the broker-dealer community scores poorly in this respect. Some firms do conduct considerable investigation of the backgrounds of prospective sales employees, and carry on extensive and generally effective training programs, sometimes including their own classroom programs. Far more firms, however, take a more casual view of their responsibility. The more typical firm does little to investigate the background of a prospective salesman

[209] See ch. III.B.6.b (1) and (2), below, concerning Commission and NASD controls over selling practices.

other than writing or telephoning to his previous employer or employers, which it regards as the only step necessary to comply with the NASD requirement of certification of good character. For any further investigation, it merely relies on an exchange, if it is a member, or on its bonding company, if through choice or regulatory requirement it uses one.

As to training, there is a wide range of practices between the best, exemplified by the few firms referred to above, and the worst, or no training at all. For the most part the best training is found among the larger, more prosperous New York Stock Exchange firms, whose programs to some extent reflect the influence of the exchange requirement that inexperienced prospective salesmen (other than limited registrants) receive 6 months of training before being permitted to sell. Much of the industry relies upon on-the-job training, which may mean that trainees perform tasks reasonably calculated to give them useful experience in the firm's operations, or may on the other hand mean no more than that new men sit around watching the old hands sell. Encouraging developments are the increased reliance of many firms, whose own resources are too limited for successful training, upon courses given by outside institutions and the training materials which the NYSE has recently published. All too frequently, however, a firm regards its training program as a stepchild, made necessary by exchange training requirements or the importance of having trainees pass an examination, and to be supplied on a minimal basis.

The self-regulatory agencies for the most part take a neutral attitude toward training programs. Apart from the Philadelphia-Baltimore-Washington Exchange, which uses a review of firm training programs rather than an examination to determine the qualifications of new salesmen, the usual approach is to encourage the use of organized training programs, and even, in the case of the NYSE, to provide advice concerning them, but to set no minimum standards for them (other than the NYSE and Amex requirements of 6 months' duration), and neither to approve nor disapprove any particular programs.

The basic instrument for assuring the public that a salesman has a reasonable minimum of competence has been, and must continue to be, the examination. The examination instituted by the NASD in January 1962 represents a considerable advance over its old memory test, which had proved almost completely ineffective in accomplishing its screening purpose. The new NYSE examination also represents an improvement over its predecessor, which had imposed but a minor obstacle to the neophyte salesman's entry into the exchange community. On the whole, the self-regulatory agencies have shown increasing concern for salesmen's competence. They should amplify their efforts to encourage the spread of the best practices already employed by some of the firms, and should insure that no firm uses practices falling below the minimum necessary to protect investors.

Assuring the public of the integrity of salesmen presents a problem as important as that of competence, but far more difficult. The NYSE, and to a lesser extent some of the other exchanges, conduct independent investigations of the backgrounds of prospective salesmen for member firms. For the most part their system appears well geared to eliminating salesmen with undesirable prior activities and associations, though occasional employment of salesmen with extensive "boiler-room" backgrounds still occurs. The NASD is faced with a far more formidable task in terms of numbers alone: almost 30,000 inexperienced salesmen joined NASD member firms in 1961, while new registered representatives were being trained by NYSE member firms at the rate of 5,000 a year in the spring of 1962. The NASD has considered that responsibility for the integrity of its members' salesmen is a matter for determination and certification by its members, and its members have frequently viewed that responsibility as requiring no more than a contact with the salesman's last employer. While improper certification by a member may constitute cause for disciplinary action, the delegation of responsibility to member firm principals who themselves are subject to little control in this respect means that for the salesmen of many NASD members, character controls are no more than a fiction or a facade. Yet if the goal of qualifying salesmen in the area of character and integrity is to have any chance of realization it should be brought about through an organization like the NASD, which is national in jurisdiction but local in its activities and personnel.

The principal external controls over the qualifications of salesmen imposed by the Commission and the NASD operate indirectly through the unit of the broker-dealer firm which employs them. The result is an irregular pattern of standards unevenly imposed and awkward in their administration. The Commission, charged with the duty of excluding from the industry all broker-dealer firms employing salesmen subject to statutory bars, does not even have a record of the salesmen employed by the firms which it registers. Furthermore, its administrative procedures for eliminating undesirable salesmen, either before or after they have been hired, must be directed not at the objectionable salesman himself, but at the employing firm, regardless of its involvement or noninvolvement in the objectionable activities of the salesman in question, and regardless of its general record. This can place the Commission in the unfortunate dilemma of having to bring a proceeding against the employing firm in order to discipline a salesman who has been guilty of improper practices, or else ignoring the improprieties altogether. Even though the NASD does maintain records of salesmen employed by its members, it is in a similarly awkward position when it comes to excluding or eliminating undesirable salesmen. In addition, the fact that the economic inducements to NASD membership have not drawn all broker-dealers into that association means that salesmen of some employers are not even subject to NASD controls over salesmen's qualifications.

The establishment of a national system of direct licensing of securities salesmen would eliminate the present lack of uniformity in qualification standards and would allow disciplinary proceedings to be brought against individual salesmen. It would have the additional advantages of eliminating some of the present duplication and of imposing on each salesman a direct individual responsibility for his activities. Such a uniform national system must contemplate the coverage of salesmen for all elements of the securities industry through the NASD and other industry self-regulatory institutions. In any such system, a determination of qualifications of both competence and character should be made by the self-regulatory industry organizations, which can administer industrywide standards of competence and make individual determinations in the difficult matter of salesmen's integrity. After being issued a license, a salesman would be eligible for employment by any broker-dealer firm without any need for reregistration. His competence would be determined through an appropriate examination, and his good character through investigation, and in doubtful cases, through personal interviews by local committees or boards. The individual firm would be permitted to employ only licensed personnel but would of course be free to apply its own additional criteria or those of any exchange of which it was a member.

Any licensing program should recognize, to an extent not found at present, the different competence needs of salesmen of different kinds of securities. Mutual fund industry representatives assert that much of the knowledge of the operations of the securities markets which is essential for the registered representative who sells listed and most over-the-counter securities is unnecessary for the mutual fund salesman, who may, on the other hand, need greater training in areas relatively unimportant to the general securities salesman. Some of the exchanges appear essentially to agree, and have established various programs leading to a status of limited registration mainly for those who sell mutual funds. Other selling specialities, such as the sale of real estate syndication interests, present the same situation. It should be possible to establish a licensing system permitting a person to sell a particular type of security upon demonstration of his competence to sell it, but at the same time limiting his activities to that type of security. Under such a system a salesman trained, for example, in the mutual fund field could take an examination appropriate to that field, but would not be free to sell securities of any other kind.

### 4. SUPERVISORS

The growth of the securities industry and the number of securities salesmen and branch offices has compounded the problems involved in the supervision of salesmen's activities and has magnified the importance of the person engaged in such supervision, whether he be a principal or employee of his firm. Industry members have increasingly recognized the significance of supervisors and the importance of their responsibilities, and the NYSE notes that "the branch office manager undoubtedly holds one of the most important jobs in the securities business." Nevertheless, many instances have come to the attention of the study of persons acting as supervisors or managers who were unqualified for their responsibilities. There is almost universal industry emphasis on supervisors' production but much less emphasis upon such factors as their experience or their knowledge of the securities business, the applicable laws and rules, and supervisory or other office procedures.

At the heart of the problem of supervisors' qualifications lies the industry's reluctance to recognize that persons in this capacity serve functions distinct and different from the roles played by those whom they supervise. Awareness of this fact has, however, recently been expressed by the principal self-regulatory organizations. Since the study began its work, both the NASD and the NYSE have instituted or taken steps to institute separate examinations for those who, because of their proprietary interests in their firms, will have supervisory responsibilities. While these examination programs do not at present cover employee-supervisors, both the NYSE and the NASD have indicated that they are contemplating such a step. The NYSE has also announced that it is applying substantially higher experience requirements than it heretofore used in granting approval of branch managers.

Separate qualification standards and separate licensing of supervisors on an industrywide basis is of first importance in raising industry standards generally. Furthermore, in order that the Commission may determine the extent of compliance with such standards, it should receive, as part of a broker-dealer's registration, information concerning the names and histories of all persons having supervisory responsibilities, and not just proprietors as at present. There should also be clear identification of the individual in the home office of each firm who is responsible for regulatory and self-regulatory matters, so that responsibility for activities affecting the public interest will be lodged in a single individual.

### 5. PERSONS PROVIDING INVESTMENT ADVICE

Qualification standards for persons, other than salesmen as such, who are responsible for disseminating investment advice, whether through broker-dealers or through registered investment advisory or investment counsel firms, are nonexistent beyond the negative standard of the disqualifying statutory bars. Neither the Federal Government nor any self-regulatory body exercises any controls over the competence of these persons for the performance of their advisory work. This lack of controls results in an anomalous situation. An individual in a broker-dealer's research department, charged with the responsibility of selecting the securities for his firm to recommend to its customers, is required to meet no qualification standards. The salesman, on the other hand, whose role may be limited to transmitting such research recommendations to the customers, must pass examinations which test, among various subjects, his ability to analyze securities. Furthermore, the proprietors of registered investment advisers who confine their activities to the giving of investment advice need not pass any examination at all, except in a few States, even though they may be responsible for advising individual clients or subscribers to their publications to engage in particular securities transactions.

While there is no need to impose qualification standards on every person employed by a registered broker-dealer or investment adviser to perform services as a researcher or analyst or statistician, minimal standards of competence or experience should be applied to each person who is responsible for actually transmitting unsupervised investment recommendations to the public, whether directly or through registered representatives.

The self-regulatory organizations should assume the responsibility for determining and imposing such standards for persons employed by broker-dealer firms subject to their jurisdiction. Membership in an effective self-regulatory agency should be required for all investment advisers now or hereafter registered with the Commission, and the agency should assume responsibility for determining and imposing minimum standards for principals and appropriate categories of employees of registered investment adviser firms. Information concerning the names and histories of the persons covered by such qualification requirements should be included in the material which broker-dealers and investment advisers supply to the Commission as part of their applications for registration.

