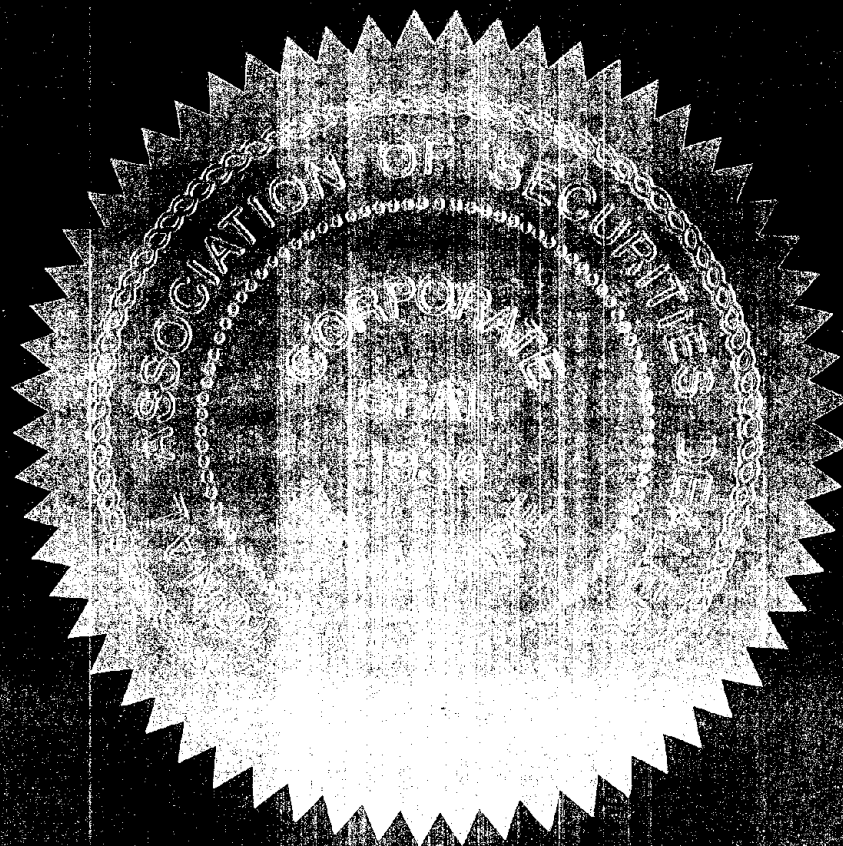
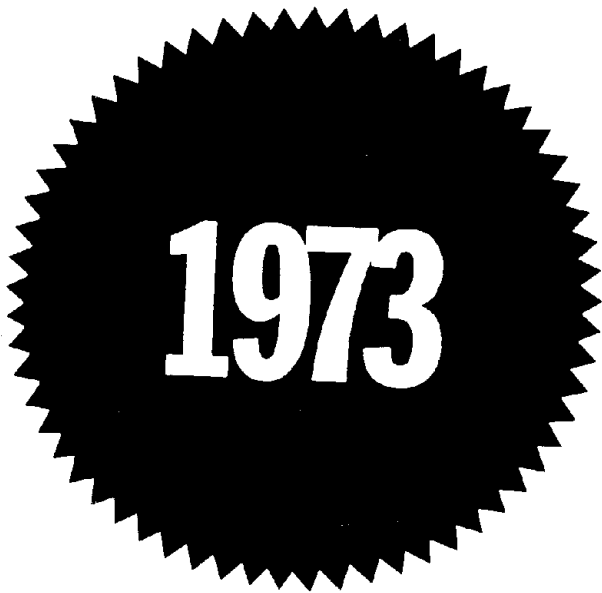


**1973  
ANNUAL  
REPORT**



# Purposes

- To promote the investment banking and securities business
- To standardize its principles and practices
- To promote high standards of commercial honor and to promote among members observance of Federal and State securities laws
- To provide a medium through which the membership may consult with governmental and other agencies
- To cooperate with governmental authority in the solution of problems affecting this business and investors
- To adopt and enforce rules of fair practice in the securities business
- To promote just and equitable principles of trade for the protection of investors
- To promote self-discipline among members
- To investigate and adjust grievances between the public and members



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## Chairman's Report



Quite naturally, the central theme of discussion during the three years of my term on the Association's Board of Governors has dealt with the future of the over-the-counter market and its relationship to the evolving central market system. The Association has worked closely with the government, various self-regulatory organizations and the financial community in general to assist in the creation of the most efficient securities market possible. The proposed composite tape; new issue-related rules in areas of due diligence, suitability and marketing; a uniform national clearing system; uniform capital rules; and registered representative training and examination are only a few examples of our direct and in-depth involvement with other organizations. In my mind, this has been a most constructive effort sponsored by the Association and, indeed, made possible because of the contribution of hundreds of individual committeemen from the industry and the assistance of a truly capable staff.

Although the development of a central market system is the predominant theme of change, the over-the-counter market of today is taking on a new definition. We are being influenced by important new products, the result of innovative and imaginative thinking from within and from without our industry. All of this will, of course, impact directly on regulatory as well as trading and marketing areas of our industry.

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The insurance industry, like others, is diversifying its product base. Variable annuities were first offered for sale by NASD members in 1968. More recently life insurance companies have developed another security product—variable life insurance. This concept, designed to pay a minimum guaranteed death benefit, with the total benefit determined by the performance of an underlying portfolio of common stocks, is presently waiting in the wings, pending resolution of various Federal and state regulatory matters. Once the regulatory climate has been established, variable life insurance will be another competitor for investors' funds and a new force for the securities industry to comprehend.

Another securities product is the condominium package. The SEC has ruled that condominium offerings involving management contracts are securities; therefore, subject to federal regulation. The Association, in conjunction with the National Association of Realtors, is studying the possible integration of firms selling real

estate securities into the NASD. This would include various areas of regulation, including the examination and registration of personnel selling such securities. The goal we seek is to avoid expensive and wasteful duplication of regulatory effort.

A third area that continues to generate growing interest is tax shelters. In 1973 the NASD reviewed 504 tax shelter filings, representing \$2.4 billion, compared to only 145 in 1970, representing less than \$1 billion. Although well over half of the 1973 tax shelter filings were real estate and oil and gas programs, there has been a marked increase in interest in vintage and farming programs, cattle feeding and breeding, and such diversified areas as: cable TV, mining, and computer leasing, among others.

Although the trading of options is not new to the OTC market, the introduction of the exchange mechanism to options trading by the Chicago Board Options Exchange has generated greatly increased activity in this type of security. An SEC study of options, although prompted by exchange trading of options, has resulted in rule proposals that would affect OTC trading of options as well. Some areas covered by Commission proposals are: customer disclosure and suitability requirements, reporting of transactions and minimum net capital requirements for broker/dealers writing or endorsing options.

Changes in our market structure along with new equity products will require us to be constantly alert to the need to make changes within our Association and in the rules and policies it enforces. New opportunities, as always, are synonymous with added responsibility. Therefore, developing appropriate rules to enhance investor confidence in our market and building services that enable our members to operate more efficiently are the truly valuable functions performed by our Association. The NASD today is equipped with the talent from the industry and has the requisite staff to meet the challenges of the future.

Respectfully submitted,

J. Logan Burke, Jr.

## President's Report



1973 was not a vintage year for the over-the-counter market. Lack of investor confidence in the near-term prospects for the economy of the nation, coupled with the highest interest rates in this century, were major factors contributing to a 24% drop

in volume in the NASDAQ System and for a 31% decline in NASDAQ stock prices during the year.

Further, not all the problems encountered by members are reflected in these market statistics. Investor claims on the funds raised through assessments against members by the Securities Investor Protection Corporation, losses sustained from trading with firms that failed, costs of meeting duplicative reporting requirements and supporting multiple clearing and depository operations—all added to the problems experienced by members. Consequently, much of our organization's effort has been focused on both reducing members' costs and improving investor confidence.

In the area of SIPC trustee firms, over \$30 million has been disbursed to public customers of firms that failed. The major reasons for these firm failures, as cited in SIPC's 1972 Annual Report were: inadequate experience, ignorance of regulatory rules, poor management, insufficient capital, and fraud or manipulation.

These areas were addressed during the year with the development of a broad-based program to cope with and overcome the reasons for the failures. The program includes the following:

- A comprehensive package of new standards for entry into the securities business. When the new standards become effective in 1974, the NASD will then have, among other things, the powers to disqualify any individual responsible for a firm becoming a SIPC liquidation and to restrict a prospective member's activities to the demonstrated capabilities of its personnel.
- An upgrading of our examiner force and surveillance techniques.
- The continuation of a group of NASD and SEC examiners specializing in the investigation of cases where fraud or manipulation may be involved.
- A new series of qualification examinations for registered representatives and principals.
- A concerted effort to assist the staff of the SEC in the development of more stringent capital standards for firms in the business.

There is reason for optimism that this program will

effectively reduce the number of firm failures and the claims against SIPC assessed funds.

Elimination of redundant reporting requirements has been a principal objective over the past several years. Some progress has been made. The NASD Annual Assessment Report was merged into the Annual Financial Report (Form 17A-10). Quarterly financial reporting to the NASD by members who are furnishing quarterly data to the New York and American Stock Exchanges was eliminated. Information for these firms is now forwarded to us by the exchanges. This past year the NASD and other regulatory bodies, including the state securities administrators, began work on a single, uniform registration form for individuals to be accepted by all regulatory organizations. This development offers the prospects of substantial savings for many members, and it is our target to have the common registration form in use by the end of 1974. Further, the Association is now participating on an SEC-organized advisory panel to review forms and reports required by each regulatory body. In sum, the wheels are in motion so that improvements in the area of duplicate reporting can be expected in the near-term future.

Late in 1973, the Association and the New York Stock Exchange initiated a major project to create a central clearing system which would handle all transactions by all dealers in all markets in all parts of the country on a non-discriminatory basis. A joint committee composed of representatives of various segments of the industry as well as staff members from the NASD and the exchanges has been formed to study the books and records, facilities, manpower and resources of existing clearing corporations. Its assignment is to develop a plan for the integration of existing clearing facilities into a system that will operate under uniform rules and standardized procedures that can achieve the lowest possible costs.

These are only a few of the Association's efforts that relate to reducing members' costs and improving investor confidence in the over-the-counter market. These activities are controlled, guided and assisted by more than 300 members from the industry who are donating their time and expertise through service on the District Committees and the many standing and special Board committees. Their skill and dedication, and in many cases service above and beyond the call of duty, provide the spark behind all of our Association programs.

Respectfully submitted,

Gordon S. Macklin

# 1973—REPORT TO MEMBERS

## NATIONAL ASSOCIATION OF SECURITIES DEALERS INC.

The year just past has been a difficult one for the industry. Both broker/dealers and individuals were affected by the declines in prices and trading volume. Yet through the adversity, the NASD gained greater insight into the developing problems of the OTC marketplace. New procedures have been planned or implemented to help members head off financial difficulties and to strengthen the integrity of the OTC market.

The Association continued to improve its automated quotations system, NASDAQ, to provide greater efficiency for over-the-counter trading. And the network established by the National Clearing Corporation to provide a nationwide clearing capability for OTC issues was expanded.

### REGULATION

In order to keep pace with industry developments, the Association initiated a number of wide ranging programs and regulatory procedures. Among these was a reorganization of the Regulation Division, resulting in the creation of three new departments: Enforcement, Regulatory Policy and Procedures, and Internal Review.

The Department of Enforcement oversees the operation of all fourteen NASD District Offices and provides support to on-going examination and surveillance programs. As part of the new Department, an Anti-Fraud Section centralizes

all investigations of manipulative activity in one nationwide unit. The Market Surveillance Department has also become part of the Department of Enforcement.

The principal activities of the Department of Regulatory Policy and Procedures are: to initiate, develop and comment upon regulatory proposals in coordination with other departments; to develop short and long range regulatory policy and planning for the Regulation Division; and, to develop procedures concerning examiner selection and training.

The Department of Internal Review complements these departments via periodic visits to the District Offices, insuring that the policies and procedures initiated are uniformly implemented and by making recommendations concerning their operations.

In 1973 the activities of the newly constituted Regulation Division resulted in, among other things, the adoption of several new and amended rule proposals as well as more sophisticated enforcement programs. In addition, major changes in examiner training were completed in 1973.

### SIPC Referral Program

Under the Securities Investor Protection Act of 1970, the Association is required to notify SIPC immediately upon discovering that a member is "in or approaching financial difficulty." To do this, the NASD instituted more frequent examination of members, a system of newly designed computer reports, and monthly reporting of summary financial and operational data by all NASD/SIPC members. Essentially, the Association fulfills its SIPC and Maloney Act responsibilities through a regulatory plan, integrating an early warning system with a nationwide field inspection program. The program's main emphasis is the early detection of those firms in or approaching financial or operational difficulty and the initiation of action to protect the public from loss.

On discovering a broker/dealer is approaching financial trouble, the Association immediately provides SIPC with pertinent financial data. At least monthly, the NASD sends updated information outlining the current financial



condition of the firm and the necessary operational restrictions imposed to minimize public exposure. The names of firms on closer-than-normal surveillance, though not considered approaching financial difficulty, are also reported to SIPC on a monthly basis.

