

NASD

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NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. 488-17TH ST. N.W. WASHINGTON, D.C.

To NASD Members and Registered Representatives:

OTC CONSUMER EDUCATION PROGRAM TO BE LAUNCHED AFTER ADVENT OF NASDAQ

The NASD announced this month that it was negotiating with Doremus & Co., a major New York advertising and public relations firm, to develop a nationwide educational communications program with particular emphasis on the rapidly changing face of the over-the-counter securities market.

The educational program will be directed to the general public, investors interested in the OTC market, and the NASD membership. One of its key objectives will be to introduce the Association's new NASDAQ system of automated quotations and the revolutionary changes in market information on over-the-counter securities trading that the system will offer.

Details of the Association's planned public educational efforts have not yet been worked out with Doremus & Co., but the program will definitely recognize the need to better inform broad segments of the investing public and the financial community about the important changes taking place within the OTC market and within the agencies that supervise its activities.

In authorizing this new direction, the NASD Board of Governors at a recent meeting agreed that a better informed investing public would enhance and complement the Association's regulatory efforts in the securities markets. The Board members, who unanimously support this educational venture, hope that the program will also help dispel some of the confusion and misunderstanding about the OTC market and the work of the NASD. "There's no doubt in my mind," said NASD President Gordon Macklin, "that there is a pronounced lack of knowledge concerning how the securities markets operate which has fostered a growing communications gap between the industry and the investing public. I feel strongly that, with the advent of NASDAQ, the time is right to remedy this situation."

The over-all program will be developed by Doremus & Co. with the assistance of the NASD Information Committee and the Association's Member and Public Relations Department. The Information Committee's new chairman is Kenneth Crosby, Vice President of Merrill Lynch, Pierce, Fenner & Smith, Inc.

Tentatively, the Board of Governors has decided that the program should begin after NASDAQ and the National Clearing Corporation are both operating successfully. In this way, any increase in volume experienced by member firms because of NASDAQ and the consumer education program would not cause another paperwork log jam.

The NASDAQ program, itself, is proceeding according to plan. Installation of control units and terminals began in New York this month and will continue until all contracts signed for this equipment before January 15th will be fulfilled. Before the end of 1970, personnel from the Bunker-Ramo Corporation will personally train those using the NASDAQ system.

**INDUSTRY GROUPS UNITE
TO PROTECT INVESTORS**

On the start-up date, there will be at least 930 locations across the country with Level II and/or Level III terminals installed.

Last summer S.2348 was introduced in the Senate by Senator Edmund Muskie (D.-Maine). This bill would establish a Federal Broker/Dealer Insurance Corporation similar to the Federal Deposit Insurance Corporation. The proposed corporation would insure the accounts of public customers in the event of an insolvency of a broker/dealer. Representative John Moss (D.-Calif.) later introduced a parallel bill in the House.

During hearings on the Muskie bill last month, industry leaders and spokesmen for agencies regulating the securities markets emphasized their agreement that greater protection should be provided for all investors.

In mid-April, the securities industry formed a task force to explore self-regulatory alternatives to the Muskie and Moss bills. The seven member task force is working on an industry-wide proposal for investor protection in the event of a brokerage firm's failure. Their report is expected to be released on or before July 1.

Watson B. Dabney, a member of the NASD Board of Governors, is the Association's representative on the task force. Also represented are the New York Stock Exchange, the Pacific Coast Stock Exchange, the Association of Stock Exchange Firms, the Midwest Stock Exchange, the American Stock Exchange, and the Investment Bankers Association of America.

In a letter to SEC Commissioner Hamer Budge, a number of industry leaders explained the objectives of the task force. Briefly, the group intends, through a self-regulatory approach, to increase protection for investor funds and securities held by broker/dealers. The program will recognize each industry organization's special needs, but will be presented to the SEC and Congress as a united proposal by the entire industry.