### 6. CONCLUSIONS AND RECOMMENDATIONS

**The Special Study concludes and recommends:**

**1. Under a regulatory scheme relying heavily on self-regulation, it is anomalous that some broker-dealers or investment advisers should remain outside of any official self-regulatory group so that their activities are subject only to direct regulation by the Commission. Membership in an appropriate self-regulatory group (exchange or national securities association or affiliate thereof) should therefore be a prerequisite to registration as a broker-dealer or investment adviser. If it should not prove feasible to establish a program of compulsory membership in a self-regulatory body for all broker-dealers and investment advisers subject to Commission jurisdiction, the added cost of governmental supervision should be passed on and directly borne by those in the industry who are not members of such a body, through fees or other assessments.**

**2. At present the only requirement for Federal registration as a broker-dealer or investment adviser is that the firm and its principals have not previously misbehaved in specified ways, and there is a separate list of statutory disqualifications for NASD membership. These statutory disqualifications should be combined and made applicable to all broker-dealer and investment adviser firms and certain categories of individuals in the securities business, such as principals, supervisors, and salesmen. There should be added to the combined list conviction within 10 years of crimes (a) involving theft, fraud, embezzlement, defalcation or criminal breach of fiduciary duty, or (b) arising out of the conduct of the business of a broker or dealer or investment adviser.**

**3. The Commission's present registration forms for broker-dealers and registered investment advisers fail to supply essential information for determining initial qualifications and for continuous regulatory needs. Every broker-dealer firm should be required to furnish initially, and keep current through annual or other periodic reports, information concerning (a) major activities engaged in or to be engaged in; (b) exchange and NASD memberships; (c) number and location of branch offices; (d) clearing firms, correspondent firms, and wire connections; (e) size and composition of sales staff; (f) size and composition of any research department; (g) the individual in responsible charge of regulatory and self-regulatory matters within the firm, the supervisor of each major department or function (underwriting, retailing, research, trading, back office, etc.); the manager or supervisor of each branch office, and each individual authorized to**

handle discretionary accounts; and (h) the prior experience of any such individual, supervisor, or manager. Every registered investment adviser should be required to supply and keep current information concerning (a) major activities to be engaged in; (b) research techniques used, and/or other bases of recommendations; (c) size and composition of any research department; (d) the individual in responsible charge of any such research department, and/or in responsible charge of the firm's investment recommendations; and (e) the prior experience of any such individual.

4. The individual rather than the firm is the appropriate "unit" for many regulatory purposes, in the interest of fairness as well as efficiency. The present statutory registration scheme does not reach individuals at all, and the self-regulatory concept of "registered representatives" of particular firms does so only partially and indirectly. Without limiting the responsibility of firms for the personnel they employ or the right of firms to select their own employees, there should be established a system of licensing and registering individual salesmen, supervisors, and other specified categories of personnel. Each such individual should be required to file a single basic registration form containing necessary data as to his present and prior employment, disciplinary matters, and eligibility under statutory disqualifications, together with a certificate as to his good character and, for applicants without adequate prior experience, as to his successful completion of any required examination. Copies of the basic registration form would be made available to affected regulatory and self-regulatory agencies. Subsequent changes in employment and disciplinary actions should be required to be reported and recorded in the individual file. Duly licensed persons would be, for regulatory purposes, eligible for employment by any firm.

5. Under such a system of licensing and registering individuals, disciplinary actions could, in appropriate cases, relate to individuals without necessarily involving current or future employers, as is now the case. The present system, under which the Commission may proceed only against a broker-dealer firm, often operates inefficiently or unfairly in that the Commission must move against an employee's firm or not at all. The Commission's powers in this respect should therefore be made more flexible even apart from the recommendation in paragraph 4, so that it will have the power to bring administrative proceedings directly against individuals involved in violations of the securities laws.

6. Apart from statutory disqualifications and requirements for filing of basic data by firms and individuals, standards for entry into the securities business should encompass (a) competence, in the sense of knowledge and experience, (b) character and integrity, and (c) financial capacity and responsibility—the first two applying essentially to individuals and the third essentially to firms. In all three areas there have been significant accomplishments but there are serious gaps and deficiencies that need to be remedied promptly, as set forth in the following paragraphs.

7. The basic regulatory control in respect of competence is the examination. Present examinations and examination programs

can and should be considerably improved, refined, and coordinated. The standard examination should cover a core of basic subjects for salesmen, supervisors, and principals, with appropriate supplemental questions for supervisors and principals, and with such further supplementation as any particular agency may desire for its own purposes. For certain recognized specialties, special supplementary questions should be provided; individuals whose activity (and license to act) is to be limited to any such specialty may be permitted to qualify through appropriately limited examinations. To achieve maximum results with minimum burdens, a National Board of Securities Examiners should be established by and for the various regulatory and self-regulatory agencies, to administer existing programs and foster improved programs. Through the same or a similar agency, the various existing training programs should be coordinated, extended and improved.

8. Quite apart from knowledge as tested through examination procedures, appropriate experience in the securities business should be a requirement for individuals in certain crucial roles. The individuals for whom there should be an experience requirement include at least one principal in each registered firm and, if other than such principal, the individual designated as being in charge of regulatory and self-regulatory matters, the supervisor of selling activities, the supervisor or manager of each branch office, and the supervisor of research activities. Appropriate periods and types of prior experience are left for future definition.

9. The matter of part-time salesmen has been the subject of considerable difference of opinion among members of the financial community and regulatory agencies. There appears to be no reason to exclude part-time salesmen as such, but they should be subject to exactly the same qualification requirements as full-time salesmen.

10. Of all the types of qualifications needed for the securities business, perhaps the most important, but also the most difficult to assure by formal regulation, is that of character and integrity. As rapidly as possible a system involving local "character and fitness" committees, as in the legal profession, should be established. More immediately, the responsibility for maintaining a proper level of character and integrity of all personnel must reside in the individual firm, but with effective enforcement of this responsibility by the self-regulatory agencies. In addition, regulatory and ethical standards should receive greater emphasis in training and examination programs of the self-regulatory agencies. If the latter are to fulfill the role for which they are thought to be uniquely suited, they must also, of course, exert leadership in defining and elevating ethical standards for their members, above and beyond legal requirements.

11. A minimum net capital requirement is of high importance as one of the several different approaches to assuring a broker-dealer community of principals and firms reasonably qualified in terms of responsibility and commitment. The requirement need not and should not be a uniform one for all firms but should be appropriately scaled to reflect the type and size of business engaged in. Subject to exceptions and refinements to be worked

out in the future (such as special provision for small proprietorships engaged only in sale of open-end investment company shares), and subject to an appropriate "grandfather" clause or adjustment period, every broker-dealer should be required to have at the commencement of business, and maintain at all times thereafter, net capital of at least $5,000, plus, say, $2,500 for each branch office and, say, $500 for each salesman employed at any time.

12. Since the underwriting of public offerings involves special obligations and responsibilities, any firm engaging or proposing to engage in underwriting securities offered to the public pursuant to the Federal securities laws, whether on a "firm commitment" or "best efforts" or any other basis, should be required to have and maintain minimum net capital of $50,000 plus, say, 2 percent of the aggregate amount of underwriting commitments or undertakings in the most recent 12-month period (but not less than the amount required under par. 11).

# TABLES

TABLE II–1.—*Experience of principals of broker-dealer firms—Broker-dealer registrations with the SEC, January, February, and March, 1961*

| | |
|---|---|
| All firms registered | [1] 210 |
| All principals in firms | 557 |
| Broker-dealer experience: [2] | |
| Number of persons with— | |
| No experience | 300 |
| Less than 1 year | 41 |
| 1 to 2 years | 67 |
| Over 2 years | 149 |
| Total | 557 |
| Number of firms with— | |
| No experienced principals | 58 |
| All principals having less than 1 year's experience | 19 |
| All principals having less than 2 years' experience | 33 |
| Other | 100 |
| Total | 210 |
| Nature of broker-dealer experience: | |
| Number of persons who were— | |
| Principals in broker-dealer firms | 93 |
| Salesmen or registered representatives | 139 |
| Security analysts, traders, office managers, clerks, etc | [3] 25 |
| Total | 257 |

[1] Excluding 49 registrants who were successors to previously registered broker-dealers, 15 whose registrations were subsequently withdrawn, and 4 for whom data on experience were not available.

[2] "Experience" means employment by, or other business connection with, a registered broker-dealer.

[3] Including 7 persons for whom data were not available.

**TABLE II-2.**—*NASD disciplinary actions taken against member firms classified by year of membership and type of action*