The Association conducted 3,737 regular and special examinations of members' main offices in 1973. Three hundred and twenty two inspections of branch offices were also undertaken. As a result of the examination program, 384 Formal and Summary Complaints were filed and 93 letters of Admission, Waiver and Consent were accepted. Disciplinary actions during 1973 resulted in the expulsion of 61 firms, the barring of 183 individuals and the suspension of 49 firms and 69 individuals.

### **Anti-Fraud Task Force**

During October, 1972, the Association and the SEC formed the Joint NASD/SEC Anti-Fraud Task Force. This group, operating full time, directs its efforts to the investigation of cases involving stock manipulation and 1933 or 1934 Act violations resulting from improper distributions. Examinations conducted by the Task Force go beyond the routine inspection of broker/dealers. They include investigation of promoters of an issue who are often responsible for developing shell corporations whose stock is eventually brought to the public and whose price is manipulated.

The first two phases of Task Force activities covered investigations of eighteen broker/dealers in New York and eight in Salt Lake City. To date three criminal indictments, all resulting in convictions, have emanated from these investigations. Criminal action is also expected in a number of other cases.

It is contemplated that this Joint Task Force will remain active for the indefinite future.

### **Market Surveillance**

The NASDAQ Market Surveillance Section was created to insure that the NASDAQ System would contain appropriate regulatory safeguards. Each day, the NASDAQ computer analyzes all changes in quotations and volume entries and measures them against previously determined parameters. Every security exceeding these parameters appears in a report received by the NASD before market opening on the next trading day. Additional OTC trading information is available through the integrated use of NASDAQ and National Clearing Corporation computers.

Analysts keep a constant watch on the trading patterns of NASDAQ securities and conduct investigations to determine the causes of significant deviations. If irregular market activity is discovered, a summary of the investigation is channeled to either the SEC or the NASD's Anti-Fraud Section for follow-up action. The SEC has issued ten investigative orders based upon NASD referrals.

### **Joint NASD and NCC Regulatory Interface**

In 1973, the Association initiated a program to correlate in one consolidated computer-produced report certain key financial and operational information, presently available through the existing facilities of the NASD, NASDAQ and National Clearing Corporation network, as an aid in the Association's overall regulatory program. A secondary objective of this program is a reduction in the number of reports required of members who are also members of NCC or are NASDAQ Level III subscribers.

It is expected that the reports will be printed both daily and monthly. An exception type report, the daily report will be produced only when certain key financial or operational parameters are exceeded. The monthly report will be printed for all firms entered in the system. These consolidated reports will be valuable in the early determination that a member is in or approaching financial or operational difficulty and in enabling the NASD to assist members in initiating appropriate corrective action.

### **Service Bureaus**

In 1973, the NASD learned of several situations in which back-office service bureaus had been experiencing severe financial difficulties. These organizations, which provide record-keeping services to broker dealer subscribers, were incurring steady losses in revenue as a result of the then current decline in user volume.

Recognizing the dependency that the brokerage firm subscriber must place in this type of organization, the Association conducted a nationwide study of service bureaus to determine the full extent of the problem. The study concluded that direct regulation of service

bureaus is essential and recommended that the SEC seek legislation to achieve that result. The study also recommended that NASD members be notified that the failure of a service bureau to supply the books and records for which contracted would create a danger to their continued operations. When this notice was sent in January 1974, members were encouraged to satisfy themselves of the financial stability and future viability of their existing or prospective suppliers. An interim system of regulation of service bureaus, through rules directed toward members who utilize third party recordkeeping services, is being developed and will be published for comment in 1974.

### Entry Standards

The NASD has long been concerned with the adequacy of standards for entry into the securities business, including those for admission to Association membership. Of the 87 firms for which trustees were appointed in the first two and one-half years of SIPC's existence, approximately 80% were firms in business less than five years. It was found that the principal reasons for many failures, in addition to fraud or fraud related activity, were incompetent and inexperienced management, marginally financed firms and management personnel of questionable reputation. Also, there were many instances in which firms had engaged in a line of business, such as trading or underwriting, without adequate experience or knowledge.

In September, 1973, the Board of Governors published a proposal which would impose a bar on officers, partners, principals or controlling persons of a firm placed in SIPC liquidation if they were involved in the firm's activities which led to the liquidation. Exceptions could be granted by the Board.

At the same time, several proposals covering prospective members were distributed. If adopted, they would set new standards for admission to NASD membership, impose restrictions on the business activities of new members and delineate various categories of registration and qualification of principals and representatives.

The central theme of the entry standards program is the restriction of an applicant's business activities in a manner consistent with its demonstrated capabilities. Under this program, for example, a firm would not be admitted to membership to engage in trading activities unless it could demonstrate to the Association's satisfaction that its personnel were capable of,

and had experience in that business activity.

Another proposal would require that each of the two principals required before an applicant is granted membership have at least three years' management or supervisory experience with a broker/dealer within the preceding five year period from the date of the membership application.

These proposals have been approved by the Board, and the entire program will become operational during the first half of 1974, barring SEC disapproval.

### Real Estate

Early in 1973, the SEC ruled that federal securities laws apply to some condominium sales or sales of other units in a real estate development which are coupled with an agreement to perform rental or other services for the purchaser. The offering of such units must, in certain cases, comply with the registration and prospectus delivery requirements of the Securities Act, and persons offering these securities may be required to register as broker/dealers.



To investigate this area, the NASD has formed two committees composed of representatives of the National Association of Realtors (NAR) and the NASD. At the request of the NAR, one committee is studying the integration of real estate firms and their personnel into the NASD. The other committee



is developing an examination program for real estate securities salesmen.

### **Tax Sheltered Programs**

On July 13, 1973, concurrent with the SEC's request for public comment on the NASD's authority to regulate tax shelter programs, the Association resubmitted its revised tax shelter proposals to the membership. The SEC requested that consideration be given to: (1) whether the NASD would be engaged in a type of issuer-oriented regulation inconsistent with the 1933 Act; (2) whether it would be appropriate for the NASD to enact rules limiting their applicability to member affiliated issuers; and (3) whether the regulation of these programs should be achieved through a federal regulatory program rather than NASD rule making. The NASD is awaiting word from the SEC to adopt the proposed rules.

### **Options**

During 1973 there were many developments which drew the attention of regulatory bodies and the public to the trading of put and call options. The Chicago Board Options Exchange was established as a marketplace for options, initially calls, and other exchanges expressed the desire to institute similar trading.

The SEC has proposed two rules covering options. Proposed Rule 238 under the 1933 Act would grant exemptions from registration requirements to options meeting certain criteria, among which are that the underlying security is quoted on NASDAQ by five or more market makers and that the security has a representative bid price of no less than \$5 per share. Proposed Rule 9b-2 under the 1934 Act would set standards covering disclosures to customers concerning option trading, suitability for sales of various types of options, periodic reporting of option transactions, and minimum capital for writers and endorsers. The Association is in complete agreement with the purposes of both rules, but questioned certain provisions. In November the Commission announced it was studying the entire matter of option trading, and hearings on this subject began in January 1974.

In addition to keeping in touch with these developments the NASD has been studying its possible regulatory involvement, including: new qualification standards for members dealing in options; the clarification of existing rules to options; and the possibility of quoting and clearing OTC option trades through automated facilities such as NASDAQ and the National Clearing Corporation.

### **Broker/Dealer Self-Underwriting**

Early in 1974, amendments to the Association's rules for members and their affiliates to follow when distributing their own securities went into effect. In addition to clarifying certain sections of the rules, these amendments require the election of a public representative to the Board of Directors of any member making a public offering of its own securities and the creation of an Audit Committee with certain specified duties. Under the new rules, the public director is to serve as a member of this committee.

### **New Issue Rule Proposals**

As a result of the 1972 hearings on the "hot new issue" securities market, the SEC requested that the Association consider the establishment of greater controls over the sales of new issues to the public. Subsequently, the NASD issued proposals to strengthen regulation over underwriters' due diligence practices and customer suitability standards and to create a new category of registration, a "qualified underwriter principal." Some members felt the proposed underwriters' due diligence standards were too restrictive. Revised proposals take these comments into consideration and also contain a new section regarding bona fide distributions, discretionary accounts, and "best efforts" offerings. Following Board review, they will be resubmitted to the membership for comment.

In mid-1973, the NASD issued several proposals, amending its Free Riding Interpretation, which would totally prohibit the sale of shares of a "hot issue" to members, people associated with members and members of their immediate families. In addition, members would be prohibited from selling shares of a "hot issue" to any investment partnership, investment corporation or other like account unless the member receives prior indication that no beneficial interest in the account by any restricted individual exists. The amendments were declared effective on December 1, 1973.

### **Bonding**

Following a two to one affirmative membership vote and a letter of non-disapproval from the SEC, a mandatory fidelity bonding rule was declared effective March 15, 1974. The Association, in conjunction with the insurance industry, is developing a plan, required by the SEC, to ensure that no member will be excluded

from the securities business merely because such a bond cannot be obtained for reasons other than being an extraordinary insurance risk.

Under the rule all members who are required to join SIPC, are subject to the SEC's Net Capital Rule and have employees, must obtain a blanket fidelity bond. The amount of the bond must be no less than 120% of the member's highest required net capital in the previous 12 months with a minimum amount of \$25,000. The bond must include coverage for losses sustained through such employees' activities as fraudulent trading, misplacing securities, forgery and misappropriation of funds.

### **Investment Companies:**

During February and March of 1973 the SEC held public hearings on the mutual fund distribution system. The primary topics covered were: the potential impact of repeal of Section 22(d) of the Investment Company Act of 1940, the so-called retail price maintenance provisions; and the NASD's proposed sales charge rules for mutual fund shares and variable annuities.

The Association's written statement and oral testimony questioned the immediate repeal of Section 22(d). NASD spokesmen pointed out the general decline in average sales charges during the 1960's, and further noted that the proposed rules on sales charges would cause, on the average, another 10% decrease. The NASD rules were published for comment late in 1972, but have not been submitted for membership vote pending the Commission's comments on both Section 22(d) and the rule proposals.

The NASD also filed comments generally supporting proposed SEC rule amendments intended to relax rules covering mutual fund advertising and to permit group quantity discounts on mutual fund sales charges. NASD support was contingent upon the maintenance of the primary investor protections afforded by current rules.

In July 1973, the NASD declared effective its rule covering reciprocal business practices. The Association developed the rule at the specific request of the SEC which cited several potential regulatory problems which it believed could arise from the practice of rewarding sellers of open-end fund shares with portfolio business. In general, the rule bars members from favoring or disfavoring the distribution of a particular investment company's securities based on portfolio brokerage commissions expected or received.

The Association is currently considering new rules to extend the basic prohibitions of this rule to the execution of portfolio transactions of closed-end investment companies.

### **Corporate Financing**

Public offerings of securities in which NASD members intend to participate must be filed with the Association for review of the underwriting terms and arrangements. In 1973, 1,428 offerings were filed for review, representing a total of \$14.1 billion. Five hundred four of the offerings filed, representing \$2.4 billion, were tax shelter offerings, as compared to 539 in 1972. Real estate offerings accounted for 34% of the 1973 tax shelter filings, while oil and gas offerings accounted for 45%. The underwriting terms and arrangements were considered to be unfair and unreasonable in 381 of the offerings filed. Modifications were made in all of these cases to comply with NASD rules and regulations.

### **Advertising**

The Association reviews members' advertising and sales literature for compliance with SEC and NASD rules and guidelines. Of the over 11,200 pieces of literature filed in 1973 for review, over 6,800 were related to investment companies. The balance of the literature reviewed was of a wider variety than previous years, reflecting growing member interest in offering a broader array of new and established investment products. For example, over 1,200 pieces of literature on tax shelters were reviewed.

### **Variable Contracts**

During the year the number of insurance companies or their subsidiaries that are NASD members stabilized at 181. It is estimated that these 181 companies have over 225,000 insurance agents under contract, more than 84,000 of which are currently registered with the Association. It is anticipated that registrations from the insurance industry will continue to increase as companies intensify their efforts to prepare for the introduction of variable life insurance.

Thirteen companies have filed life insurance registration statements with the SEC. However, their marketing plans have been delayed until the states introduce laws or regulations that the Commission believes will give policyowners protections substantially equivalent to those available under the Investment Company Act of 1940. The NASD is currently developing guidelines for variable life insurance sales litera-

ture and evaluating the extent to which other regulations or regulatory procedures will become necessary with the advent of variable life insurance.

Because of the growing involvement of insurance companies in the distribution of securities products, the representation of the insurance industry at all levels of the Association's policy-making structure has grown. Two of the five At-Large Governors on the NASD's Board are insurance industry representatives. Fourteen insurance executives serve on various NASD standing committees and six serve on District Committees.