**FILING FEES FOR
PUBLIC OFFERINGS
INITIATED BY NASD**

On May 8, the NASD announced that it was imposing a requirement that filing fees be charged on all public offerings reviewed by the Corporate Financing Committee. These fees could be considered by underwriters as part of the general expenses (such as printing, legal and accounting fees) normally incurred in underwriting a public offering. The fees will probably be handled by underwriters in a similar fashion to the fees assessed by the Securities and Exchange Commission.

The fees will be levied in connection with offerings that must be filed under the new NASD Corporate Financing Guidelines. Offerings exempted from filing are: (1) Mutual funds, with the exception of closed end funds; (2) Variable annuity contracts; (3) Bond issues rated "B" or better and (4) Securities exempted under the Securities Exchange Act of 1934.

The fee will be computed on the basis of \$100 plus .01% of the gross dollar amount of the securities being registered up to a maximum dollar amount of \$50 million or \$5,100 maximum fee per filing. It is applicable to all offerings filed with the SEC or the State Securities Commission on or after May 25, 1970. Offerings pending registration which were filed before that date will not be affected.

The fee must accompany the other documents required to be filed with the Association for review and will be one of the requirements for filing.

The fee, which applies to inter- and intra-state offerings, will be computed under the provision of Rule 457 of the General Rules and Regulations under the Securities Act of 1933. If an offering filed on or after May 25th is not accompanied by the fee, it will be considered an improper filing and will not be reviewed until this requirement is met.

The Association urges all members to immediately call this new filing requirement to the attention of their legal advisors and all other individuals charged with filing the appropriate documents with the Association for review.

**NCC AND PCSE SIGN
PLEDGE TO COOPERATE
IN CLEARING EFFORTS**

In a cooperative industry endeavor, the National Clearing Corporation (a wholly owned subsidiary of the NASD) and the Pacific Coast Stock Exchange Clearing Corporation recently signed an agreement to work together on expanding clearing systems for securities transactions. Through this arrangement, the NCC will build from the practical knowledge of the PCSE in developing its own clearing system.

For a number of years the PCSE has had a net-by-net settlement system in operation for clearing and settling securities transactions. Two years ago, it was made mandatory that its members clear their OTC transactions through the system. This system was also used in a pilot operation that began last fall between some West Coast firms and certain members of the National OTC Clearing Corporation in New York. To date, five NOTC members are clearing their inter-coastal transactions through the system. The initial results indicated an elimination of 68% of shipments between the two areas.

The NCC, which plans to develop a clearing program similar to that in use by the PCSE, is in the process of adapting the existing system to fit the needs of broker/dealers in the over-the-counter market. It is anticipated that this work will be completed before the end of the year.

NCC President, David Morgan, stressed that his organization will utilize the experience of the PCSE on an evolutionary basis to develop a nationwide clearing system.

The agreement signed by the two groups was recently approved by the Pacific Stock Exchange Clearing Corporation's Board of Directors. It provides that:

- (1) Pacific is making available to the NCC the documentation presently used in its net-by-net settlement system. This will include computer programs and supporting documents as well as other educational material useful in implementing such a system.
- (2) The NCC will modify and use the documentation jointly developed with Pacific for the National Clearing Corporation's continuous net settlement program.
- (3) NCC and Pacific personnel have been assigned to this project and are currently working on modifying the system.
- (4) Pacific and the NCC have agreed to use their best efforts to establish an area clearing center on the West Coast similar to those that will be established by the NCC in other geographic locations.
- (5) The two groups will cooperate in the development of the pilot inter-regional clearing program now being used between the National OTC Clearing Corporation and the Pacific OTC Clearing Corporation. The goal of the two organizations is the integration of this program into the future nationwide clearing system.

The NCC plans to begin its clearing program by activating three area centers—one on the Pacific Coast, one in the Midwest, and one in New York. It is expected that these centers will utilize the already existing facilities of the Pacific Coast Stock Exchange, the Midwest Stock Exchange, and the American Stock Exchange. These will be the first operational centers in what eventually will become a clearing system that will encompass all broker/dealers in the OTC market.

The Congress, members of the industry, the Securities and Exchange Commission, and investors are all expected to welcome the more efficient and accurate handling of securities transactions that will transpire through NCC efforts.