[Disciplinary actions, 1959-61]

| Membership year | All NASD member firms [1] | Fims involved in disciplinary actions [2] | Type of disciplinary action | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Dismissals | Fines and censures | | | Suspensions and expulsions | | |
| | | | | Censured | Fined | Censured and fined | Suspended | Suspended and fined | Expelled |
| | A. Number of firms | | | | | | | | |
| Total | 4,466 | 809 | 149 | 96 | 114 | 308 | 15 | 22 | 105 |
| Before 1941 | 1,014 | 296 | 73 | 48 | 57 | 113 | 1 | 2 | 2 |
| 1941-42 | 118 | 22 | 4 | 3 | ---- | 14 | ---- | 1 | ---- |
| 1943-44 | 89 | 21 | 5 | 2 | 3 | 11 | ---- | ---- | ---- |
| 1945-46 | 202 | 42 | 5 | 2 | 13 | 20 | ---- | ---- | 2 |
| 1947-48 | 156 | 27 | 6 | 4 | 5 | 11 | ---- | ---- | 1 |
| 1949-50 | 202 | 30 | 3 | 6 | 3 | 16 | ---- | 1 | 1 |
| 1951-52 | 214 | 51 | 10 | 3 | 9 | 21 | 3 | ---- | 5 |
| 1953-54 | 295 | 39 | 7 | 4 | 5 | 13 | ---- | 3 | 7 |
| 1955-56 | 466 | 57 | 14 | 4 | 2 | 19 | 1 | 2 | 15 |
| 1957-58 | 638 | 115 | 16 | 9 | 12 | 40 | 7 | 6 | 25 |
| 1959-60 [3] | 1,072 | 109 | 6 | 11 | 5 | 30 | 3 | 7 | 47 |
| | B. As percent of total number of firms | | | | | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Before 1941 | 22.8 | 36.7 | 49.0 | 50.0 | 50.0 | 36.8 | 6.7 | 9.1 | 1.9 |
| 1941-42 | 2.6 | 2.7 | 2.7 | 3.1 | ---- | 4.5 | ---- | 4.6 | ---- |
| 1943-44 | 2.0 | 2.6 | 3.4 | 2.1 | 2.6 | 3.6 | ---- | ---- | ---- |
| 1945-46 | 4.5 | 5.2 | 3.4 | 2.1 | 11.4 | 6.5 | ---- | ---- | 1.9 |
| 1947-48 | 3.5 | 3.3 | 4.0 | 4.2 | 4.4 | 3.6 | ---- | ---- | .9 |
| 1949-50 | 4.5 | 3.7 | 2.0 | 6.3 | 2.6 | 5.2 | ---- | 4.6 | .9 |
| 1951-52 | 4.8 | 6.3 | 6.7 | 3.1 | 7.9 | 6.8 | 20.0 | ---- | 4.8 |
| 1953-54 | 6.6 | 4.8 | 4.7 | 4.2 | 4.4 | 4.2 | ---- | 13.6 | 6.7 |
| 1955-56 | 10.4 | 7.0 | 9.4 | 4.2 | 1.8 | 6.1 | 6.7 | 9.1 | 14.3 |
| 1957-58 | 14.3 | 14.2 | 10.7 | 9.3 | 10.5 | 13.0 | 46.6 | 27.2 | 23.8 |
| 1959-60 [3] | 24.0 | 13.5 | 4.0 | 11.4 | 4.4 | 9.7 | 20.0 | 31.8 | 44.8 |
| | C. As percent of number of firms involved in each membership year | | | | | | | | |
| Total | ---- | 100.0 | 18.4 | 11.9 | 14.1 | 38.1 | 1.9 | 2.7 | 13.0 |
| Before 1941 | ---- | 100.0 | 24.7 | 16.2 | 19.2 | 38.2 | .3 | .7 | .7 |
| 1941-42 | ---- | 100.0 | 18.2 | 13.7 | ---- | 63.6 | ---- | 4.5 | ---- |
| 1943-44 | ---- | 100.0 | 23.8 | 9.5 | 14.3 | 52.4 | ---- | ---- | ---- |
| 1945-46 | ---- | 100.0 | 11.9 | 4.8 | 31.0 | 47.5 | ---- | ---- | 4.8 |
| 1947-48 | ---- | 100.0 | 22.2 | 14.8 | 18.5 | 40.8 | ---- | ---- | 3.7 |
| 1949-50 | ---- | 100.0 | 10.0 | 20.0 | 10.0 | 53.4 | ---- | 3.3 | 3.3 |
| 1951-52 | ---- | 100.0 | 19.6 | 5.9 | 17.6 | 41.2 | 5.9 | ---- | 9.8 |
| 1953-54 | ---- | 100.0 | 17.9 | 10.3 | 12.8 | 33.3 | ---- | 7.9 | 17.9 |
| 1955-56 | ---- | 100.0 | 24.6 | 7.0 | 3.5 | 33.3 | 1.8 | 3.5 | 26.3 |
| 1957-58 | ---- | 100.0 | 13.9 | 7.8 | 10.4 | 34.8 | 6.3 | 5.2 | 21.7 |
| 1959-60 [3] | ---- | 100.0 | 5.5 | 10.1 | 4.6 | 27.5 | 2.8 | 6.4 | 43.1 |

[1] As of Dec. 31, 1960. The number of firms joining in the various 2-year periods has been estimated. The NASD was registered with the Commission as a national securities association in August 1939.

[2] The disciplinary actions analyzed here are those taken by district business conduct committees and do not take into consideration changes made after review by the Board of Governors or the Commission (see ch. XII). The figures include duplications where more than 1 proceeding was brought against a single firm and include firms whose proceedings resulted in dismissals.

[3] Firms in this category were not members of the NASD during part of the 3-year period covered, i.e., 1959-61.

TABLE II-3.—*Violations of NASD rules resulting in disciplinary action classified by year of membership of firm involved and type of violation*

[Violations, 1959-61]

| Membership year | All NASD member firms [1] | Firms involved [2] | Total violations [3] | Type of violation: Administrative rules | | Selling practices | | | | | | Financial responsibility, books and records | | | Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Refusal to permit inspection of records | Failure to register persons as RR's | Manipulation or use of fraudulent devices | Unsuitable recommendations of securities | Failure to comply with statement of policy | Excessive markups | Improper confirmation disclosures | Failure to supervise | Failure to maintain net capital ratio | Misuse of customers' funds and securities | Improper maintenance of books and records | Regulation T | Free riding | Miscellaneous |
| | A. Number of firms or violations | | | | | | | | | | | | | | | | |
| Total | 4,466 | 660 | 1,506 | 22 | 85 | 95 | 35 | 51 | 124 | 77 | 115 | 97 | 76 | 176 | 191 | 211 | 151 |
| Before 1941 | 1,014 | 223 | 379 | 1 | 13 | 14 | 12 | 11 | 24 | 12 | 35 | 9 | 18 | 22 | 48 | 122 | 38 |
| 1941–42 | 118 | 18 | 32 | | | 2 | | 1 | 1 | 1 | | 1 | 2 | 3 | 4 | 10 | 7 |
| 1943–44 | 89 | 16 | 34 | | | 4 | 1 | 2 | 2 | 4 | 3 | | 3 | 2 | 3 | 8 | 2 |
| 1945–46 | 202 | 37 | 80 | | 4 | 6 | 1 | 3 | 7 | 3 | 6 | 4 | 4 | 9 | 15 | 15 | 3 |
| 1947–48 | 156 | 21 | 37 | 2 | 1 | 2 | 1 | | 2 | 1 | 2 | | 2 | 6 | 6 | 9 | 3 |
| 1949–50 | 202 | 27 | 46 | 1 | 2 | 1 | 1 | 3 | 4 | 3 | 3 | | 1 | 6 | 8 | 9 | 4 |
| 1951–52 | 214 | 41 | 97 | 4 | 6 | 5 | 2 | 6 | 8 | 6 | 8 | 1 | 8 | 13 | 9 | 10 | 11 |
| 1953–54 | 295 | 32 | 86 | | 8 | 9 | 4 | 1 | 6 | 3 | 6 | 7 | 5 | 12 | 8 | 3 | 14 |
| 1955–56 | 466 | 43 | 138 | 3 | 12 | 9 | 4 | 7 | 14 | 9 | 8 | 4 | 3 | 25 | 19 | 4 | 17 |
| 1957–58 | 638 | 99 | 302 | 3 | 22 | 20 | 4 | 5 | 27 | 16 | 21 | 41 | 16 | 40 | 41 | 14 | 32 |
| 1959–60 [4] | 1,072 | 103 | 275 | 8 | 17 | 23 | 5 | 12 | 29 | 19 | 23 | 30 | 14 | 38 | 30 | 7 | 20 |

**See footnotes at end of table.**

TABLE II–3.—*Violations of NASD rules resulting in disciplinary action classified by year of membership of firm involved and type of violation*—Continued

[Violations, 1959–61]

| Membership year | All NASD member firms [1] | Firms involved [2] | Total violations [3] | Type of violation | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Administrative rules | | Selling practices | | | | | | Financial responsibility, books and records | | | Other | | |
| | | | | Refusal to permit inspection of records | Failure to register persons as RR's | Manipulation or use of fraudulent devices | Unsuitable recommendations of securities | Failure to comply with statement of policy | Excessive markups | Improper confirmation disclosures | Failure to supervise | Failure to maintain net capital ratio | Misuse of customers' funds and securities | Improper maintenance of books and records | Regulation T | riding Free | Miscellaneous |
| | B. As percent of total number of firms or violations | | | | | | | | | | | | | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100 0 | 100.0 |
| Before 1941 | 22.8 | 33.8 | 25.2 | 4.6 | 15.2 | 14.6 | 34.3 | 21.5 | 19.3 | 15.6 | 30.3 | 9.3 | 23.7 | 12.5 | 25.1 | 57.8 | 25.2 |
| 1941–42 | 2.6 | 2.7 | 2.1 | -------- | -------- | 2.1 | -------- | 2.0 | .8 | 1.3 | -------- | 1.0 | 2.6 | 1.7 | 2.1 | 4.7 | 4.6 |
| 1943–44 | 2.0 | 2.4 | 2.3 | -------- | -------- | 4.2 | 2.9 | 3.9 | 1.6 | 5.2 | 2.6 | -------- | 3.9 | 1.1 | 1.6 | 3.8 | 1.3 |
| 1945–46 | 4.5 | 5.6 | 5.3 | -------- | 4.7 | 6.3 | 2.9 | 5.9 | 5.6 | 3.9 | 5.2 | 4.1 | 5.3 | 5.1 | 7.9 | 7.1 | 2.0 |
| 1947–48 | 3.5 | 3.2 | 2.5 | 9.1 | 1.2 | 2.1 | 2.9 | -------- | 1.6 | 1.3 | 1.8 | -------- | 2.6 | 3.4 | 3.1 | 4.3 | 2.0 |
| 1949–50 | 4.5 | 4.1 | 3.1 | 4.6 | 2.4 | 1.1 | 2.9 | 5.9 | 3.2 | 3.9 | 2.6 | -------- | 1.3 | 3.4 | 4.2 | 4.3 | 2.6 |
| 1951–52 | 4.8 | 6.2 | 6.4 | 18.1 | 7.1 | 5.3 | 5.7 | 11.8 | 6.4 | 7.8 | 7.0 | 1.0 | 10.5 | 7.4 | 4.7 | 4.7 | 7.3 |
| 1953–54 | 6.6 | 4.9 | 5.7 | -------- | 9.4 | 9.5 | 11.4 | 2.0 | 4.8 | 3.9 | 5.2 | 7.2 | 6.6 | 6.8 | 4.2 | 1.5 | 9.3 |
| 1955–56 | 10.4 | 6.5 | 9.2 | 13.6 | 14.1 | 9.5 | 11.4 | 13.7 | 11.3 | 11.7 | 7.0 | 4.1 | 3.9 | 14.2 | 9.9 | 1.9 | 11.3 |
| 1957–58 | 14.3 | 15.0 | 20.1 | 13.6 | 25.9 | 21.1 | 11.4 | 9.8 | 21.8 | 20.8 | 18.3 | 42.3 | 21.1 | 22.7 | 21.5 | 6.6 | 21.2 |
| 1959–60 [4] | 24.0 | 15.6 | 18.1 | 36.4 | 20.0 | 24.2 | 14.2 | 23.5 | 23.6 | 24.6 | 20.0 | 31.0 | 18.5 | 21.7 | 15.7 | 3.3 | 13.2 |