Although insurance companies are involved in the distribution of securities products, the nature of their business differs substantially from ordinary securities dealers. To accommodate this difference, the Association is designing a specially tailored examination program, a refinement of

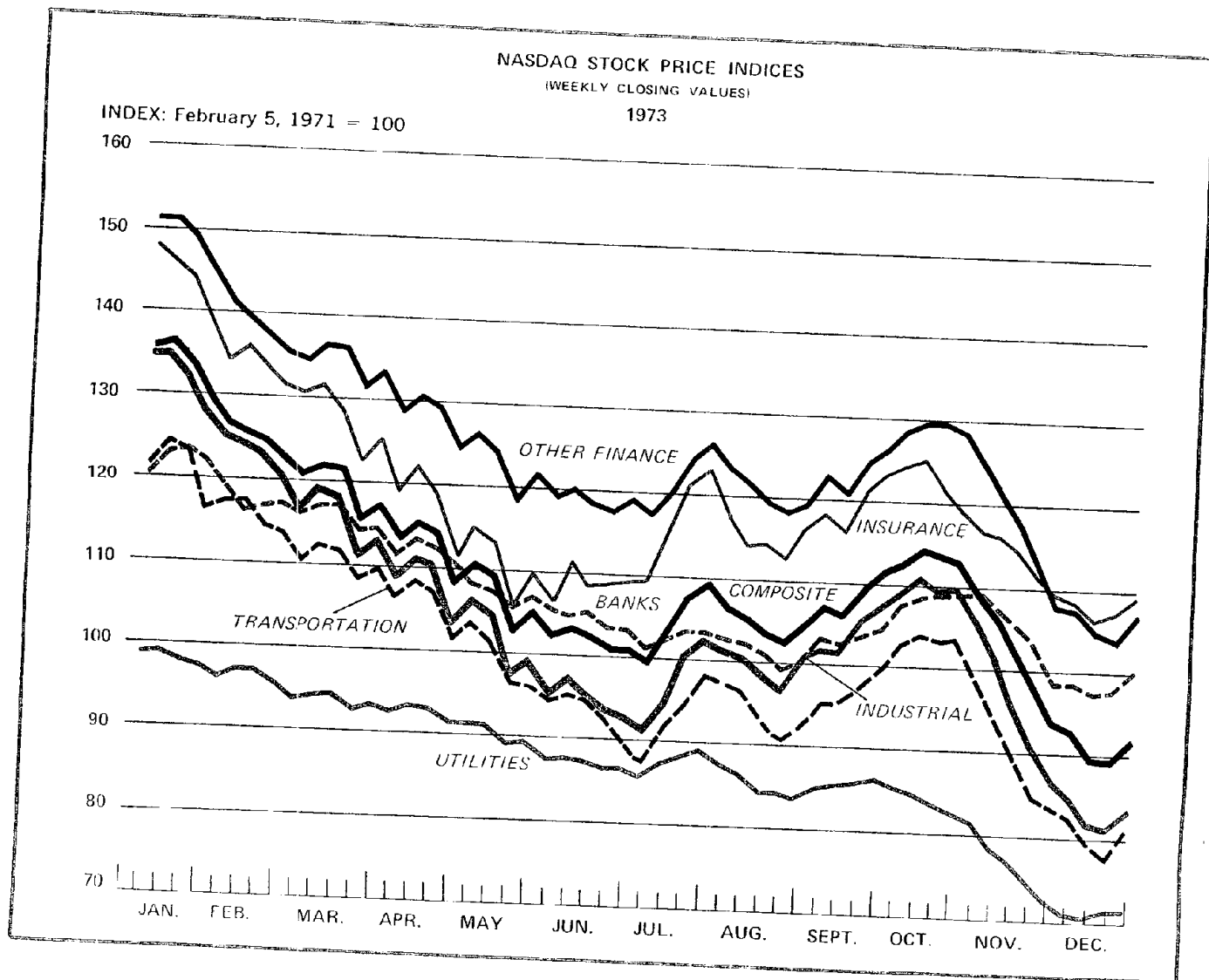
existing procedures. When in use, the new program will expedite the field inspection of an insurance company or affiliated member by focusing on matters relevant to their business activities in the securities area.

## MEMBER SERVICES

Rulemaking, enforcement, and other regulatory activities are augmented by the NASD's services to its members and the investing public. Work has continued in technological advances to aid the OTC market to function more efficiently. In addition, throughout the past year, the NASD worked to achieve broader public understanding of the OTC market.

## NASDAQ

In its third year of operation, NASDAQ faced the pressures of a declining market which



magnified some problems with the system and heightened industry sensitivity to changes in OTC trading created by the system. Yet despite the pressures and problems, many of which were resolved in 1973, the system continued to function smoothly and efficiently, providing immediate access to current and accurate quotations for OTC issues.

The stresses of the 1973 market situation are reflected in the statistics of the NASDAQ system. During the year, for example, the number of securities quoted on NASDAQ declined from a peak of 3,500 to 2,932 at the end of the year. The decrease can largely be attributed to the very few new issues distributed in 1973 to replace normal attrition due to mergers, exchange listing, liquidations, and issues being dropped from NASDAQ for not meeting minimum price or market maker requirements. Even so, the number of NASDAQ issues remained well above the start-up figure of 2,318.

NASDAQ closed the year with 1,506 Level II and III terminals located in trading departments of members and institutions. Although this figure reflects some shrinkage from the peak of 1,724 reached in March, it is, once again, substantially greater than the 1,065 at NASDAQ start-up.

These statistics reflect market conditions. The system itself remains a sound and viable communications network. The Association continues to view NASDAQ as the foundation on which the industry can build to maintain the OTC market as a fair and orderly marketplace as well as a major profit center.

Rules related to NASDAQ have been adopted by the NASD only after the need for them has been precisely defined and the problems have been given the opportunity to be resolved through the forces of free and open competition. In 1973 rules were instituted covering crossed markets, withdrawals, and quotations with spreads that are not reasonably related to the current market. As a result disciplinary action can be instituted if:

- (1) a market maker's bid quotation in a NASDAQ issue is higher than another market maker's ask quotation in the same issue (crossed market);
- (2) a market maker withdraws and re-enters his quotations during the day without NASD approval;
- or (3) the spread between a market maker's bid and ask quotations in NASDAQ exceeds the representative spread in that issue by more than a specified amount and, therefore, may not be reasonably related to the current market.

Part of the continuing development of NASDAQ is the Association's work to gain greater recognition for significant changes that have already

taken place in the OTC market and to eliminate discrimination that is no longer justified. Heading this area is the NASD's effort to encourage the expansion of the Federal Reserve Margin List. Last year's first-time inclusion of NASDAQ market maker data in the Federal Reserve Board's analysis was instrumental in their decision to expand the list of OTC securities eligible for margin from 470 to 638. The NASD is now encouraging the FRB to revise the criteria for marginability of OTC issues. Because current criteria were established prior to NASDAQ, a reduction in stringency based on NASDAQ data may be appropriate.

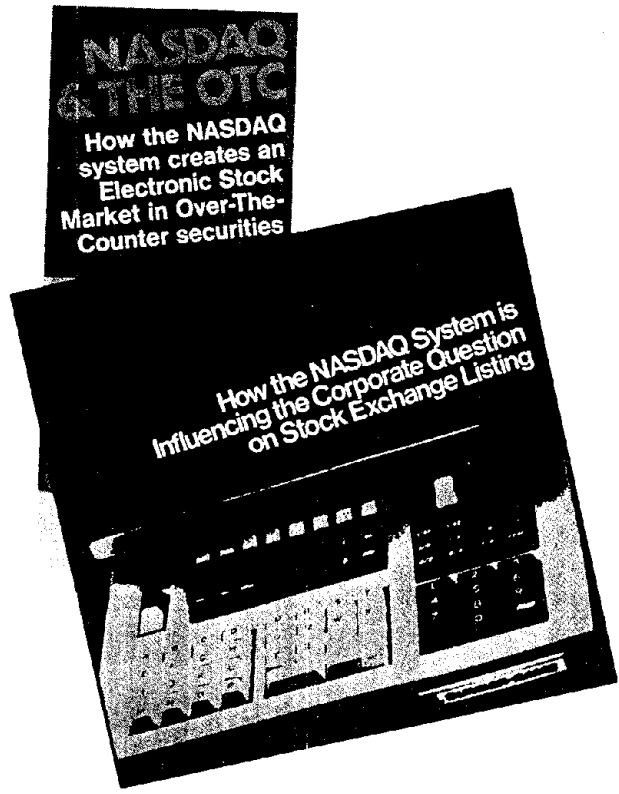
The NASD is also working to end discrimination in state security registration laws. Many of these grant blanket exemptions to companies whose securities are listed on an exchange while denying such exemptions to over-the-counter companies of equal size and substance. Other state laws inhibit the ability of insurance companies, trustees and administrators of state pension funds to invest in OTC issues.

On a broader scale, the NASD is working to eliminate barriers to the purchase of NASDAQ securities by citizens of foreign countries. The Association made a presentation to the Organization for Economic Cooperation & Development in Paris in the Spring of 1973, explaining the NASDAQ System. The OECD is recommending acceptance of NASDAQ issues for trading in all OECD countries on the same basis as listed securities.

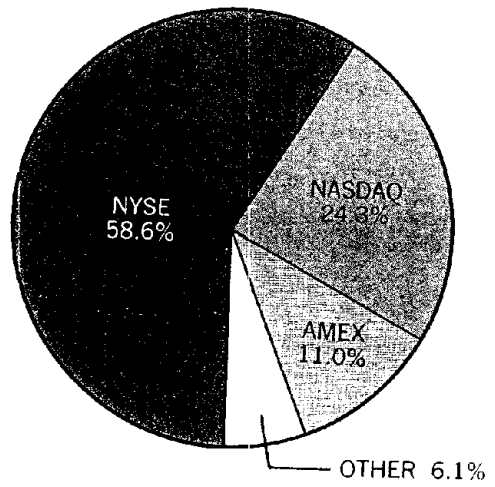
#### **NASDAQ-OTC Education Program**

With the publication of a booklet entitled "NASDAQ and the Listing Dilemma," the Association wound up its comprehensive, nationwide information effort—the NASDAQ-OTC Education Program. The booklet, directed to NASDAQ issuers, covers the question of listing their stock on an exchange and demonstrates how NASDAQ and the OTC multiple market maker system are motivating many corporate managers to reappraise the advantages and disadvantages of stock exchange listing.

In October 1973, the OTC Information Bureau, jointly sponsored by the NASD and the National Security Traders Association, was moved into Association offices in New York City. The Bureau supplies a continuing flow of OTC market data to educators, newscasters, magazines, newspapers, analysts and the public. As a result newspapers and magazines are giving greater coverage to the OTC market, and many more TV and radio business news programs now recap the OTC market activity. The relocation of the



**Trading Activity on NASDAQ and Exchanges**



**1973 Share Volume**

|                         |               |
|-------------------------|---------------|
| New York Stock Exchange | 4,053,201,976 |
| NASDAQ                  | 1,681,064,400 |
| American Stock Exchange | 759,652,005   |
| Other exchanges         | 422,926,983   |

Bureau's operations has reduced its cost considerably.

Distribution of a 13½ minute color film on NASDAQ and the OTC market began late in 1972 and continued throughout 1973. Over forty television stations have shown it as a public service presentation. Hundreds of schools, universities, and business and service groups have shown the film, and over a thousand bookings have been obtained by member firms. Complimentary copies have been given to stock exchanges in Brazil, Chile, Japan, South Korea, and Sweden at their request.

The NASD believes the program has been instrumental in heightening public awareness and understanding of the OTC market. Although the program is officially completed, the two booklets together with the NASDAQ film, will give the NASD a package of information tools to maintain an on-going education effort.

**Press Relations**

When volume statistics became available through NASDAQ on OTC securities, the NASD, for the first time, had the data to support its contentions concerning the magnitude of the OTC market. Using these data, the NASD approached financial editors of newspapers across the country to encourage them to increase their coverage of OTC quotes. However, the restructuring of the National List of NASDAQ-OTC quotations in 1973 had the most significant effect.

The geographic stockholder criteria for listing companies in the National OTC stock tables have been replaced by dollar value of shares traded as the standard for listing issues. The National OTC-NASDAQ List is now composed basically of the 1,400 issues which have the highest dollar value of volume traded and meet certain price requirements. An Additional NASDAQ-OTC List includes the next 950 issues, measured by substantially the same criteria. Both lists are redrawn on a six-month schedule, and issues are moved up to either list as openings become available.

The revision of the OTC stock tables precipitated a marked increase in newspaper coverage of OTC quotations. Six major metropolitan newspapers began daily publication of the National OTC-NASDAQ List for the first time, representing a 46% increase in the number of readers reached. This list also began appearing in four additional newspapers on a weekly basis for the first time. Further, the number of newspapers including volume figures with their publication of daily OTC quotes increased nearly threefold.