Three key employees of the Association were recently appointed to new positions with the organization. Frank J. Wilson and Charles Richard Justice were named vice-presidents of the Association. Mr. Wilson (who was formerly Secretary of the NASD and Associate General Counsel) remains Associate General Counsel in addition to his new title. Mr. Justice, in addition to being a vice president is also Technical Director for the Association. Donald H. Burns was appointed Secretary of the NASD and also holds the position of Assistant to the President.

The three men will continue to carry out their former duties, but will have an expanded role in Association affairs. Their appointments are part of an internal reorganization program that was begun last year in order to more effectively serve NASD members.

Mr. Wilson, who has been with the Association since 1963, has been engaged in legal work for the NASD and in liaison activities with Congress on legislation affecting the industry. A graduate of George Washington University Law School in Washington, D.C., he has an extensive legal background that includes the posi-

NASD APPOINTS THREE TO NEW POSITIONS

tion of Assistant United States Attorney and working as a legislative assistant to former U.S. Senator John Marshall Butler (R.-Md.). Among other activities, he served as Mayor for the City of Bowie, Maryland, from 1964 to 1968.

Mr. Justice joined the Association in 1968 as Technical Director. He has been concerned primarily in working with the Association's two automation programs—the national automated quotations system (NASDAQ) and the National Clearing Corporation. After being graduated from Washington and Jefferson College in Washington, Pennsylvania, and attending the University of Chicago, he was employed by System Development Corporation as a senior systems analyst and by the Mitre Corporation as an associate department head.

An NASD veteran, Mr. Burns has served the Association in various capacities since 1946. While working for Robert Glendinning & Co., he was graduated from the Wharton School of Finance. Before joining the NASD, he worked in the Trading and Exchange Division of the Securities and Exchange Commission. Mr. Burns has served as an NASD District Secretary and is now Assistant to the President in addition to his new duties.

MANAGEMENT & SUPERVISION

NOTES

EMERGENCY RULE 70-1 CHANGED BY NASD BOARD

During the May NASD Board meeting it was decided to tighten the Association's Emergency Rule 70-1 regarding trading restrictions.

As the revised rule stands, no member or person associated with a member shall sell a security for his own account or buy a security as a broker for a customer if he has a fail to deliver in that security 60 days old or older and *more than 10%* of his total dollar volume of fails to deliver are 60 days old or older. The same trading restrictions apply if he has a fail to deliver in that security 90 days old or older.

In respect to foreign securities (except American Depository Receipts and Canadian securities) if a member or person associated with a member has a fail to deliver in that security 120 days old or older and *more than 10%* of his total dollar volume of fails to deliver are 120 days old or older; or if the member has a fail to deliver in that security 150 days old or older, he cannot sell the security for his account or buy the security for a customer's account.

There are no changes in the remainder of the rule. Members are asked to carefully note the changes (which are italicized) since any violation of the rule is considered a violation of Article III, Section I of the NASD Rules of Fair Practice.

FINANCIAL REPORTING FORMS MUST BE FILED BY NYSE/NASD FIRMS

If your firm holds dual membership in the NASD and the NYSE, take note: All such firms should have received revised instructions regarding the filing requirements to fulfill SEC Rule 17A-10 which deals with financial reporting.

Originally, all NASD-NYSE members were to satisfy SEC requirements by filing a prescribed form with the NYSE. However, contrary to expectations, the NYSE decided not to file any plan with the SEC under the financial reporting rule.

When this development occurred, the Commission required that the NASD collect and process the reports for NASD-NYSE members. This necessitated a change both in filing methods and in the filing date for the firms affected. The NASD regrets the inconvenience caused this segment of the membership by this unexpected shift in NYSE plans.

All NASD-NYSE members must now file a report with the Association on NASD Form 17A-10. Those firms that carried out no securities transactions in 1969 with or for anyone other than a broker or dealer may file only the Introduction. All others must file the Introduction plus Part III of the form. The extended deadline for return of this information falls on May 30th.