C. As percent of total violations in each membership year

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | | | 100.0 | 1.5 | 5.7 | 6.3 | 2.3 | 3.4 | 8.2 | 5.1 | 7.6 | 6.5 | 5.0 | 11.7 | 12.7 | 14.0 | 10.0 |
| Before 1941 | | | 100.0 | .3 | 3.4 | 3.7 | 3.2 | 2.9 | 6.3 | 3.2 | 9.2 | 2.4 | 4.7 | 5.8 | 12.7 | 32.2 | 10.0 |
| 1941–42 | | | 100.0 | | | 6.3 | | 3.1 | 3.1 | 3.1 | | 3.1 | 6.3 | 9.4 | 12.5 | 31.2 | 21.9 |
| 1943–44 | | | 100.0 | | | 11.8 | 2.9 | 5.9 | 5.9 | 11.8 | 8.8 | | 8.8 | 5.9 | 8.8 | 23.5 | 5.9 |
| 1945–46 | | | 100.0 | | 5.0 | 7.5 | 1.3 | 3.8 | 8.7 | 3.8 | 7.5 | 5.0 | 5.0 | 11.2 | 18.7 | 18.7 | 3.8 |
| 1947–48 | | | 100.0 | 5.4 | 2.7 | 5.4 | 2.7 | | 5.4 | 2.7 | 5.4 | | 5.4 | 16.2 | 16.2 | 24.4 | 8.1 |
| 1949–50 | | | 100.0 | 2.2 | 4.3 | 2.2 | 2.2 | 6.5 | 8.7 | 6.5 | 6.5 | | 2.2 | 13.0 | 17.4 | 19.6 | 8.7 |
| 1951–52 | | | 100.0 | 4.1 | 6.2 | 5.1 | 2.1 | 6.2 | 8.2 | 6.2 | 8.2 | 1.0 | 8.2 | 13.4 | 9.3 | 10.3 | 11.5 |
| 1953–54 | | | 100.0 | | 9.3 | 10.5 | 4.7 | 1.2 | 7.0 | 3.5 | 7.0 | 8.1 | 5.8 | 13.9 | 9.3 | 3.5 | 16.2 |
| 1955–56 | | | 100.0 | 2.2 | 8.7 | 6.5 | 2.9 | 5.1 | 10.1 | 6.5 | 5.8 | 2.9 | 2.2 | 18.1 | 13.8 | 2.9 | 12.3 |
| 1957–58 | | | 100.0 | 1.0 | 7.3 | 6.6 | 1.3 | 1.6 | 8.9 | 5.3 | 6.9 | 13.6 | 5.3 | 13.2 | 13.6 | 4.6 | 10.8 |
| 1959–60 [4] | | | 100.0 | 2.9 | 6.2 | 8.4 | 1.8 | 4.4 | 10.5 | 6.9 | 8.4 | 10.9 | 5.1 | 13.8 | 10.9 | 2.5 | 7.3 |

[1] As of Dec. 31, 1960. The number of firms joining in the various 2-year periods has been estimated. The NASD was registered as a national securities association in August 1939.

[2] The figures include duplications where more than 1 proceeding was brought against a single firm, and do not include firms whose proceedings resulted in dismissals.

[3] Multiple violations of the same rule are counted as single violations. The disciplinary actions analyzed here are those taken by NASD district business conduct committees, and do not take into consideration changes made after review by the Board of Governors or the Commission (see ch. XII).

[4] Firms in this category were not members of the NASD during part of the 3-year period covered, i.e., 1959–61.

TABLE II-4.—*Status on Aug. 1, 1962, of 215 broker-dealers whose applications for registration were filed with the SEC July 1–Dec. 31, 1956, classified by net capital and aggregate indebtedness on date of 1st financial report to the SEC*

| Ratio of aggregate indebtedness to adjusted net capital | Adjusted net capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | $1,000 or less | $1,001 to $2,500 | $2,501 to $5,000 | $5,001 to $10,000 | $10,001 to $25,000 | $25,001 to $50,000 | Over $50,000 |
| Total number of registrations | 215 | 58 | 34 | 38 | 32 | 29 | 15 | 9 |
| | A. Active broker-dealers | | | | | | | |
| All firms | 95 | 19 | 13 | 13 | 18 | 19 | 9 | 4 |
| More than 20 times net capital | 2 | 2 | | | | | | |
| 11 to 20 times net capital | 4 | 2 | 2 | | | | | |
| 6 to 10 times net capital | 3 | 2 | | 1 | | | | |
| 3 to 5 times net capital | 5 | | 1 | | 3 | 1 | | |
| 1 to 2 times net capital | 7 | 1 | 2 | 2 | | 2 | | |
| Net capital exceeds indebtedness | 38 | 2 | 2 | 6 | 8 | 8 | 9 | 3 |
| No indebtedness | 36 | 10 | 6 | 4 | 7 | 8 | | 1 |
| | B. Broker-dealers whose registrations were revoked | | | | | | | |
| All firms | 26 | 13 | 1 | 5 | 3 | 3 | | 1 |
| More than 20 times net capital | 6 | 6 | | | | | | |
| 11 to 20 times net capital | 2 | 1 | | 1 | | | | |
| 6 to 10 times net capital | 1 | | | 1 | | | | |
| 3 to 5 times net capital | 3 | 3 | | | | | | |
| 1 to 2 times net capital | 3 | | | 1 | 1 | 1 | | |
| Net capital exceeds indebtedness | 4 | 1 | | | 1 | 1 | | 1 |
| No indebtedness | 7 | 2 | 1 | 2 | 1 | 1 | | |
| | C. Broker-dealers whose registrations were voluntarily withdrawn | | | | | | | |
| All firms | 94 | 26 | 20 | 20 | 11 | 7 | 6 | 4 |
| More than 20 times net capital | 3 | 3 | | | | | | |
| 11 to 20 times net capital | 4 | 1 | 1 | 1 | 1 | | | |
| 6 to 10 times net capital | 6 | 3 | 1 | 1 | | | 1 | |
| 3 to 5 times net capital | 6 | 2 | | 2 | 2 | | | |
| 1 to 2 times net capital | 12 | 1 | 3 | 7 | | | 1 | |
| Net capital exceeds indebtedness | 34 | 6 | 4 | 9 | 4 | 7 | 3 | 1 |
| No indebtedness | 29 | 10 | 11 | | 4 | | 1 | 3 |

NOTE.—Adjusted net capital and aggregate indebtedness are computed as set forth in Commission Rule 15c3-1 under the Securities Exchange Act of 1934.

TABLE II–5.—*Broker-dealers registered with the SEC classified by size of adjusted net capital and ratio of aggregate indebtedness to net capital*

| Ratio of aggregate indebtedness to adjusted net capital | Adjusted net capital (in thousands) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | $5 or less | $6 to $10 | $11 to $25 | $26 to $50 | $51 to $100 | $101 to $500 | $501 to $1,000 | Over $1,000 |
| All firms | 5,123 | 1,804 | 688 | 838 | 580 | 461 | 593 | 80 | 79 |
| More than 20 times net capital | [1] 220 | [2] 210 | 5 | 3 | | | 1 | | 1 |
| 11 to 20 times net capital | 258 | 105 | 39 | 45 | 21 | 26 | 22 | | |
| 6 to 10 times net capital | 440 | 123 | 66 | 79 | 51 | 54 | 52 | 11 | 4 |
| 3 to 5 times net capital | 730 | 143 | 100 | 131 | 129 | 88 | 116 | 13 | 10 |
| 1 to 2 times net capital | 566 | 119 | 66 | 113 | 84 | 73 | 89 | 16 | 6 |
| Net capital exceeds indebtedness | 1,875 | 476 | 283 | 336 | 233 | 176 | 277 | 38 | 56 |
| No indebtedness | 1,034 | 628 | 129 | 131 | 62 | 44 | 36 | 2 | 2 |

[1] Those firms which were in violation of the Commission's net capital rule generally have been requested to comply with the rule and in some instances revocation proceedings have been started.
[2] Includes firms whose adjusted net capital showed a deficit.

NOTE.—Adjusted net capital and aggregate indebtedness are computed as set forth in Commission Rule 15c3–1 under the Securities Exchange Act of 1934. The table does not include members of the New York Stock or American Stock Exchanges but does include all other broker-dealers registered with the Commission as of Dec. 31, 1961, who filed financial reports with the Commission prior to that date. Data are based on the latest such reports filed and generally are for the 1960 or 1961 fiscal yearend of each firm. These reports are filed throughout the year in the discretion of each firm.