# 1973 Statistical Review

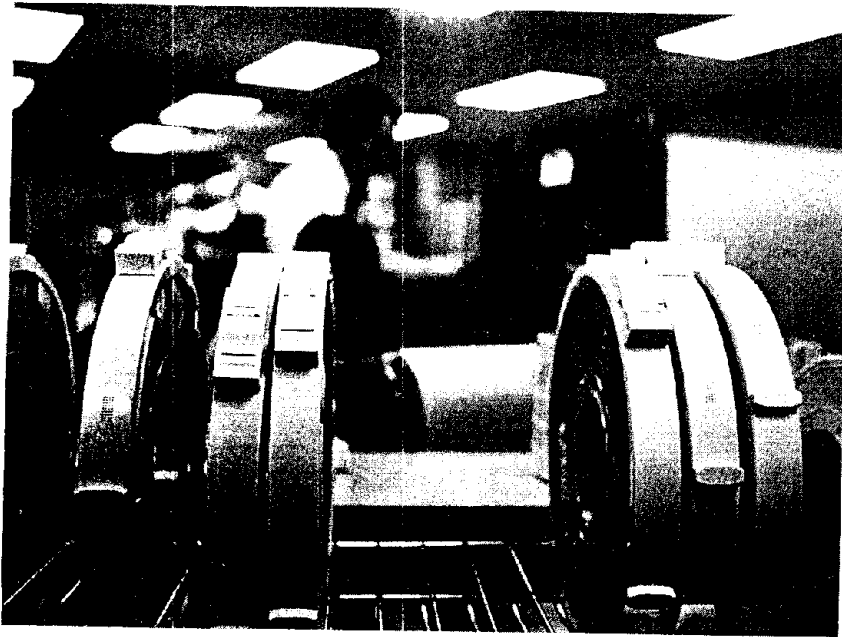
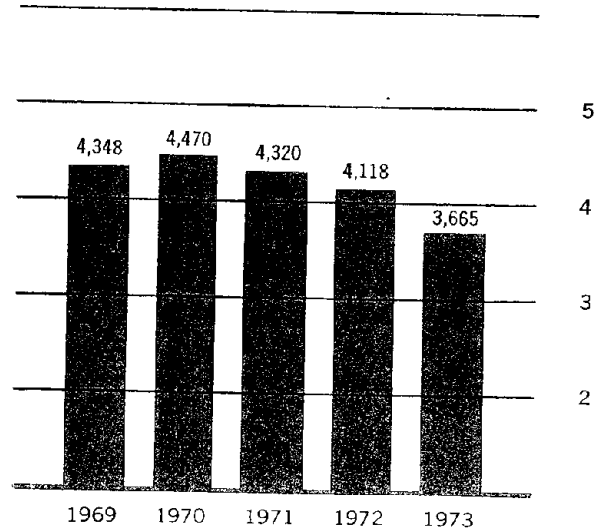
## EXAMINATIONS ADMINISTERED BY THE NASD FOR THE FIVE YEAR PERIOD BEGINNING

January 1, 1969 and ending December 31, 1973

| YEARS | QUALIFICATION EXAMS FOR NASD | EXAMS ADMINISTERED FOR OTHER INSTITUTIONS | TOTAL   |
|-------|------------------------------|---|---------|
| 1969  | 66,748                       | 35,288                                    | 102,036 |
| 1970  | 63,653                       | 26,862                                    | 90,515  |
| 1971  | 32,366                       | 21,696                                    | 54,062  |
| 1972  | 38,519                       | 26,262                                    | 64,781  |
| 1973  | 46,312                       | 26,286                                    | 72,598  |

## MEMBER FIRMS

Thousands



## SYSTEMS

The NASD continues to refine the NASDAQ system, but its needs for computer processing do not end there. As the Association has grown, so have its needs for efficient records handling and information retrieval.

### Automation Programs

The Automation Programs department has been primarily engaged in monitoring the technical and financial performance of the NASDAQ system,

as well as planning its future development. During the year this department was instrumental in the addition of numerous new features to the NASDAQ system.

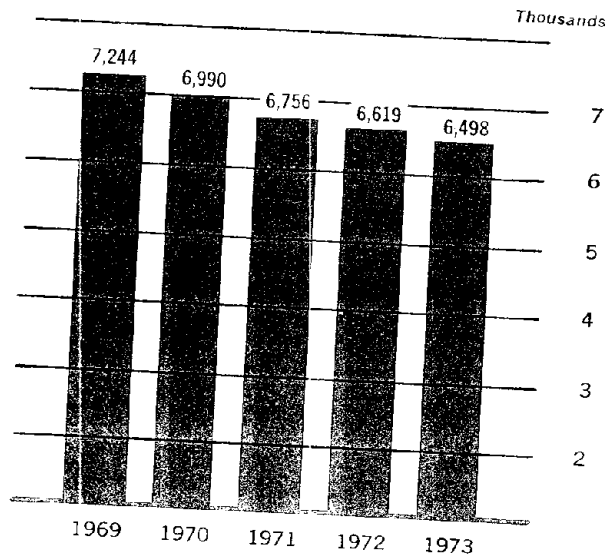
A Level III subscriber now has the ability to register as a market maker in a NASDAQ security directly through the terminal—without having to contact the NASD.

Market summary data, relating to the current business day, is now available on Level II and III terminals from 4:35 p.m. to 6:30 p.m., and continues to be available from 9:00 a.m. to 3:30 p.m. the following day. Included are: (1) the ten most active issues of the day; (2) the number of securities that advanced, declined or remained unchanged; (3) the volume of trading in each of these categories; and (4) total NASDAQ volume for the day. In addition, the day's volume for each NASDAQ issue has been made available on Level I terminals for easy access by registered representatives.

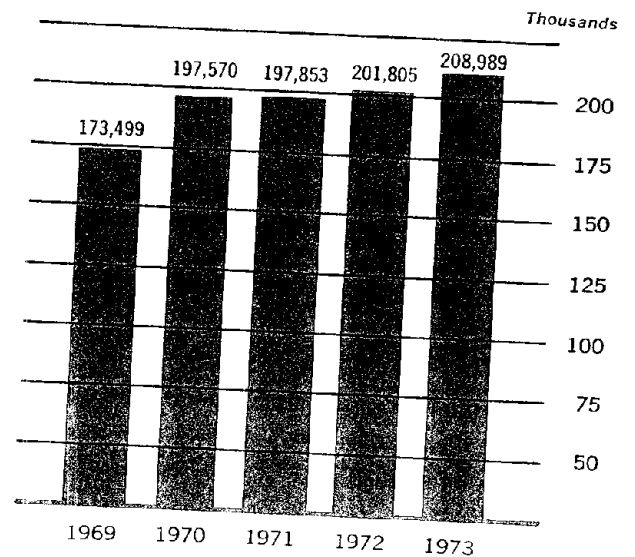
In early August, the NASDAQ system was modified to permit the inclusion of stabilizing bids by registered market makers for display on Level II or III terminals.

The Association is also considering new uses

## BRANCH OFFICES



## REGISTERED REPRESENTATIVES



for NASDAQ on a broader scale. One use could be a batch-type trade reporting system using NASDAQ terminals. Through such a system, firms throughout the country could enter the specifications of their completed trades in OTC securities through their NASDAQ terminals. This information would then be immediately validated and subsequently transmitted to the National Clearing Corporation for comparison and clearing. Work is currently underway to develop a system for real-time reporting of trades in listed securities that take place in the over-the-counter market (Third Market trades). This system will enable NASD members to report Third Market trades through their NASDAQ terminals. These trades will be integrated into the consolidated tape which will include all trades in eligible listed securities irrespective of which market center handled the trade.

### EDP Services

Major emphasis this past year has been placed on the development of a variety of computer-assisted regulatory tools for use by the Association.

A new report series utilizing the information filed by members on either Form Q or the Joint Regulatory Report is generated monthly and is used as a tool in the Association's Early Warning System for possible capital problems.

In another area, a Regulatory and Cash Collection System was developed to facilitate the Association's role as a SIPC Collection Agent for the approximately 2,000 members designated by SIPC as the Association's responsibility.

Other efforts this year include: statistical assistance in determining indicators of failed firms for use as possible regulatory tools; management reports relating to computer usage; collection of approximately twelve months worth of NASDAQ data for use by Market Surveillance and NASDAQ personnel; and a pilot operation to automate the Association's membership and registration records.

### ADMINISTRATIVE SERVICES

A flexible, yet efficient administrative structure is vital to the Association's effective performance.

Work is underway to expedite the processing of registration and member records to streamline the registration procedure. In addition, the Association is redesigning its system of qualification of securities industry personnel.

### **Membership**

The number of Association members dropped eleven percent in 1973. New members totalled 209 while terminations rose to 639. Branch offices, however, declined by less than two percent. Yet despite the decrease in both members and branch offices, the number of registered representatives grew by more than 7,000, an increase of over three percent.

Individuals applying for registration as securities salesmen or as management personnel of a broker/dealer must pass the appropriate examination. In 1973, 46,312 NASD examinations were given in test centers throughout the country. An additional 26,286 registration examinations were administered by the NASD for other institutions, such as the stock exchanges and some states.

During the year the Association worked with other regulatory bodies to develop a joint industry registration form for individuals—a single form to be filed with all regulatory organizations. The result of almost a year's work was presented to the national convention of the North American Securities Administrators Association in October. The reception was encouraging and remaining details are being worked out for early national introduction of the form. The Association continues to cooperate with other organizations to develop a joint registration form for broker/dealers.

The NASD is automating all its registration records both for individuals and member firms. A pilot project, involving some 20,000 records was begun early in 1973 and is now approaching completion. Full automation of nearly 300,000 registration records of individuals is expected to be completed in 1974, and conversion of member firm records will follow.

### **Qualifications**

In conjunction with its efforts to upgrade entry standards, the Association is revising its program for the examination and qualification of securities industry personnel. The new program's objective is to insure that every individual is properly trained for the specific job he is to

perform. Further, the examinations are designed to be relevant to the particular job to be performed.

As it stands now, the Association contemplates ten categories of examinations and registration. There will be five for sales personnel; investment companies/variable contracts salesmen; general securities salesmen; OTC traders; limited partnership salesmen; and real estate securities salesmen. For management personnel the registration categories will be: general securities principal; financial principal; investment company principal; operations principal; and underwriter principal. The OTC traders test will have two tiers, both of which will be required for market makers, while order clerks will be tested on only one part.

Most new NASD examinations should be in use by the end of 1974. While the Association will not provide actual training material for each of these examinations, detailed study outlines will be available.

In developing these examinations, the Association has worked closely with industry groups and other regulatory bodies. For example, the New York Stock Exchange and Educational Testing Service have developed a bank of test items, based on NASD job performance data, which will be used in designing the general securities salesmen examination. The real estate securities examination is being developed jointly by the NASD and the National Association of Realtors and will cover real estate limited partnerships and condominium securities. Training material will be provided by the NAR.

### **Arbitration**

When the Association's arbitration program began five years ago, it provided for the voluntary submission of disputes over securities transactions by members or the public. In March of 1972, the arbitration of these disputes became mandatory upon the request of either party.

In May of 1973, an amendment requiring the arbitration of certain non-securities disputes, arising on or after May 1, 1973, became effective. Non-securities controversies arising prior to this date will not be arbitrated unless all parties voluntarily agree. Concurrently, the time period for submission of disputes was expanded from three years to five years.

Also effective May 1, 1973, members or persons associated with members who fail to arbitrate, to appear or produce documents at an arbitration hearing, or to honor a decision of arbitrators may be subject to disciplinary action.



## LEGAL AND GOVERNMENT RELATIONS

The Association's Office of General Counsel is responsible for giving legal advice and assistance to the Association in all areas of Association activity, including proposed legislation, changes in Association rules, policies and interpretations, disciplinary proceedings, and the conduct of litigation involving the Association.

### Legislation

Early in 1973, Congressman John E. Moss introduced H.R. 5050, proposing comprehensive amendments to the Securities Exchange Act of 1934. Under the Bill any registered broker/dealer would be eligible for membership on a national securities exchange, and regulatory activities of exchanges would become subject to new oversight by the SEC. In June 1973 President Gordon Macklin testified before the Subcommittee on Commerce and Finance of the House Committee on Interstate and Foreign Commerce, expressing general support for the proposal.

However, he expressed concern over those provisions of the Bill which would: (1) require at least one-half of the Board of Governors be "public representatives"; (2) require all disciplinary proceedings to be publicly disclosed; (3) empower the SEC to enforce the rules of self-regulatory organizations and to establish qualification standards for industry personnel; (4) set new procedures concerning adoption and abrogation of Association rules; and, (5) eliminate Section 15A(n) of the Exchange Act, which has commonly been understood to protect the Association against antitrust liability in carrying out its statutory responsibilities.

Mr. Macklin testified that these particular provisions appeared unnecessary. He was especially concerned that "public representation" on the Board should be mandated and noted that the Association has voluntarily taken steps to see that its Board includes non-industry representatives. He stated that it is the NASD's policy to publicize all expulsions, revocations, bars and suspensions; and expressed concern that if all fines and censures, no matter how minimal, were also publicized, the consequences could be misleading to the public, impair investor confidence and be prejudicial to the particular member.

The Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban

Affairs, heard testimony in July from President Macklin on S.2058. The principal purpose of the Bill, introduced by Senator Harrison A. Williams, Jr., is to make organizations clearing securities transactions subject to regulation by the SEC. The measure would require every clearing agency to register with the Commission. As a condition to registration, an agency must demonstrate that its operations will facilitate the prompt settlement of securities transactions and safeguard funds and securities within its possession. Another provision would require the rules of any clearing agency to allow participation by any registered broker/dealer, registered investment company or bank. Mr. Macklin supported the proposed legislation and told the Subcommittee of the progress of the National Clearing Corporation in implementing a network for clearing and settling OTC transactions. The Bill was passed by the Senate on July 30, 1973.

In October 1973 Senator Williams introduced S.2519 to facilitate the development of a national market system. The Bill would, among other things, require the rules of self-regulatory organizations to foster cooperation and coordination with each other; and would require that these rules not impose any burden on competition not reasonably necessary to achieve the goals of the Exchange Act. President Macklin testified in support of the Bill before the Subcommittee in November. However, he voiced his concern over a proposal to grant the SEC broad authority to allocate among the self-regulatory organizations the costs and responsibilities for conducting examinations, receiving regulatory reports and carrying out other specified regulatory functions as to members of more than one self-regulatory body. Noting the Bill's lack of standards defining how the Commission would exercise these new powers, Mr. Macklin suggested it would be preferable to have the Commission act as coordinator of the self-regulatory bodies' activities rather than to have authority and responsibility for specific details of a national market system.