TABLE II–6.—*Number of registered representatives of NASD member firms, 1956–62*

| Year | Number at beginning of year | Number of new registrations | Number of registrations terminated | Net gain (loss) | Number at end of year |
|---|---|---|---|---|---|
| 1956 | 44,488 | 18,767 | 10,378 | 8,389 | 52,877 |
| 1957 | 52,877 | 21,240 | 13,275 | 7,965 | 60,842 |
| 1958 | 60,842 | 24,317 | 15,814 | 8,503 | 69,345 |
| 1959 | 69,345 | 33,627 | 18,324 | 15,303 | 84,648 |
| 1960 | 84,648 | 33,780 | 24,600 | 9,180 | 93,828 |
| 1961 | 93,828 | 40,590 | 32,113 | 8,477 | 102,305 |
| 1962 | 102,305 | 29,314 | 37,175 | (7,861) | 94,444 |

NOTE.—Prior to 1961, the figures included duplications where a registered representative was registered with more than 1 firm.

TABLE II–7.—*New NASD registered representatives and NASD qualification examination program, 1956–62*

| Year | Total number of applicants [1] | Applicants required to take examination | | | | Number of applicants not required to take examination | Total number of new registered representatives |
|---|---|---|---|---|---|---|---|
| | | Total number | Number who passed | Number who failed | Percent failure | | |
| 1956 | 18,848 | 14,309 | 14,228 | 81 | .6 | 4,539 | 18,767 |
| 1957 | 21,259 | 14,841 | 14,822 | 19 | .1 | 6,418 | 21,240 |
| 1958 | 24,544 | 15,463 | 15,236 | 227 | 1.5 | 9,081 | 24,317 |
| 1959 | 33,992 | 23,515 | 23,150 | 365 | 1.6 | 10,477 | 33,627 |
| 1960 | 34,906 | 25,492 | 24,366 | 1,126 | 4.4 | 9,414 | 33,780 |
| 1961 | 41,679 | 30,790 | 29,701 | [2] 1,089 | 3.5 | 10,889 | 40,590 |
| 1962 | 31,561 | 16,186 | 13,939 | [2] 2,247 | 13.9 | 15,375 | 29,314 |

[1] There are slight differences in the actual number of applicants and the number shown here because some persons applied in one year and took the examination or were registered in the following year. Also, persons who took the examination more than once were counted as new applicants each time that they took the examination.
[2] The examination was radically changed effective Jan. 1, 1962, and a more difficult test substituted. During December 1961, the last month in which the old examination could be taken, 6,075 applicants took the test and 6 percent of them (368), failed.

TABLE II-8.—*Extent and type of prior experience of salesmen hired in 1961 by broker-dealer firms with 15 or more registered representatives*

[Percent of all salesmen hired in each group]

| Extent and type of experience | All firms [1] | Mutual fund firms [2] | | | Other firms | | |
|---|---|---|---|---|---|---|---|
| | | All [1] | Large | Medium | All [1] | Large | Medium |
| All salesmen hired | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| No experience | 80.3 | 89.1 | 94.9 | 80.9 | 55.8 | 49.3 | 67.8 |
| Less than 6 months | 2.7 | 2.2 | 2.2 | 2.4 | 4.0 | 4.4 | 3.9 |
| More than 6 months | 17.0 | 8.7 | 2.9 | 16.7 | 40.2 | 46.3 | 28.3 |
| Type of experience of salesmen with more than 6 months' experience: | | | | | | | |
| Selling: | | | | | | | |
| Mutual funds | 6.8 | 7.5 | 2.2 | 14.4 | 5.2 | 3.9 | 3.3 |
| Other securities | 7.4 | 1.1 | .7 | 1.8 | 25.2 | 28.4 | 21.6 |
| Other securities work: | | | | | | | |
| Back office | .8 | ---------- | ---------- | ---------- | 2.0 | 1.1 | 2.6 |
| Research | .2 | .1 | ---------- | .4 | .7 | .9 | .4 |
| Other | 1.8 | (3) | (3) | .1 | 7.1 | 12.0 | .4 |

1 Includes data for a few small firms which were not considered sufficiently representative of these firms to be shown separately.
2 A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.
3 Less than 0.05 percent.

NOTE.—Firms have been classified as "large", "medium", or "small", according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 30 or more registered representatives or employing 15 or more registered representatives and which had branch offices. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-9.—*Percent of broker-dealer firms' sales forces hired in 1961*

[Percent of total number of firms in each group]

| Percent of sales force [1] | All firms | Mutual fund firms [2] | | | | Other firms | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | All | Large | Medium | Small | All | Large | Medium | Small |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 0 | 5.0 | 3.8 | -------- | ---------- | 5.3 | 5.7 | -------- | 4.7 | 8.3 |
| 1 to 20 | 27.1 | 12.0 | 2.9 | 1.8 | 15.8 | 36.1 | 69.9 | 38.2 | 25.0 |
| 21 to 40 | 27.7 | 30.2 | 45.7 | 47.8 | 23.6 | 26.2 | 19.4 | 26.3 | 27.8 |
| 41 to 50 | 11.1 | 10.5 | 11.4 | 27.9 | 5.3 | 11.4 | -------- | 11.8 | 13.9 |
| Over 50 | 29.1 | 43.5 | 40.0 | 22.5 | 50.0 | 20.6 | 10.7 | 19.0 | 25.0 |

1 Ratio of number of salesmen hired during 1961 to total number employed as of Apr. 1, 1962.
2 A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.

NOTE.—Firms have been classified as "large," "medium," or "small," according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 3 or more registered representatives. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-10.—*Percent of broker-dealer firms' sales forces leaving in 1961*

[Percent of total number of firms in each group]

| Percent of sales force [1] | All firms | Mutual fund firms [2] | | | | Other firms | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | All | Large | Medium | Small | All | Large | Medium | Small |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 0 | 40.5 | 29.0 | 2.9 | 9.0 | 35.5 | 46.8 | -------- | 48.8 | 52.9 |
| 1 to 10 | 13.5 | 10.2 | -------- | 21.6 | 8.3 | 15.3 | 60.2 | 19.0 | 3.8 |
| 11 to 20 | 19.3 | 23.4 | 6.0 | 12.6 | 27.2 | 17.0 | 38.7 | 19.0 | 11.3 |
| 21 to 30 | 7.5 | 10.1 | 35.3 | 27.9 | 4.1 | 6.1 | 1.1 | 5.6 | 7.5 |
| 31 to 40 | 7.0 | 8.6 | 38.2 | 19.0 | 4.1 | 6.1 | -------- | 3.8 | 9.4 |
| 41 to 50 | 3.4 | 5.0 | 2.9 | 9.0 | 4.1 | 2.6 | -------- | -------- | 5.7 |
| Over 50 | 8.8 | 13.7 | 14.7 | .9 | 16.7 | 6.1 | -------- | 3.8 | 9.4 |

[1] Ratio of number of salesmen leaving during 1961 to total number employed as of Apr. 1, 1962.
[2] A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.

NOTE.—Firms have been classified as "large," "medium," or "small," according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 3 or more registered representatives. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-11.—*The nature and extent of on-the-job training by broker-dealer firms*

| Type of training | All firms | Mutual fund firms [1] | | | | Other firms | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | All | Large | Medium | Small | All | Large | Medium | Small |
| Average duration (in weeks) | 11.9 | 4.6 | 5.2 | 4.8 | 4.4 | 16.3 | 26.7 | 18.2 | 8.0 |
| | Average number of hours of training | | | | | | | | |
| All on-the-job training | 295.3 | 30.9 | 40.2 | 84.2 | 21.0 | 452.5 | 548.9 | 568.9 | 173.1 |
| Research and portfolio analysis | 59.1 | 2.1 | 3.0 | 8.6 | .9 | 93.0 | 176.1 | 110.1 | 23.1 |
| Mutual fund | 8.8 | 12.3 | 26.6 | 57.3 | 3.4 | 6.8 | 28.9 | 4.3 | 2.8 |
| Municipal and Government bonds, commodity and corporate bonds | 7.6 | .4 | .7 | -------- | .4 | 11.9 | 21.7 | 15.7 | -------- |
| Back office [2] | 74.2 | 1.7 | -------- | 4.8 | 1.4 | 117.2 | 121.2 | 150.0 | 48.1 |
| Trading | 37.6 | 1.0 | -------- | 1.9 | .9 | 59.4 | 38.5 | 67.9 | 50.6 |
| Sales, advertising, and sales promotion | 68.3 | 8.6 | 7.5 | 10.6 | 8.4 | 103.8 | 67.8 | 158.2 | 6.7 |
| Underwriting and syndicate | 11.5 | .6 | -------- | 1.0 | .5 | 18.0 | 25.2 | 22.3 | 6.2 |
| Others [3] | 28.2 | 4.2 | 2.4 | -------- | 5.1 | 42.4 | 69.5 | 40.4 | 35.6 |
| | As percent of all on-the-job training | | | | | | | | |
| All on-the-job training | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Research and portfolio analysis | 20.0 | 6.8 | 7.5 | 10.2 | 4.3 | 20.6 | 32.1 | 19.4 | 13.3 |
| Mutual fund | 3.0 | 39.8 | 66.1 | 68.0 | 16.2 | 1.5 | 5.3 | .8 | 1.6 |
| Municipal and Government bonds, commodity and corporate bonds | 2.6 | 1.3 | 1.7 | -------- | 1.9 | 2.6 | 4.0 | 2.8 | -------- |
| Back office [2] | 25.2 | 5.5 | -------- | 5.7 | 6.7 | 25.9 | 22.0 | 26.4 | 27.8 |
| Trading | 12.7 | 3.2 | -------- | 2.2 | 4.3 | 13.1 | 7.0 | 11.9 | 29.2 |
| Sales, advertising, and sales promotion | 23.1 | 27.9 | 18.7 | 12.7 | 40.0 | 22.9 | 12.4 | 27.7 | 3.9 |
| Underwriting and syndicate | 3.9 | 1.9 | -------- | 1.2 | 2.4 | 4.0 | 4.6 | 3.9 | 3.6 |
| Others [3] | 9.5 | 13.6 | 6.0 | -------- | 24.2 | 9.4 | 12.6 | 7.1 | 20.6 |

[1] A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.
[2] "Back office" includes the following functions: Wire and order, billing and clearing, cashier's and margin.
[3] Primarily observation of the firm's selling operations and sales personnel, and study for correspondence courses and courses given at local schools.