### Litigation

On December 14, 1973, the U.S. District Court for the District of Columbia granted Motions to Dismiss made by the defendants, including the NASD, where the Justice Department and two private parties had alleged that the NASD and a number of other defendants, primarily mutual fund underwriters

and dealers, had violated the antitrust laws by conspiring to prevent mutual fund shares from being bought or sold at other than the public offering price. The Court stated that in the area of mutual fund distribution Congress, in adopting the Investment Company Act of 1940, in particular the price maintenance provisions of Section 22(d), had clearly intended to substitute a pervasive regulatory scheme for usual antitrust prohibitions. The Court concluded that the practices complained of are immune from the ordinary strictures of the antitrust laws. Both private plaintiffs have appealed. There are also 36 private actions making substantially the same allegations.

In another antitrust action by a member against the Association, the complaint alleged injury as a result of the decision of the Board of Governors to initially preclude third market securities from NASDAQ. The complaint also alleged that the composition of the NASD's Board of Governors unfairly discriminates against non-exchange firms. On October 29, 1973, the U.S. District Court directed the jury to rule against the plaintiff. The matter has been appealed.

As noted in the 1972 Annual Report, an order of the SEC, partially abrogating the Association's interpretation of its member-nonmember dealing provisions, had been appealed. On November 1, 1973 the U.S. Court of Appeals affirmed the Commission's action. An appropriate revision to the NASD Manual will be announced.

#### **Commission Review of Association Disciplinary Proceedings**

During 1973, the SEC affirmed NASD findings that several salesmen employed by the same member violated NASD rules by effecting securities transactions with public customers without disclosing these activities to their employer. The Commission stated that such activities may expose the public to possible harm and result in possible liability to members.

In another case the SEC affirmed NASD findings that a member had violated Association rules by failing to consummate short sales to another member. The Commission stated that the member was speculating by selling the securities short at a time when the firm was in financial difficulty and it was doubtful the member could cover the sales.

In October the SEC rendered a determination in a case dealing for the first time with the

NASD's authority to suspend an issuer's stock from NASDAQ for failing to meet minimum capital and surplus requirements. The Commission declined to stay the Association's action.

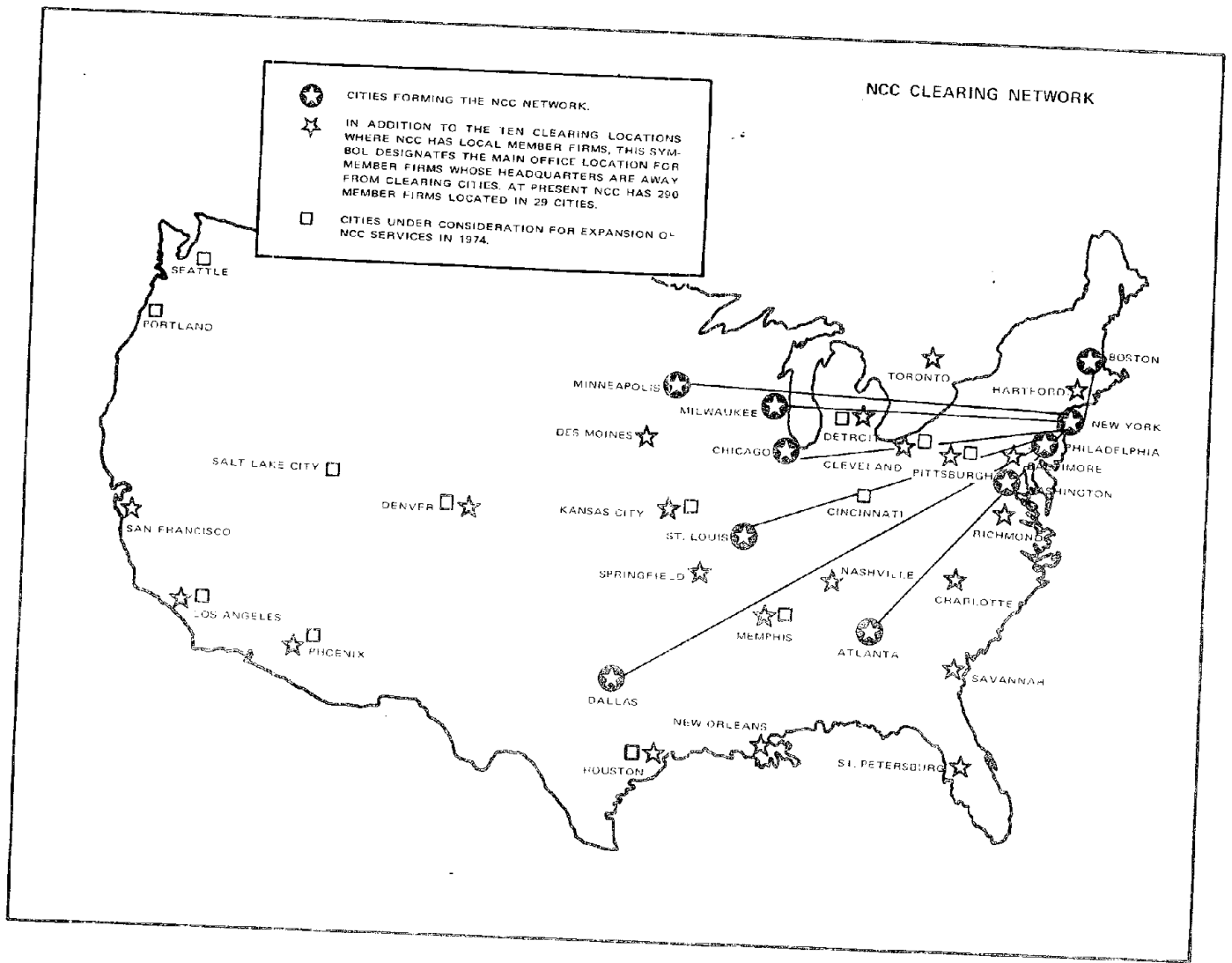
#### **NATIONAL CLEARING CORPORATION**

The National Clearing Corporation, the NASD subsidiary created in 1969 to develop a nationwide continuous net clearing system for the over-the-counter market, continues to expand and improve its services. In 1973 regional centers in Atlanta, Dallas, Milwaukee, St. Louis, and Washington, D.C. were added to existing operations in New York, Boston, Philadelphia and Chicago. A ninth regional center in Minneapolis began operations in January of 1974.

These NCC centers currently serve nearly 300 clearing members. In addition, broker/dealers in cities that are not yet part of the network also participate through a variety of agency and correspondent arrangements through other member offices. Future plans call for continuing expansion of this NCC clearing network. During 1974, NCC envisions the establishment of additional regional centers and agency arrangements to clear an ever increasing proportion of the OTC trades nationwide.

NCC also expanded the scope of its processing systems to better serve its membership during 1973. On November 5, 1973, NCC enhanced the Continuous Net Settlement (CNS) system with the addition of the Free Account Net Settlement (FANS) system. With this free position capability, NCC has taken an important step towards the industry goal of immobilization of the stock certificate. The free position stops the flow of certificates by allowing NCC members to leave their securities in free positions at NCC, with deliveries being made by bookkeeping entry. NCC members are no longer required to continually receive and deliver certificates to complete transactions with NCC.

At the request of clearing members who are also members of the Depository Trust Company (DTC), NCC has established a pilot interface through NCC's membership at DTC. This interface is now being expanded and automated to allow the memberships of both organizations to settle an increased number of OTC securities transactions on a bookkeeping entry basis with little or no movement of certificates among NCC, DTC, or their members.



Three additional services are under development for use by the NCC membership. Mail clearance services are now provided through various correspondent relationships. The complete development of a nationwide mail clearance program will enable any broker/dealer anywhere in the country to participate in CNS via agency arrangements with other broker/dealers, banks, and clearing corporations. This service will be greatly expanded during 1974.

A National Trade Comparison Service (NTCS) and National Envelope Settlement Service (NESS) are being explored to enable broker/dealers to compare trades presently ineligible for CNS, such as "when issued" trades and corporate and

municipal bonds, and to accommodate the subsequent movement of securities and money on a nationwide basis. With these two new services the necessity for mailing individual trade confirmations would be eliminated, and many individual security drafts or shipments would be consolidated through NCC's network facilities.

The total national volume of OTC transactions (both stocks and bonds) was estimated to be in excess of 25,000 trades per day according to a 1972 survey. As it grows geographically, NCC will have the capability of clearing virtually all of these transactions through its expanded range of services. This total service will benefit the entire securities industry.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

|  | Year ended<br>September 30 |                    |
|--|----------------------------|--------------------|
|  | 1973                       | 1972               |
| <b>Current assets</b>  |                            |                    |
| Cash   | \$ 237,909                 | \$ 165,370         |
| Investment securities at cost (approximate market value<br>\$5,216,000 and \$5,214,000 respectively)                               | 5,371,524                  | 5,161,305          |
| Other current assets   | 201,563                    | 143,571            |
| Total current assets   | <u>5,810,996</u>           | <u>5,470,246</u>   |
| <b>Less: Current liabilities</b>   |                            |                    |
| Accounts payable and accrued expenses  | 859,554                    | 751,610            |
| Assessments collected in advance   | 5,044                      | 6,572              |
| Current portion of mortgage and note payable (Note 2)  | 84,561                     | 80,046             |
| Total current liabilities  | <u>949,159</u>             | <u>838,228</u>     |
| Working capital  | 4,861,837                  | 4,632,018          |
| <b>Land, building and improvements at cost</b>   |                            |                    |
| less accumulated depreciation of \$179,388 and \$112,578<br>(Notes 1 and 2)  | 3,213,458                  | 3,230,691          |
| <b>Investment in wholly-owned subsidiary,</b><br>National Clearing Corporation, at equity in net assets (Note 1)                   | 1,486,949                  | 1,795,054          |
| <b>Special Investment account</b> (marketable securities at cost which<br>approximates market, cash and accrued interest) (Note 1) | 207,592                    | 174,401            |
| <b>Other assets</b>  | 135,916                    | 87,575             |
|  | <u>9,905,752</u>           | <u>9,919,739</u>   |
| <b>Less: Long-term liabilities</b>   |                            |                    |
| Reserve for deferred compensation  | 207,592                    | 174,401            |
| Mortgage payable (Note 2)  | 1,323,732                  | 1,408,292          |
|  | <u>1,531,324</u>           | <u>1,582,693</u>   |
| <b>Association equity (Note 3)</b>   | <u>\$8,374,428</u>         | <u>\$8,337,046</u> |

**Note 1—Summary of Significant Accounting Policies  
Investment in National Clearing Corporation (NCC)**

The Association's investment in NCC is recorded at its equity in the net assets of NCC and accordingly is adjusted for the net income or loss of NCC. The opinion of independent accounts on the September 30, 1973 and 1972 financial statements of NCC is included elsewhere in this report.

**Retirement Benefits and Deferred Compensation**

The Association maintains a non-contributory trustee pension plan for the benefit of all eligible employees. In 1973 benefits were augmented by granting certain employees extended retirement and death benefits. The Special Investment Account represents amounts set aside to fund the reserve for deferred compensation which relates to five former or current employees. It is the Association's policy to fund pension cost and provide for the cost of other benefits as

they accrue. Pension and deferred compensation costs were \$235,735 and \$169,494 for the years ended September 30, 1973 and 1972, respectively.

**Depreciation**

Building and improvements are being depreciated on a straight-line basis over lives of 38 and 10 years respectively. Depreciation expense in fiscal 1973 and 1972 aggregated \$66,810 and \$63,603 respectively. Purchases of office furniture and equipment are treated as an expense in the year acquired.

**Note 2—Mortgage Payable**

The Association's land and building is pledged as security for a 5½% mortgage. The mortgage loan of \$1,408,293 at September 30, 1973 is payable through 1985 in equal monthly installments of principal and interest of \$13,326.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**  
**STATEMENTS OF INCOME, EXPENSES AND ASSOCIATION EQUITY**

|   | Year ended<br>September 30 |                    |
|---|----------------------------|--------------------|
|   | 1973                       | 1972               |
| <b>Income</b>   |                            |                    |
| Member assessments and branch office fees   | \$6,277,177                | \$5,142,736        |
| Registered representatives fees   |                            |                    |
| Applications  | 2,400,803                  | 2,145,125          |
| Examinations  | 1,666,123                  | 1,530,983          |
| Corporate finance fees  | 1,331,872                  | 2,355,580          |
| Fines and costs   | 471,910                    | 731,850            |
| Interest and other income   | 487,493                    | 432,281            |
|   | <u>12,635,378</u>          | <u>12,338,555</u>  |
| <b>Expenses</b>   |                            |                    |
| Salaries and employee benefits (Note 1)   | 8,186,212                  | 6,650,838          |
| Travel, meetings & investigation expenses   | 1,154,382                  | 961,095            |
| Publication, stationery, & postage, net of publications sales<br>of \$109,399 in 1973 and \$125,369 in 1972 | 580,458                    | 532,231            |
| Professional and other services   | 845,129                    | 1,052,508          |
| Occupancy expense   | 837,443                    | 714,482            |
| Office, insurance & miscellaneous   | 575,414                    | 500,682            |
| Furniture and equipment   | 110,853                    | 119,019            |
|   | <u>12,289,891</u>          | <u>10,530,855</u>  |
| <b>Excess of income over expenses before<br/>National Clearing Corporation</b>                              | 345,487                    | 1,807,700          |
| <b>Net income (loss) of National Clearing Corporation (Note 1)</b>  | <u>(308,105)</u>           | <u>303,668</u>     |
| <b>Excess of income over expenses</b>   | 37,382                     | 2,111,368          |
| <b>Association equity, beginning of year</b>  | <u>8,337,046</u>           | <u>6,225,678</u>   |
| <b>Association equity, end of year</b>  | <u>\$8,374,428</u>         | <u>\$8,337,046</u> |

**Note 3—Commitments and Contingencies**

On February 8, 1971 the Association approved the commencement of service for the NASDAQ quotation system. An agreement establishes Bunker Ramo Corporation as the Operator of the NASDAQ System. In the event such agreement is terminated, the Association is committed to reimburse the Operator for its undepreciated investment in the NASDAQ System, as defined in such agreement. It is estimated that the undepreciated investment of \$19,600,000 as of December 31, 1973 will decrease to approximately \$10,000,000 on February 8, 1976, the expiration date of the original agreement. Aside from expenses incurred in the supervision of system activities, the accompanying financial statements do not include any amounts relating to the construction or operation of the NASDAQ System.

In connection with the operation of its district offices, the Association leases office space in various locations. Rental expense for 1973 and 1972 was

\$643,885 and \$542,956 respectively. Minimum annual lease payments for the five succeeding fiscal years are as follows: \$558,000 1974, \$534,000 1975, \$464,000 1976, \$331,000 1977 and \$280,000 1978. For the succeeding five year period, an aggregate amount of \$345,000 is obligated. No leases extend beyond 1980. The majority of these leases contain escalation clauses providing for increases in the lease payments based on increases in property taxes and building operation costs.

The Association has been named, separately or with others, in several legal actions in which damages of substantial or as yet unspecified amounts are claimed. Certain of these actions allege violations of the antitrust laws or the failure of the Association to take appropriate action in the exercise of its regulatory responsibility. Counsel for the Association advises that, although the Association has meritorious defenses to all the pending litigation, the outcome of the litigation cannot be predicted.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**  
**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

|  | Year ended<br>September 30 |                    |
|--|----------------------------|--------------------|
|  | 1973                       | 1972               |
| <b>Financial resources were provided by</b>        |                            |                    |
| Excess of income over expenses                     | \$ 37,382                  | \$2,111,368        |
| Items not affecting working capital in the period  |                            |                    |
| Net (income) loss of National Clearing Corporation | 308,105                    | (303,668)          |
| Depreciation                                       | 66,810                     | 63,603             |
| Working capital provided by operations             | <u>412,297</u>             | <u>1,871,303</u>   |
| <b>Financial resources were used for</b>           |                            |                    |
| Purchase of building improvements                  | 49,577                     | 62,553             |
| Decrease in long-term mortgage                     | 84,560                     | 80,392             |
| Increase in other assets                           | 48,341                     | 29,195             |
|  | <u>182,478</u>             | <u>172,140</u>     |
| <b>Increase in working capital</b>                 | <b>\$ 229,819</b>          | <b>\$1,699,163</b> |
| <b>Analysis of Changes in Working Capital</b>      |                            |                    |
| <b>Increase (decrease) in current assets</b>       |                            |                    |
| Cash   | \$ 72,539                  | \$ (103,013)       |
| Investment securities                              | 210,219                    | 1,684,933          |
| Other current assets                               | 57,992                     | 36,452             |
|  | <u>340,750</u>             | <u>1,618,372</u>   |
| <b>Decrease (increase) in current liabilities</b>  |                            |                    |
| Accounts payable and accrued expenses              | (107,944)                  | 34,579             |
| Assessments collected in advance                   | 1,528                      | 832                |
| Current portion of mortgage payable                | (4,515)                    | 45,380             |
|  | <u>(110,931)</u>           | <u>80,791</u>      |
| <b>Increase in working capital</b>                 | <b>\$ 229,819</b>          | <b>\$1,699,163</b> |

**To the Board of Governors of the  
National Association of Securities  
Dealers, Inc.**

We have examined the accompanying statements of financial position of the National Association of Securities Dealers, Inc. at September 30, 1973 and 1972 and the related statements of income, expenses and Association equity and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including at September 30, 1973 and 1972 confirmation of cash and securities by correspondence with the depositories.

We did not examine the financial statements of National Clearing Corporation, a wholly-owned subsidiary, for the periods ending September 30, 1973 and 1972. The Association's investment therein is included in the accompanying financial statements at September 30, 1973 and 1972 at its equity in the net assets of the subsidiary, which was adjusted at those dates, based upon financial statements examined by other independent accountants whose reports have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for National Clearing Corporation at September 30, 1973 and 1972 is based solely upon such reports which are qualified as to the matter described in the following paragraph.

As further described in Note 3 to the Association's financial statements and Note 5 to the financial statements of National Clearing Corporation, the Association and the Corporation are defendants in several legal actions the outcome of which is not presently determinable.

In our opinion, based upon our examinations and the reports of other independent accountants, subject to the ultimate resolution of the pending litigation referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the National Association of Securities Dealers, Inc. at September 30, 1973 and 1972 and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Washington, D.C.  
December 4, 1973

PRICE WATERHOUSE & CO.

**NATIONAL CLEARING CORPORATION**

**BALANCE SHEETS**

September 30, 1973 and 1972

| Assets   | 1973                | 1972              |
|--|---------------------|-------------------|
| <b>Current assets:</b>   |                     |                   |
| Cash   | \$ 34,352           | 25,827            |
| Accounts receivable, net of estimated uncollectable amounts of \$265,000 in 1973 and \$30,000 in 1972 (note 2)             | 5,756,632           | 4,266,781         |
| Accrued interest receivable  | 67,944              | 74,607            |
| Other current assets   | 129,049             | 114,711           |
| Total current assets   | <u>5,987,977</u>    | <u>4,481,926</u>  |
| <b>Furniture, equipment and leasehold improvements, at cost</b>  | 1,028,557           | 541,742           |
| Less accumulated depreciation and amortization (note 1)  | 155,680             | 46,028            |
|  | <u>872,877</u>      | <u>495,714</u>    |
| <b>Deferred computer software costs, less accumulated amortization of \$366,437 in 1973 and \$151,937 in 1972 (note 1)</b> | 706,100             | 920,600           |
| <b>Clearing fund assets (note 3)</b>   | 13,456,000          | 11,780,000        |
|  | <u>\$21,022,954</u> | <u>17,678,240</u> |
| <b>Liabilities and Stockholder's Equity</b>  |                     |                   |
| <b>Current liabilities:</b>  |                     |                   |
| Drafts issued to members   | \$ 4,889,939        | 2,934,149         |
| Accounts payable and accrued expenses  | 353,986             | 245,421           |
| Payroll taxes accrued and withheld   | 13,398              | 50,066            |
| State and local income taxes payable   |                     | 50,868            |
| Total current liabilities  | <u>5,257,323</u>    | <u>3,280,504</u>  |
| <b>8½% subordinated promissory notes due 1975</b>  | 822,682             | 822,682           |
| <b>Clearing fund (note 3)</b>  | 13,456,000          | 11,780,000        |
| <b>Stockholder's equity:</b>   |                     |                   |
| Common stock, par value \$1; 10,000 shares authorized; 100 shares issued and outstanding                                   | 100                 | 100               |
| Additional paid-in capital   | 2,009,900           | 2,009,900         |
| Deficit  | (523,051)           | (214,946)         |
| Total stockholder's equity   | <u>1,486,949</u>    | <u>1,795,054</u>  |
| <b>Commitments and contingent liabilities (note 5)</b>   |                     |                   |
|  | <u>\$21,022,954</u> | <u>17,678,240</u> |

**Notes to Financial Statements**  
September 30, 1973 and 1972

**(1) The Corporation and Summary of Significant Accounting Policies**

National Clearing Corporation is a wholly-owned, not-for-profit subsidiary of the National Association of Securities Dealers, Inc. (NASD) formed for the purpose of establishing a nationwide clearing system for over-the-counter transactions in securities. During the year, the NASD billed to the Corporation \$178,290 (\$144,273 in 1972) for expenses incurred on behalf of the Corporation.

**(a) Depreciation and Amortization**

Furniture and equipment of \$449,831 in 1973 and \$288,210 in 1972 are depreciated on the straight-line basis, generally over ten years. Leasehold improvements of \$578,726 in 1973 and \$253,532 in 1972 are amortized on a straight-line basis over the remaining terms of the related leases which expire in 1977 and 1979.

**(b) Computer Software Costs**

Computer software development costs incurred from inception in 1970 through January 15, 1972, are being amortized on a straight-line basis over sixty months.

**(c) Retirement Plan**

Effective January 1, 1972, eligible employees participate in the NASD/NCC retirement plan. It is a trusteed plan with defined contributions fully paid by the Corporation and ultimate benefits based on assets held by the trustee. Contributions are funded annually; \$32,000 in 1973 and \$15,000 in 1972.

**(2) Accounts Receivable**

Accounts receivable in 1973 and 1972, respectively, include \$5,888,072 and \$4,224,870 due from members, of which \$556,940 and \$599,729 are for clearing services provided to members and \$5,263,069 and \$3,625,141 are collectable from members upon their receipt from the Corporation of certain securities in the Corporation's possession or in the process of transfer under the Corporation's control.

The estimate of uncollectable accounts is based on losses expected from the close out of clearing members' pending settlement positions once the Corporation ceases to act for such members pursuant to its Operating Rules.

**NATIONAL CLEARING CORPORATION**  
**STATEMENTS OF INCOME (LOSS) AND DEFICIT**  
Years ended September 30, 1973 and 1972

|  | <u>1973</u>         | <u>1972</u>      |
|--|---------------------|------------------|
| <b>Revenue:</b>  |                     |                  |
| Clearing services (net of \$76,375 rebate in 1972)   | \$8,291,866         | 5,864,413        |
| Investment income  | 312,785             | 273,416          |
| <b>Net revenue</b>   | <b>8,604,651</b>    | <b>6,137,829</b> |
| <b>Expenses:</b>   |                     |                  |
| Employee compensation, benefits, and related expenses  | 4,588,582           | 2,873,441        |
| Travel and expenses incurred by employees  | 442,986             | 283,526          |
| Data processing  | 1,268,641           | 765,615          |
| Occupancy  | 776,566             | 387,151          |
| Stationery, printing and supplies  | 460,453             | 438,599          |
| Communications   | 347,508             | 116,224          |
| Depreciation and amortization (note 1)   | 324,788             | 227,735          |
| Provision for uncollectable accounts   | 235,000             |                  |
| Interest expense   | 168,991             | 154,133          |
| Clearance and service charges  | 143,896             | 316,148          |
| Insurance and taxes  | 120,367             | 67,795           |
| Professional services  | 118,908             | 114,628          |
| Other expenses   | 36,556              | 28,166           |
| <b>Total expenses</b>  | <b>9,033,242</b>    | <b>5,773,161</b> |
| <b>Income (loss) before taxes on income and extraordinary credit</b>                             | <b>(428,591)</b>    | <b>364,668</b>   |
| <b>Reversal of (provision for) taxes on income (note 4)</b>                                      | <b>120,486</b>      | <b>(208,000)</b> |
| <b>Income (loss) before extraordinary credit</b>   | <b>(308,105)</b>    | <b>156,668</b>   |
| <b>Extraordinary credit:</b>   |                     |                  |
| Reduction of taxes on income arising from carryforward of prior years' operating losses (note 4) | —                   | 147,000          |
| <b>Net income (loss)</b>   | <b>(308,105)</b>    | <b>303,668</b>   |
| <b>Deficit at beginning of year</b>  | <b>(214,946)</b>    | <b>(518,614)</b> |
| <b>Deficit at end of year</b>  | <b>\$ (523,051)</b> | <b>(214,946)</b> |

**Notes to Financial Statements, Continued**

**(3) Clearing Fund**

The Corporation requires from each member a deposit to a clearing fund before participation in clearing is allowed. The clearing fund at September 30, 1973 and 1972 is as follows:

|   | <u>1973</u>         | <u>1972</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 299,656          | \$ 158,188          |
| Investments—U.S. Government guaranteed obligations, at cost (market value, \$5,357,000 in 1973 and \$5,641,000 in 1972)   | 5,397,344           | 5,662,812           |
| Amounts receivable on demand, secured by U.S. Government, state and municipal obligations, which have a market value of \$11,480,000 in 1973 and \$12,600,000 in 1972 | 7,759,000           | 5,959,000           |
| <b>Total clearing fund</b>  | <b>\$13,456,000</b> | <b>\$11,780,000</b> |

**(4) Income Taxes**

The provision for taxes in 1973 consists of the recovery of federal income taxes resulting from the carryback to 1970 of the 1973 net operating loss and the carryback of \$18,000 of investment tax credit to 1969.

The provision for taxes on income in 1972 consists of federal, state and local income taxes. During 1972, operat-

ing loss carryforwards in the amount of \$318,000 were utilized to offset the year's \$147,000 liability for federal income taxes.

At September 30, 1973, the Corporation has approximately \$370,000 of loss carryforward available to offset taxable income in future periods for federal income tax and financial statement purposes. This loss carryforward expires as to \$174,000, \$52,000 and \$144,000 in 1975, 1976 and 1978, respectively. Also available at September 30, 1973 are investment tax credits of \$76,000 and \$30,000 expiring in 1979 and 1980, respectively.