NOTE.—Firms have been classified as "large," "medium," or "small," according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 3 or more registered representatives. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-12.—*The nature and extent of classroom training by broker-dealer firms*

| Subjects studied | All firms [1] | Mutual fund firms [2] | | | Other firms | | |
|---|---|---|---|---|---|---|---|
| | | All [1] | Large | Medium | All [1] | Large | Medium |
| Average duration (in weeks) | 10.1 | 4.8 | 5.6 | 4.7 | 15.2 | 26.6 | 7.6 |
| | Average number of hours of study | | | | | | |
| All classroom training | 97.4 | 29.0 | 35.1 | 32.8 | 157.4 | 258.1 | 98.0 |
| Accounting, security analysis, and market analysis | 40.2 | 5.1 | 9.2 | 4.7 | 71.1 | 132.4 | 32.6 |
| Operation of the securities markets, and back-office functions | 14.4 | 4.1 | 4.8 | 6.4 | 23.4 | 31.3 | 20.1 |
| Securities laws and rules relating to salesmen's conduct | 20.0 | 9.8 | 14.0 | 9.6 | 28.8 | 32.3 | 28.8 |
| Sales, promotion, and selling techniques | 14.0 | 5.4 | 4.6 | 4.9 | 21.6 | 35.0 | 13.6 |
| Other subjects | 8.8 | 4.6 | 2.5 | 7.2 | 12.5 | 27.1 | 2.9 |
| | As percent of all classroom training | | | | | | |
| All classroom training | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Accounting, security analysis, and market analysis | 41.3 | 17.6 | 26.2 | 14.3 | 45.2 | 51.3 | 33.3 |
| Operation of the securities markets, and back-office functions | 14.8 | 14.1 | 13.7 | 19.5 | 14.9 | 12.1 | 20.5 |
| Securities laws and rules relating to salesmen's conduct | 20.5 | 33.8 | 39.9 | 29.3 | 18.3 | 12.5 | 29.4 |
| Sales, promotion, and selling techniques | 14.4 | 18.6 | 13.1 | 14.9 | 13.7 | 13.6 | 13.9 |
| Other subjects | 9.0 | 15.9 | 7.1 | 22.0 | 7.9 | 10.5 | 2.9 |

[1] Includes data for a few "small" firms which were not considered sufficiently representative of these firms to be shown separately.
[2] A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.

NOTE.—Firms have been classified as "large," "medium," or "small," according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 3 or more registered respresentatives. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-13.—*Extent of broker-dealer firms' employment of full-time and part-time salesmen*

[Percent of all salesmen in each group]

| | All firms | Mutual fund firms [1] | | | | Other firms | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | All | Large | Medium | Small | All | Large | Medium | Small |
| All salesmen | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Full-time salesmen | 53.0 | 31.1 | 38.7 | 21.1 | 11.4 | 77.8 | 90.1 | 71.6 | 47.1 |
| Mutual fund | 18.2 | 30.6 | 38.5 | 19.9 | 10.3 | 4.0 | .7 | 7.3 | 7.6 |
| Other | 34.8 | .5 | .2 | 1.2 | 1.1 | 73.8 | 89.4 | 64.3 | 39.5 |
| Part-time salesmen | 40.9 | 66.4 | 61.1 | 74.1 | 79.0 | 12.0 | 1.5 | 15.0 | 44.6 |
| Mutual fund | 37.8 | 65.5 | 61.1 | 73.8 | 74.3 | 6.3 | ------ | 7.8 | 26.8 |
| Other | 3.1 | .9 | ------ | .3 | 4.7 | 5.7 | 1.5 | 7.2 | 17.8 |
| Full-time employees acting as part-time salesmen | 6.1 | 2.5 | .2 | 4.8 | 9.6 | 10.2 | 8.4 | 13.4 | 8.3 |
| Mutual fund | 1.6 | 2.5 | .2 | 4.8 | 9.3 | .6 | .3 | .2 | 2.4 |
| Other | 4.5 | ------ | ------ | ------ | .3 | 9.6 | 8.1 | 13.2 | 5.9 |

[1] A "mutual fund firm" is defined as a firm which derived more than half of the gross income, which it received from securities transactions, from the sale of mutual fund shares.

NOTE.—Firms have been classified as "large," "medium," or "small," according to the size of their gross income. Data are estimates based on a sample of broker-dealers, primarily NASD members, employing 3 or more registered representatives. See ch. II, app. A, for the method of selection of the sample and the method of estimating the percentages for all firms.

TABLE II-14.—*Education and experience of principals of investment adviser firms—Investment adviser registrations in May, June, and July, 1961*

| | |
|---|---|
| All firms registered | [1] 79 |
| All principals in firms | 141 |
| Education: | |
| Number of persons with— | |
| No high school diploma | 3 |
| High school diploma only | 55 |
| College degree | 83 |
| Total | 141 |
| Broker-dealer or investment adviser experience: [2] | |
| Number of persons with— | |
| No experience | 89 |
| Less than 1 year | 4 |
| 1 to 2 years | 6 |
| Over 2 years | 42 |
| Total | 141 |
| Number of firms with— | |
| No experienced principals | 42 |
| All principals having less than 1 year's experience | 3 |
| All principals having less than 2 years' experience | 3 |
| Other | 31 |
| Total | 79 |

[1] Excluding 7 registrations which were subsequently withdrawn.
[2] Includes certain related experience such as that of a bank official or economics or finance professor.

TABLE II–15.—*Type of investment advice given by experienced and inexperienced investment adviser firms—Investment adviser registrations in May, June, and July, 1961*

| Type of investment advice | All firms | Experienced firms | Inexperienced firms [1] |
|---|---|---|---|
| Furnishes "investment supervisory service" (i.e., continuous individual investment advice to clients) | 27 | 18 | 9 |
| Manages securities accounts | 7 | 4 | 3 |
| Issues periodic publications on a subscription basis | 31 | 8 | 23 |
| Prepares special reports, charts, graphs, or formulas to evaluate securities | 22 | 7 | 15 |
| Other | 7 | 4 | 3 |
| Total [2] | 79 | 37 | 42 |

[1] A firm was classified as inexperienced if none of its principals had any experience as broker-dealers or investment advisers.
[2] Figures do not add to totals because some firms engaged in more than 1 type of activity and therefore were included in more than 1 category.

TABLE II–16.—*General information about experienced and inexperienced investment adviser firms—Investment adviser registrations in May, June, and July, 1961*

| | All firms | Experienced firms | Inexperienced firms [1] |
|---|---|---|---|
| Principal business: | | | |
| Investment adviser | 28 | 15 | 13 |
| Broker-dealer or other securities business | 13 | 12 | 1 |
| Other | 38 | 10 | 28 |
| Total | 79 | 37 | 42 |
| Discretionary authority over clients' accounts: | | | |
| Has complete discretion | 13 | 4 | 9 |
| Has some discretion | 1 | 1 | |
| Has no discretion | 65 | 32 | 33 |
| Total | 79 | 37 | 42 |
| Custodial authority: | | | |
| Has custody or possession of securities or funds of clients | 4 | 1 | 3 |
| Does not have such custody or possession | 75 | 36 | 39 |
| Total | 79 | 37 | 42 |

[1] A firm was classified as inexperienced if none of its principals had any experience as broker-dealers or investment advisers.

# APPENDIXES

## Appendix A

### Sources of Statistical Tables

Statistical tables appearing in chapter II have been derived from a number of sources: (1) Analyses previously made by the Commission, the NASD, or the NYSE, but presented here in altered form,[1] (2) analyses by the Special Study of data gathered from the files of the Commission or the NASD,[2] and (3) new data expressly collected and analyzed by the study.[3]

Tables derived from some study analyses relating primarily to other chapters are explained therein.[4] In addition, there are in chapter II citations to certain tables found in chapters I and IV.[5]

All but one[6] of the tables in the third category are derived from questionnaires STS–1 and STS–2, which appear in appendixes B and C together with their covering letters. Five of the tables in chapter I[7] are also based on these questionnaires, as are certain discussions in chapters III.B and XI.

The STS questionnaires were designed to obtain data on the screening, training, and supervisory practices of securities firms and were sent to firms selected in the following manner. Every 10th name was chosen from an alphabetical list of NASD member firms employing between 3 and 199 registered representatives[8] as of the late 1961 NASD assessment reports—yielding a total of 199 firms. To obtain more complete coverage of NASD firms with 200 or more registered representatives, questionnaires were sent to 40 out of the 49 such firms, omitting only those firms whose previous considerable efforts in supplying information to the study precluded adding further to their reporting burden. Questionnaires were also sent to 8 firms which were not NASD members: 5 broker-dealers engaged exclusively in the retailing of limited partnership interests in real estate syndications, and 3 large mutual fund selling organizations employing a total of 15,000 full- and part-time salesmen, by far the largest securities firms outside the NASD.

Of the total of 247 firms chosen, STS–2 questionnaires were sent to 147 firms with no branch offices and less than 30 registered representatives or with branch offices and less than 15 registered representatives, as shown by the NASD assessment reports. The 5 non-NASD real estate syndication firms were also sent STS–2 questionnaires; one of these, with more than 30 salesmen, subsequently submitted an STS–1 questionnaire instead. The remaining 95 firms of larger size were sent the slightly more comprehensive, 26-page STS–1 questionnaire. A tabular presentation of the firms to which questionnaires were sent as follows:

| Type of firm | Method of selection | Total | STS–1 | STS–2 |
|---|---|---|---|---|
| 1. All receiving questionnaires |  | 247 | 96 | 151 |
| 2. NASD members with 3 to 199 registered representatives | 1 in 10 | 199 | 52 | 147 |
| 3. NASD members with 200 or more registered representatives | 40 of 49 | 40 | 40 | 0 |
| 4. Large, non-NASD mutual fund organizations | All 3 | 3 | 3 | 0 |
| 5. Non-NASD real estate syndication firms | 5 | 5 | 1 | 4 |

[1] Tables c, 6 and 7.
[2] Tables b, 1, 2, 3, 4, 5, 14, 15, and 16.
[3] Tables a, 8, 9, 10, 11, 12, and 13.
[4] Tables 2 and 3 are part of a study of NASD disciplinary actions, which is explained in ch. XII.
[5] See pts. E.1 and B.1(b)(2) of this chapter.
[6] Table 4.
[7] Tables I–8, I–11, I–12, I–13, and I–14.
[8] As indicated in the text, the term "registered representative" as used in the NASD bylaws embraces all officers and partners of member firms (except those neither controlling a firm's policy nor engaged in handling customers' accounts) in addition to salesmen.

Of the 247 questionnaires sent out, 231, or about 94 percent, were returned. The 16 firms failing to complete questionnaires included 9 no longer in business or subject to broker-dealer revocation proceedings, and 7 firms excused from responding because they did no business with the public, or for such reasons as illness of a proprietor. Of the questionnaires which were received, 12 were not included in the statistical analysis used in this section of the report. These included five firms whose business was almost exclusively confined to municipal bonds, the five real estate syndication broker-dealers, and two firms doing no business with the public. The resulting disposition of the various questionnaires was as follows:

| | STS-1 | STS-2 | Total |
|---|---|---|---|
| Total questionnaires sent out | 96 | 151 | 247 |
| Questionnaires returned | 94 | 137 | 231 |
| Questionnaires included in the statistical analysis | 91 | 128 | 219 |

In the preparation of the statistical analysis, in order to approximate as closely as possible the community from which the sample had been chosen, data from each firm were weighed according to the method by which that firm had been selected. Thus, data received from NASD firms with 3 to 199 registered representatives were weighted by 10 to reflect their 1-in-10 selection. The NASD firms with 200 or more registered representatives were weighted by 49/40, or 1.2, and the large non-NASD mutual fund organizations, all of which had been included in the sample, by 1.

For tabular analysis of the data, firms were divided into those receiving more than half their income from mutual funds, and others. Each of these two groups was further divided into three size categories according to amout of total gross income from transactions in securities.

While some of the questions asked—such as those relating to gross income—were answered by all respondent firms, others, covering such subjects as the content of on-the-job training, were not applicable to some firms. As a result, there is some variation, among tables in different categories, in the number of firms whose responses were used. Thus the analysis of gross securities income used in chapter I is based on data from all 219 firms analyzed, and represents substantially the entire community of securities firms having 3 or more registered representatives and not specializing in municipal bonds or real estate syndications. On the other hand, the analysis of on-the-job training covers the smaller number of firms using this training method. The accompanying table (app. A, table 1) lists the number of firms whose data were used for tables within particular subject categories.

## APPENDIX A

TABLE 1.—*Number of firms providing data used for tables in each subject category*

| | All firms | Mutual fund firms | | | | Other firms | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | All | Large | Medium | Small | All | Large | Medium | Small |
| Amount of gross income | | | Over $4,000,000 | $250,000–$4,000,000 | Under $250,000 | | Over $500,000 | $75,000–$500,000 | Under $75,000 |
| Subject of tables: | | | | | | | | | |
| Income [1] | 219 | 83 | 15 | 19 | 49 | 136 | 26 | 55 | 55 |
| Salesmen [2] | 216 | 82 | 15 | 19 | 48 | 134 | 26 | 55 | 53 |
| On-the-job training [3] | 128 | 49 | 11 | 6 | 32 | 79 | 21 | 35 | 23 |
| Classroom training [4] | 54 | 27 | 11 | 12 | 4 | 27 | 17 | 9 | 1 |

[1] Tables I–8, I–11, I–12, I–13, and I–14.
[2] Tables II–8, II–9, II–10, and II–13.
[3] Table II–11.
[4] Table II–12.

## APPENDIX II-B

## QUESTIONNAIRE STS-1

## SCREENING, TRAINING, AND SUPERVISION OF SALES EMPLOYEES BY LARGER REGISTERED BROKER-DEALERS

SPECIAL STUDY OF
SECURITIES MARKETS

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON 25, D.C.

April 16, 1962

Gentlemen:

Under the provisions of Public Law 87-196, approved by the President on September 5, 1961, the Securities and Exchange Commission is authorized and directed to make a study and investigation of the securities markets and of the rules which govern them. The Commission has adopted an order authorizing the members of its staff who are assigned to the Special Study of Securities Markets to conduct the investigation.

There is attached a questionnaire which is being sent to a representative group of firms employing 30 or more salesmen and also to some firms employing fewer salesmen but having more than one branch office. Your firm has been selected as one of the group. In addition to basic background data, the questionnaire asks for certain information relating to the way in which your firm selects its sales employees and supervisors, its program for training inexperienced sales employees, and its policies and practices for supervising employees' dealings with the public. You will notice that Question 1 asks for certain financial data on the operations of your firm. The information requested is intended to be used for statistical and analytical purposes only, and will be treated in a confidential manner, without public identification of your firm.

The fact that you have received this questionnaire should not be construed as a reflection upon your firm or anyone connected with it. Nor should any question about a particular policy or practice of your firm be construed to mean that it is or is not deemed by the Commission to be lawful, proper, or otherwise desirable.

Your cooperation in providing full and careful answers to all of the questions will be of great assistance to the Commission in carrying out the mandate of the Congress.

Sincerely yours,

Milton H. Cohen
Director

Form STS-1

Budget Bureau Approval
No. 71-6207

SPECIAL STUDY OF SECURITIES MARKETS

Securities and Exchange Commission
Washington 25, D. C.

QUESTIONNAIRE

Name of Firm ______________________________

Address of Main Office ______________________________

INSTRUCTIONS

You are requested to answer all questions, covering all offices of your firm, except as otherwise indicated in the questions. Particular attention should be paid to the way in which certain terms are defined for purposes of this questionnaire. If the space provided for any answer is insufficient, the complete answer should be prepared on a separate sheet to be attached to the questionnaire and identified as "Answer to Question ___." To insure accuracy in the responses, many questions contain a category labeled "other; specify." You are urged to make full use of these spaces to make your answers complete. If all or part of a question is clearly not applicable to your firm, you may insert the symbol "NA."

Your attention is directed to the provisions of Title 18, United States Code, Section 1001, which makes it a criminal offense to submit false information to an agency of the federal government.

Return of the questionnaire and inquiries concerning it should be directed to Frederick Moss, Room 131B, at the above address (telephone: 202-WO2-5041). All questionnaires should be received no later than May 14, 1962. Requests for extensions of time will be considered in unusual circumstances, but such requests must be received no later than May 7, 1962.

DEFINITIONS

Supervisor: Any person with responsibility for overseeing the conduct of salesmen (including, but not limited to, managers and assistant managers of sales offices, and supervisors of regions or districts in which sales offices lie; but excluding partners, directors, and officers of your firm).

Manager: Any person with direct responsibility for the supervision of a sales office (excluding partners, directors, and officers of your firm).

Assistant Manager: Any person with responsibility for assisting a manager in the supervision of a sales office (including persons designated "co-manager," "associate manager," "assistant manager," or by a similar title; but excluding partners, directors, and officers of your firm).

Salesman: Any person who deals directly with members of the public in handling orders for the purchase or sale of securities (excluding partners, directors, officers, and supervisors).

Sales Office: Any office, department, or other organizational unit devoted to handling orders from the general public for the purchase or sale of securities (including, as separate offices, branch offices, subbranch offices and units of your home office engaged in handling such orders).

On-the-Job Training: A systematic program of education through observation of and participation in the actual operations of particular departments of your firm.

Classroom Training: Lectures or discussions conducted by or under the control of your firm, in which an organized body of training material is covered.

______________________________
(Name of Firm)

## PART I

### Organization and Business of the Firm

1. State the approximate amount of gross income (gross commissions, fees, trading profits, etc., not dollar value of transactions) derived from transactions handled by your firm during its most recent fiscal year,* ending on or prior to March 31, 1962, with respect to each of the following:

   a. Securities (other than mutual funds and government and municipal bonds) sold by your firm as a member of an underwriting syndicate or selling group. $ ________

   b. Mutual funds:

      i. sales of contractual plans $ ________

         State total cost (face amount) of contractual plans sold (not to be included in total below)
         $ ____________

      ii. sales other than of contractual plans (cash sales) $ ________

   c. Corporate securities (other than mutual funds) $ ________

      i. stocks traded on exchanges $ ________

      ii. stocks traded over the counter $ ________

      iii. bonds $ ________

   d. Other securities; specify principal types: $ ________

      ____________________________

      ____________________________ Total: $ ________

*Specify fiscal year:
Year ending ________ .

2. State the total number of sales offices* in your firm on April 1, 1962 which were:

   a. In the United States __________

   b. In foreign countries __________

3. State the numbers of persons with your firm on April 1, 1962 who were:

   a. Salesmen:*

| | Primarily of Mutual Funds | Primarily of Other Securities |
|---|---|---|
| i. full-time salesmen | __________ | __________ |
| ii. full-time employees who were part-time salesmen | __________ | __________ |
| iii. salesmen who were part-time employees | __________ | __________ |

   b. Other employees __________

4. State the numbers of persons who served your firm in the following capacities as of April 1, 1962:

| | Engaged in Some Selling Activities | Not Engaged in Selling Activities |
|---|---|---|
| a. Partners, directors, and officers with specific responsibility for overseeing the conduct of salesmen | __________ | __________ |
| b. Supervisors* (excluding managers and assistant managers) | __________ | __________ |
| c. Managers* of sales offices* | __________ | __________ |
| d. Assistant managers* of sales offices | __________ | __________ |

* See Definitions, page 2.