**(5) Commitments and Contingent Liabilities**

The Corporation is committed to office lease agreements expiring by 1979 requiring annual rentals in the following amounts for each year to expiration:

|      |           |
|------|-----------|
| 1974 | \$677,000 |
| 1975 | 677,000   |
| 1976 | 671,000   |
| 1977 | 632,000   |
| 1978 | 560,000   |
| 1979 | 314,000   |

The Corporation is a defendant, together with the New York Stock Exchange, Stock Clearing Corporation, the American Stock Exchange and American Stock Exchange Clearing Corporation, in two legal actions initiated in 1966 and 1967 by a former clearing member. The first action seeks judgement of \$3,000,000 against all defendants for allegedly destroying the plaintiff's business by reason of suspensions and other actions and the second is an anti-trust suit for damages of \$9,000,000 against all defendants. Counsel advises that the Corporation has meritorious defenses in both actions.



**NATIONAL CLEARING CORPORATION**  
**STATEMENTS OF CHANGES IN FINANCIAL POSITION**  
Years ended September 30, 1973 and 1972

|  | <u>1973</u>       | <u>1972</u>      |
|--|-------------------|------------------|
| <b>Sources of working capital:</b>   |                   |                  |
| Income (loss) before extraordinary credit  | \$ (308,105)      | 156,668          |
| Add expenses not requiring outlay of working capital—depreciation and amortization | 324,788           | 227,735          |
| Working capital provided from operations, exclusive of extraordinary credit        | 16,683            | 384,403          |
| Working capital provided from extraordinary credit (note 4)                        | —                 | 147,000          |
| Disposal of furniture and equipment, net   | 3,370             | —                |
| Total sources of working capital   | <u>20,053</u>     | <u>531,403</u>   |
| <b>Uses of working capital:</b>  |                   |                  |
| Additions to computer software costs requiring outlay of working capital           | —                 | 322,613          |
| Purchase of furniture, equipment and leasehold improvements                        | 490,821           | 394,508          |
| Total uses of working capital  | <u>490,821</u>    | <u>717,121</u>   |
| <b>Decrease in working capital</b>   | <u>\$ 470,768</u> | <u>185,718</u>   |
| <b>Changes in working capital:</b>   |                   |                  |
| <b>Current assets—increase (decrease):</b>   |                   |                  |
| Cash   | \$ 8,525          | (39,880)         |
| Investments  | —                 | (1,297,874)      |
| Accounts receivable  | 1,489,851         | 4,032,793        |
| Accrued interest receivable  | (6,663)           | (50,405)         |
| Other current assets   | 14,338            | 66,630           |
|  | <u>1,506,051</u>  | <u>2,711,464</u> |
| <b>Current liabilities—increase (decrease):</b>                                    |                   |                  |
| Drafts issued to members   | 1,955,790         | 2,934,149        |
| Accounts payable and accrued expenses  | 108,565           | (115,961)        |
| Payroll taxes accrued and withheld   | (36,668)          | 29,337           |
| State and local income taxes payable   | (50,868)          | 49,657           |
|  | <u>1,976,819</u>  | <u>2,897,182</u> |
| <b>Decrease in working capital</b>   | <u>\$ 470,768</u> | <u>185,718</u>   |

See accompanying notes to financial statements.

**The Board of Directors**  
**National Clearing Corporation:**

We have examined the balance sheets of National Clearing Corporation (a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.) as of September 30, 1973 and 1972 and the related statements of income (loss) and deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Corporation is currently defendant in two law suits as described in note 5; the final outcome of these suits is not presently determinable and no provision has been made in the financial statements for the effect, if any, of such litigation.

In our opinion, subject to the effect of resolution of the matter referred to in the preceding paragraph, the aforementioned financial statements present fairly the financial position of National Clearing Corporation at September 30, 1973 and 1972 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Washington, D.C.  
November 20, 1973

Peat, Marwick, Mitchell & Co.

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### Executive Committee

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James T. Gahan\*  
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 James J. McCormack  
 Henry O. Smith  
 Alan M. Thaler  
 Harry Walker  
 Kaye B. Wilson

\*NASD Board Member

\*\*Adviser



**TO SERVE UNTIL JANUARY, 1974**



**J. Logan Burke, Jr.**  
W. E. Hutton & Co.  
New York, New York  
Chairman, 1973



**J. Jerry Inskeep, Jr.**  
Rippey, Inskeep, Hess  
& McPaul, Inc.  
Portland, Oregon  
Vice-Chairman, 1973



**Ralph L. Gustin, Jr.**  
John Hancock Mutual  
Life Insurance Company  
Boston, Massachusetts  
Vice-Chairman, 1973

**TO SERVE UNTIL JANUARY, 1975**



**Gordon S. Macklin**  
President and member  
of the Board



**David R. Murphey, III**  
Pierce, Wulbern,  
Murphey, Inc.  
Tampa, Florida  
Chairman, 1974



**Junius W. Peake**  
Pershing & Co., Inc.  
New York, New York  
Vice-Chairman, 1974



**Joseph P. Short**  
Arthurs, Lestrangle & Short  
Pittsburgh, Pennsylvania  
Vice-Chairman, 1974

**TO SERVE UNTIL JANUARY, 1976**



**Brent D. Baird**  
Trubee, Collins  
and Co.  
Buffalo, New York



**John D. Cleland**  
Security Distributors, Inc.  
Topeka, Kansas



**Robert G. Dickinson**  
R. G. Dickinson & Co.  
Des Moines, Iowa

**TO SERVE UNTIL JANUARY, 1977**



**Nelson S. Burbank**  
Burbank & Company, Inc.  
Boston, Massachusetts



**Peter J. Eichler**  
Bateman, Eichler, Hill  
Richards, Incorporated  
Los Angeles, California



**Wesley E. Horton**  
Colonial Distributors, Inc.  
Boston, Massachusetts



**G. Willard Miller, Jr.**  
Dean Witter & Co.  
Incorporated  
San Francisco, California  
Chairman, Finance  
Committee 1973



**R. Marshall Barnes**  
Howe, Barnes &  
Johnson, Inc.  
Chicago, Illinois



**Victor G. Dugal**  
J. B. Maguire & Co., Inc.  
Boston, Massachusetts



**James T. Gahan**  
E. F. Hutton &  
Company, Inc.  
New York, New York



**Fred E. Leustig**  
Murch & Co., Inc.  
Cleveland, Ohio



**Franklin R. Johnson\***  
The Keystone Company  
of Boston  
Boston, Massachusetts

\*Governor-At-Large



**Bernard Weissman**  
Gold, Weissman &  
Frankel, Inc.  
New York, New York  
Chairman, Finance  
Committee, 1974



**Cletus E. Byrne**  
B. C. Christopher & Co.  
Denver, Colorado



**Vernon J. Giss**  
Stephens, Inc.  
Little Rock, Arkansas



**B. P. Lester, Jr.**  
Hornblower &  
Weeks-Hemphill, Noyes  
Los Angeles, California



**James H. Lorie\***  
University of Chicago  
Graduate School  
of Business  
Chicago, Illinois

\*Governor-At-Large



**Joseph F. Edelstein, C.F.A.**  
Edelstein, Campbell & Co.  
San Francisco, California



**John F. Guion\***  
American Republic  
Assurance Company  
Des Moines, Iowa



**Raymond A. Mason**  
Legg, Mason & Co.  
Washington, D.C.



**Harry C. Webb, Jr.**  
Underwood, Neuhaus  
& Co. Incorporated  
Houston, Texas



**Lewis M. Weston**  
Goldman, Sachs & Co.  
New York, New York



**Francis M. Wheat\*†**  
Gibson, Dunn & Crutcher  
Los Angeles, California

\*Governor-At-Large

† Elected to fill the unexpired term  
of A. A. Sommer, Jr., who resigned to  
serve as an SEC Commissioner.



**E. Richard Larson**  
Richards, Merrill &  
Peterson, Inc.  
Spokane, Washington



**Alfred J. Rauschman**  
Reynolds Securities, Inc.  
New York, New York



**George Rinker, Jr.**  
The Ohio Company  
Columbus, Ohio



**Ian McK. Rolland\***  
Lincoln National Life  
Insurance Company  
Fort Wayne, Indiana



**Robert W. Swinarton**  
Dean Witter & Co.,  
Incorporated  
New York, New York

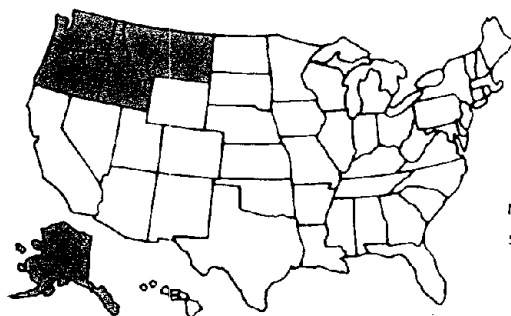


**Richard D. Vermillion**  
Smith, Barney & Co.,  
Incorporated  
Milwaukee, Wisconsin

\*Governor-At-Large

# District Committees 1973

## DISTRICT NO. 1



ALASKA  
IDAHO  
MONTANA  
OREGON  
WASHINGTON



**William L. Weed**  
*Chairman*  
Merrill Lynch, Pierce,  
Fenner & Smith, Inc.  
Spokane, Washington

**Larry W. Sisson**  
*Vice-Chairman*  
Kidder, Peabody & Co.,  
Incorporated  
Seattle, Washington

**Gordon Childs**  
First California Company,  
Incorporated  
Portland, Oregon

**John A. Goffrier**  
Walston & Co., Inc.  
Salem, Oregon

**William S. MacFadden, Jr.**  
D. A. Davidson & Co.  
Great Falls, Montana

**John B. McDowell**  
Reid, McDowell & Frazier  
Spokane, Washington

**Preston L. Phipps**  
June S. Jones Co.  
Portland, Oregon

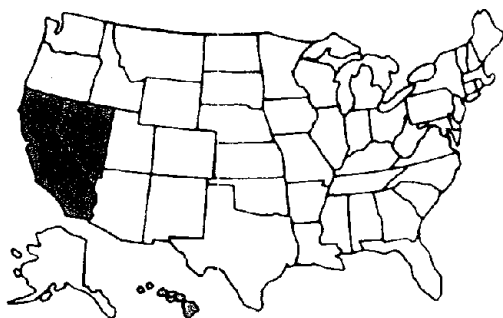
**Bruce Robb**  
SAFECO Securities, Inc.  
Seattle, Washington

**Norman O. Smith**  
Blyth Eastman Dillon & Co.  
Incorporated  
Everett, Washington

**L. Hoyt DeMers**  
*Director*  
1111 IBM Building  
Seattle, Washington

86 MEMBERS • 264 BRANCH OFFICES • 5,263 REGISTERED REPRESENTATIVES

## DISTRICT NO. 2



CALIFORNIA  
NEVADA  
HAWAII



**Warren J. Arnett**  
Seidler, Arnett, Spillane  
and Harris Incorporated  
Los Angeles, California

**Robert E. Bernhard, Jr.**  
R. E. Bernhard & Company  
Los Angeles, California

**W. Eugene Cartwright**  
Merrill Lynch, Pierce,  
Fenner & Smith Inc.  
Los Angeles, California

**Douglas E. DeTata**  
Walston & Co., Inc.  
San Francisco, California

**Hugh W. Ditzler, Jr.**  
Shuman, Agnew & Co., Inc.  
San Francisco, California

**Neil T. Ferguson**  
Putman Financial Services,  
Inc.  
San Rafael, California

**Robert G. Frank**  
Anchor Corporation  
Los Angeles, California



**Vernon B. Willis**  
*Co-Chairman*  
Blyth Eastman Dillon & Co.  
Incorporated  
Las Vegas, Nevada

**Clemens T. Lueker**  
Bateman, Eichler, Hill  
Richards, Incorporated  
Los Angeles, California

**Donald W. Moulton**  
R. H. Moulton & Co.  
Los Angeles, California

**James D. Murray**  
White, Weld & Co.,  
Incorporated  
San Francisco, California

**Philip Norris**  
E. F. Hutton & Company,  
Inc.  
Honolulu, Hawaii

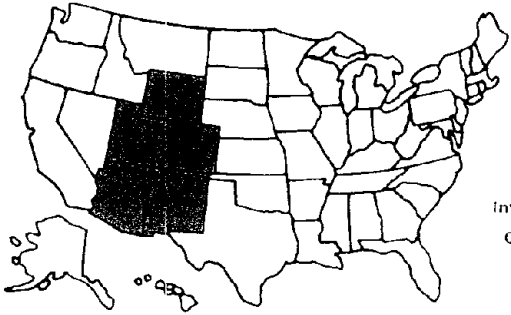
**Sanford R. Robertson**  
Robertson, Colman, Siebel  
& Weisel  
San Francisco, California