5. Provide the following data for your firm:

| | Salesmen Primarily of Mutual Funds | All Other Salesmen |
|---|---|---|
| a. Number of salesmen working on straight commission basis | | |
| b. Number of salesmen working on straight salary basis | | |
| c. Number of salesmen working on a salary plus commissions, or draw against commissions | | |
| d. Approximate yearly earnings (including bonuses and other types of compensation) of average: | | |
| i. manager of sales office | | |
| ii. assistant manager of sales office | | |
| e. Approximate percentages of salesmen with annual earnings (including bonuses and other types of compensation) of: | | |
| i. less than $ 1,000 | | |
| ii. $ 1,001 to $ 5,000 | | |
| iii. $ 5,001 to $10,000 | | |
| iv. $10,001 to $15,000 | | |
| v. $15,001 to $25,000 | | |
| vi. $25,001 or more | | |

6. a. Indicate the form and amount of compensation you generally pay to a salesman primarily engaged in selling mutual funds:*

| | During Training Period, If Any | At End of Training Period | After Fifth Year of Selling |
|---|---|---|---|
| | (Check one box in each column) | | |
| i. Salary only | [ ] | [ ] | [ ] |
| Amount of salary per month | $____ | $____ | $____ |
| ii. Commissions only | [ ] | [ ] | [ ] |
| Rate of commission (as percent of firm's gross commission)* | ______% | ______% | ______% |
| iii. Salary plus commissions or draw against commission | [ ] | [ ] | [ ] |
| Amount of salary ( ) or draw ( ) per month (check appropriate description) | $____ | $____ | $____ |
| Rate of commission (as percent of firm's gross commission)* | ______% | ______% | ______% |
| iv. Other types of compensation; specify: | [ ] | [ ] | [ ] |
| __________ | [ ] | [ ] | [ ] |
| __________ | [ ] | [ ] | [ ] |

*If your firm pays significantly different forms or amounts of compensation to salesmen, depending on such factors as geographical location of sales offices, production records of particular salesmen, types of funds sold, or whether on contractual plans or not, state briefly the principal variations:

______________________________

______________________________

6. b. Indicate the form and amount of compensation you generally pay to a salesman not primarily engaged in selling mutual funds:*

(Check one box in each column)

| | During Training Period, If Any | At End of Training Period | After Fifth Year of Selling |
|---|---|---|---|
| i. Salary only | [ ] | [ ] | [ ] |
| Amount of salary per month | $____ | $____ | $____ |
| ii. Commissions only | [ ] | [ ] | [ ] |
| Rate of commission (as percent of firm's gross commission)* | ______% | ______% | ______% |
| iii. Salary plus commissions or draw against commissions | [ ] | [ ] | [ ] |
| Amount of salary ( ) or draw ( ) per month (check appropriate description) | $____ | $____ | $____ |
| Rate of commission (as percent of firm's gross commission)* | ______% | ______% | ______% |
| iv. Other types of compensation; specify: | [ ] | [ ] | [ ] |
| __________ | [ ] | [ ] | [ ] |
| __________ | [ ] | [ ] | [ ] |

*If your firm pays significantly different forms or amounts of compensation to salesmen, depending on such factors as geographical location of sales offices, production records of particular salesmen, or the types of securities involved, state briefly the principal variations:

______________________________________________

______________________________________________

7. Indicate on which of the following bases the majority of your firm's supervisors are paid:

| | Managers of Sales Offices | Assistant Managers of Sales Offices |
|---|---|---|
| | (Check one box in each column) | |
| a. Salary | [ ] | [ ] |
| b. Commissions from their own customers' accounts | [ ] | [ ] |
| c. Percentage of profits or gross sales of sales offices | [ ] | [ ] |
| d. Combination of a and b above | [ ] | [ ] |
| e. Combination of a and c above | [ ] | [ ] |
| f. Combination of b and c above | [ ] | [ ] |
| g. Combination of a, b, and c above | [ ] | [ ] |

8. a. In its most recent fiscal year, did your firm pay a share of its profits to any of its employees in the form of bonuses?

Yes [ ] No [ ]

b. If your answer was "yes", state the approximate percentages which such bonuses constituted of total annual compensation received by the following classes of employees:

i. salesmen ________%

ii. managers ________%

iii. assistant managers ________%

iv. other employees ________%

c. With respect to public offerings in which your firm participated as an underwriter or selling group member in its most recent fiscal year, did your firm allot to any salesmen or supervisors either (1) warrants or options to purchase any of the securities offered, or (2) offered securities at less than the public offering price?

Yes [ ] No [ ]

d. If your answer was "yes", state briefly the basis for making such allotments:

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

________________________
(Name of Firm)

PART II

Screening and Hiring of Salesmen and Supervisors

9. State the number of salesmen and supervisors (excluding those transferring within the firm from other types of positions) who joined or left your firm in 1961.

| | Joined Firm | Left Firm |
|---|---|---|
| a. Salesmen | ______ | ______ |
| b. Supervisors | ______ | ______ |

10. Indicate whether persons hired by your firm as salesmen or supervisors (excluding transfers from within the firm)* are subject to any of the following background investigations:

(Check appropriate boxes)

| | Salesmen | Supervisors |
|---|---|---|
| a. Investigation by your firm | [ ] | [ ] |
| b. Investigation by New York Stock Exchange | [ ] | [ ] |
| c. Investigation by bonding company | [ ] | [ ] |
| d. Investigation by special outside agency | [ ] | [ ] |
| e. Other investigations, specify below: | | |
| ________________ | [ ] | [ ] |
| ________________ | [ ] | [ ] |

* If persons transferring within the firm to positions as salesmen or supervisors are subject to background investigations different from those described in your answers to questions 10 and 11, state those variations below:

________________________________________

________________________________________

________________________________________

11. Indicate which of the following types of background information are covered in the investigations checked in response to question 10 above:*

(Check appropriate boxes)

| | Salesmen | Supervisors |
|---|---|---|
| a. Check of NASD records | [ ] | [ ] |
| b. Verification of current residence | [ ] | [ ] |
| c. Questioning of neighbors | [ ] | [ ] |
| d. Check of character references | [ ] | [ ] |
| e. Check of credit references | [ ] | [ ] |
| f. Verification of school references | [ ] | [ ] |
| g. Check for criminal record | [ ] | [ ] |
| h. Check with most recent employer | [ ] | [ ] |
| i. Check with other employers | [ ] | [ ] |
| j. Other types of checks; specify below: | | |
| (i) ____________________ | [ ] | [ ] |
| (ii) ____________________ | [ ] | [ ] |
| (iii) ____________________ | [ ] | [ ] |
| (iv) ____________________ | [ ] | [ ] |
| (v) ____________________ | [ ] | [ ] |

12. a. Indicate whether your firm has minimum educational requirements for employment as a:

| | Yes | No |
|---|---|---|
| i. salesman | [ ] | [ ] |
| ii. supervisor | [ ] | [ ] |

---

* See footnote on preceding page.

b. If either answer to a was "yes", state the minimum requirements for:

i. salesmen ______________________

ii. supervisors ______________________

c. Indicate whether your firm has minimum requirements of experience in the securities business for employment as a:

| | Yes | No |
|---|---|---|
| i. salesman | [ ] | [ ] |
| ii. supervisor | [ ] | [ ] |

d. If either answer to c was "yes", state the minimum requirements for:

i. salesmen ______________________

ii. supervisors ______________________

13. Out of the total number of persons hired by your firm as salesmen in 1961 (excluding transfers from within the firm), state the numbers who had the following experience in the securities business:

| | Salesmen Primarily of Mutual Funds | All Other Salesmen |
|---|---|---|
| a. In excess of six months' experience | ______ | ______ |
| b. Less than six months' experience | ______ | ______ |
| c. No experience | ______ | ______ |
| d. Of those who had in excess of six months' experience (a above), state the numbers whose experience consisted primarily of: | | |
| i. selling mutual funds | ______ | ______ |
| ii. selling securities other than mutual funds | ______ | ______ |
| iii. working in research department | ______ | ______ |
| iv. working in back office | ______ | ______ |
| v. other | ______ | ______ |
| Totals: | ______ | ______ |

____________________
(Name of Firm)

## PART III

### Training of Salesmen

14. Indicate, in each of the appropriate spaces, the numbers of persons hired as salesmen by your firm in 1961 (excluding transfers from within the firm) who were given any of the types of training listed below:

| | Salesmen Primarily of Mutual Funds | All Other Salesmen |
|---|---|---|
| a. On-the-job training* only | ______ | ______ |
| b. On-the-job training together with: | | |
| i. classroom training* | ______ | ______ |
| ii. required correspondence courses | ______ | ______ |
| iii. required courses in local schools | ______ | ______ |
| iv. combination of (i) and (ii) above | ______ | ______ |
| v. combination of (i) and (iii) above | ______ | ______ |
| vi. combination of (ii) and (iii) above | ______ | ______ |
| vii. combination of (i), (ii), and (iii) above | ______ | ______ |
| c. Other types of training (including combinations not covered in b above); specify: | | |
| ____________ | ______ | ______ |
| ____________ | ______ | ______ |
| d. No training, except orientation to the firm | ______ | ______ |

* See Definitions, page 2.

15. For those referred to in 14(d) above as having been given no training, state the numbers of persons who received no training for each of the following reasons:

a. Registered representatives at time of hiring ________

b. Not registered representatives, but had previous experience in the securities business

i. in excess of six months' experience ________

ii. less than six months' experience ________

c. Had previous academic training for the securities business ________

d. Other; specify:

________________________________________ ________

16. If your firm gives on-the-job training to persons hired as salesmen, state the number of:

a. Weeks the program lasts ________

b. Hours per week devoted to on-the-job training ________

c. Approximate total hours spent in each of the departments listed below:

i. wire and order ________
ii. billing and clearing ________
iii. cashier's ________
iv. margin ________
v. trading ________
vi. underwriting & syndicate ________
vii. corporate bonds ________
viii. municipal & government bonds ________
ix. commodity ________
x. research & portfolio analysis ________
xi. mutual fund ________
xii. sales (including institutional) ________
xiii. advertising and sales promotion ________
xiv. others; specify: ________

______________________________ ________

______________________________ ________

______________________________ ________