**Theodore F. Schmidt**  
*Director*  
425 California Street,  
Room 1400  
San Francisco, California

**James H. Resh**  
*Director*  
606 South Olive Street  
Los Angeles, California

426 MEMBERS • 1,089 BRANCH OFFICES • 25,880 REGISTERED REPRESENTATIVES

**DISTRICT NO. 3**



ARIZONA  
COLORADO  
NEW MEXICO  
UTAH  
WYOMING



**R. Ron Long**  
*Chairman*  
Investment Securities  
Incorporated  
Cheyenne, Wyoming

**James I. Geddes**  
*Vice Chairman*  
Bosworth, Sullivan &  
Company, Incorporated  
Denver, Colorado

**Edward E. Brown**  
Edward Brown Securities,  
Inc.  
Salt Lake City, Utah

**Richard E. Hyder**  
Hyder and Company  
Albuquerque, New Mexico

**Bradford Richardson**  
Kelly & Morey, Inc.  
Denver, Colorado

**Kenneth R. Schaefer**  
B. J. Leonard and Company  
Denver, Colorado

**John D. Schanep**  
Dean Witter & Co.,  
Incorporated  
Tucson, Arizona

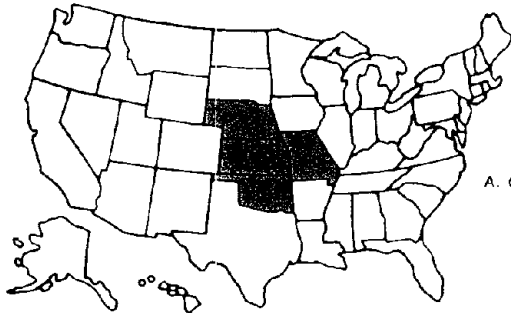
**H. Holden Smith**  
Young, Smith & Peacock,  
Inc.  
Phoenix, Arizona

**George Stromberg**  
Merrill Lynch, Pierce,  
Fenner & Smith Inc.  
Salt Lake City, Utah

**Kenneth W. Cole**  
*Director*  
909 17th Street  
Denver, Colorado

143 MEMBERS • 290 BRANCH OFFICES • 6,952 REGISTERED REPRESENTATIVES

**DISTRICT NO. 4**



KANSAS  
MISSOURI  
NEBRASKA  
OKLAHOMA



**David W. Mesker**  
*Chairman*  
A. G. Edwards & Sons, Inc.  
St. Louis, Missouri

**Eugene Dreyer**  
*Vice-Chairman*  
George K. Baum &  
Company, Incorporated  
Kansas City, Missouri

**Charles L. Betzelberger**  
Stern Brothers & Co.  
Kansas City, Missouri

**James A. Breckenridge**  
McCourtney-Breckenridge  
& Company  
St. Louis, Missouri

**J. Paul Erickson**  
Mutual of Omaha Fund  
Management Company  
Omaha, Nebraska

**Arthur R. Hanni**  
Seltam, Hanni & Company  
Inc.  
Topeka, Kansas

**James P. Kineen**  
Chiles, Heider & Co.  
Omaha, Nebraska

**Milton H. Luce, Jr.**  
Stiefel, Nicolaus & Company,  
Incorporated  
Kansas City, Missouri

**Thomas J. Miller**  
Harris, Upham & Co.,  
Incorporated  
Tulsa, Oklahoma

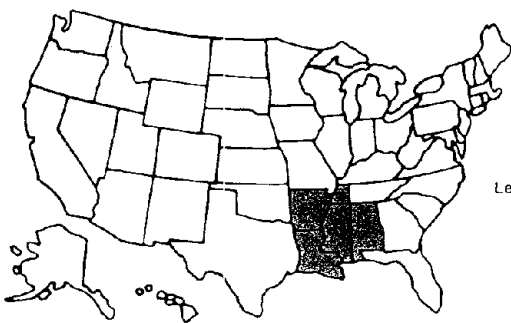
**William A. Reasoner**  
Waddell & Reed, Inc.  
Kansas City, Missouri

**Raymond E. Rowland, Jr.**  
R. Rowland & Co.,  
Incorporated  
St. Louis, Missouri

**Richard M. Coster**  
*Director*  
911 Main Street  
Kansas City, Missouri

126 MEMBERS • 351 BRANCH OFFICES • 10,346 REGISTERED REPRESENTATIVES

**DISTRICT NO. 5**



ALABAMA  
ARKANSAS  
LOUISIANA  
MISSISSIPPI  
WESTERN TENNESSEE



**Joseph A. Crisler, 3rd**  
*Chairman*  
Leftwich, Ross & Crisler  
Memphis, Tennessee

**Winfield Baird**  
*Vice-Chairman*  
J. C. Bradford & Co.  
Birmingham, Alabama

**William A. Cutchen**  
PLES Corporation  
Birmingham, Alabama

**Leland S. Duddleston, Jr.**  
Kroeze, McLarty &  
Duddleston  
Jackson, Mississippi

**Jay F. Hill**  
Hill, Crawford and Lanford,  
Inc.  
Little Rock, Arkansas

**Charles C. Hubbard**  
Sterne, Agee and Leach,  
Inc.  
Montgomery, Alabama

**Towner J. Pringle**  
Norflett & Co.  
Shreveport, Louisiana

**Edward Roddy**  
Scharff & Jones, Inc.  
New Orleans, Louisiana

**J. Herbert Williams**  
E. F. Hutton & Company  
Inc.  
New Orleans, Louisiana

**Edward J. Newton**  
*Director*  
1004 Richards Building  
New Orleans, Louisiana

102 MEMBERS • 231 BRANCH OFFICES • 4,168 REGISTERED REPRESENTATIVES

## DISTRICT NO. 6



TEXAS



**Wayne K. Skaggs**  
*Chairman*  
Channing Company, Inc.  
Houston, Texas

**Robert B. Truelson**  
*Vice-Chairman*  
Bache & Co., Incorporated  
Fort Worth, Texas

**George R. Bristol**  
Hornblower & Weeks-  
Hemphill, Noyes Inc.  
San Antonio, Texas

**Edward C. Gardere**  
Schneider, Bernet &  
Hickman, Inc.  
Dallas, Texas

**Harold L. Kupfer**  
Rauscher Pierce Securities  
Corporation  
Dallas, Texas

**Rollins S. Rubsamen**  
Rotan Mogle Inc.  
San Antonio, Texas

**Robert H. Sheridan**  
Moroney, Beissner & Co.,  
Inc.  
Houston, Texas

**William Stewart Storie**  
First Southwest Company  
Dallas, Texas

**Peter M. Walker**  
*Director*  
1610 Metropolitan Federal  
Savings Building  
Dallas, Texas

135 MEMBERS • 331 BRANCH OFFICES • 8,129 REGISTERED REPRESENTATIVES

## DISTRICT NO. 7



FLORIDA  
GEORGIA  
SOUTH CAROLINA  
EASTERN TENNESSEE  
PUERTO RICO  
CANAL ZONE  
VIRGIN ISLANDS



**W. Frank O'Rourke**  
*Chairman*  
T. Nelson O'Rourke Inc.  
Daytona Beach, Florida

**W. Cabell Hopkins**  
*Vice-Chairman*  
First Southeastern Company  
Columbus, Georgia

**Harrison Clarke**  
Johnson, Lane, Space,  
Smith & Co., Inc.  
Atlanta, Georgia

**Robert A. James**  
Raymond, James &  
Associates, Inc.  
St. Petersburg, Florida

**Hugh O. MacLellan, Jr.**  
PLA Securities Corporation  
Chattanooga, Tennessee

**Glenn R. Oxner**  
Furman Securities Co.,  
Incorporated  
Greenville, South Carolina

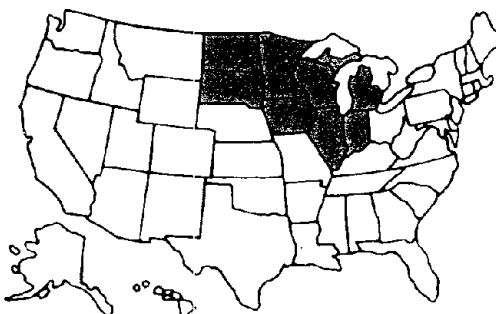
**Arthur J. Schwartz**  
Bache & Co., Incorporated  
Miami Beach, Florida

**David W. Wiley, Jr.**  
Wiley Bros., Inc.  
Nashville, Tennessee

**Bennett Whipple**  
*Director*  
Two Peachtree Street, N.W.  
Atlanta, Georgia

170 MEMBERS • 572 BRANCH OFFICES • 11,711 REGISTERED REPRESENTATIVES

## DISTRICT NO. 8



ILLINOIS  
INDIANA  
IOWA  
MICHIGAN  
MINNESOTA  
NORTH DAKOTA  
SOUTH DAKOTA  
WISCONSIN



**John R. Winsor**  
*Chairman*  
Piper, Jaffray & Hopwood  
Incorporated  
Minneapolis, Minnesota

**James G. Brophy**  
*Vice-Chairman*  
The Chicago Corporation  
Chicago, Illinois

**Lowry H. Bayley, Jr.**  
David A. Noyes & Company  
Indianapolis, Indiana

**Wayne G. Fadden**  
Dain, Kalman & Quail,  
Incorporated  
Minneapolis, Minnesota

**Don W. Goelzer**  
Goelzer & Co., Inc.  
Indianapolis, Indiana

**Russell F. Knapp**  
Securities Corporation of  
Iowa  
Cedar Rapids, Iowa

**John G. Martin**  
First of Michigan  
Corporation  
Detroit, Michigan

**William L. Ostrander**  
The First Boston  
Corporation  
Chicago, Illinois

**Robert M. Powell**  
CNA Investor Services, Inc.  
Chicago, Illinois

**Robert L. Raclin**  
Paine, Webber, Jackson &  
Curtis, Incorporated  
Chicago, Illinois

**Harry L. Sebel**  
Mullaney, Wells & Company  
Chicago, Illinois

**Gilbert H. Schubert**  
Dean Witter & Co.  
Incorporated  
Chicago, Illinois

**Hyman B. Shaine**  
H. B. Shaine & Co., Inc.  
Grand Rapids, Michigan

**Anton G. Stepanek**  
Robert W. Baird & Co.  
Incorporated  
Milwaukee, Wisconsin

**John A. Wing**  
A. G. Becker & Co.,  
Incorporated  
Chicago, Illinois

**E. Craig Dearborn**  
*Director*  
230 West Monroe Street  
Chicago, Illinois

427 MEMBERS • 1,016 BRANCH OFFICES • 37,427 REGISTERED REPRESENTATIVES



**DISTRICT NO. 9**



KENTUCKY  
OHIO



**William W. Crawford**  
*Chairman*  
J. J. B. Hilliard, W. L. Lyons, Inc.  
Louisville, Kentucky

**Wallace E. Sarra, Jr.**  
*Vice-Chairman*  
Hill & Co.  
Cincinnati, Ohio

**Stephen H. Cartwright**  
Sweeney Cartwright & Co.  
Columbus, Ohio

**William J. Hadden**  
Bache & Co. Incorporated  
Lexington, Kentucky

**Ross B. Kenzie**  
Merrill Lynch, Pierce, Fenner & Smith Inc.  
Cleveland, Ohio

**David E. Kreid**  
McDonald & Company  
Cleveland, Ohio

**Robert McC. Biggar**  
Hornblower & Weeks-Hemphill, Noyes Incorporated  
Cleveland, Ohio

**George S. Wade**  
Roose, Wade and Company  
Toledo, Ohio

**Donald E. Weston**  
Gradison & Company Incorporated  
Cincinnati, Ohio

**P. William Hotchkiss**  
*Director*  
100 Erieview Plaza  
Cleveland, Ohio

92 MEMBERS • 325 BRANCH OFFICES • 7,518 REGISTERED REPRESENTATIVES

**DISTRICT NO. 10**



DISTRICT OF COLUMBIA  
MARYLAND  
NORTH CAROLINA  
VIRGINIA



**George W. Anderson**  
*Chairman*  
Anderson & Strudwick  
Richmond, Virginia

**Lee M. Folger**  
*Vice-Chairman*  
Folger Nolan Fleming Douglas, Incorporated  
Washington, D.C.

**Forrest E. Brinson**  
Brinson and Company  
Charlotte, North Carolina

**Parks H. Dalton, Jr.**  
Interstate Securities Corporation  
Charlotte, North Carolina

**Leonard F. Hendricks**  
First Virginia Management and Research Corporation  
Richmond, Virginia

**N. Clark Moran**  
Baker, Watts & Co.  
Baltimore, Maryland

**K. Douglas Potter**  
Gruntal & Co.  
Baltimore, Maryland

**Leo Sade**  
Sade & Co.  
Washington, D.C.

**Raymond T. Waller**  
The Cecil-Waller Company, Inc.  
Richmond, Virginia

**William J. Radding, Jr.**  
*Director*  
888 17th Street, N.W.  
Washington, D.C.

144 MEMBERS • 393 BRANCH OFFICES • 11,203 REGISTERED REPRESENTATIVES

**DISTRICT NO. 11**



DELAWARE  
PENNSYLVANIA  
WEST VIRGINIA  
NEW JERSEY\*



**William Z. Suplee, III**  
*Chairman*  
Suplee-Mosley Inc.  
Philadelphia, Pennsylvania

**Charles E. Jacobs**  
*Vice-Chairman*  
C. S. McKee & Company, Incorporated  
Pittsburgh, Pennsylvania

**James W. Braham**  
Parker/Hunter Incorporated  
Pittsburgh, Pennsylvania

**S. Grey Dayton**  
Elkins, Morris, Stroud & Co.  
Philadelphia, Pennsylvania

**James C. French**  
Wellington Management Company  
Valley Forge, Pennsylvania

**William Kalellis**  
Janney Montgomery Scott, Inc.  
Cherry Hill, New Jersey

**Samuel M. Kennedy**  
Yarnall, Biddle & Co.  
Philadelphia, Pennsylvania

**Harry G. Kuch**  
H. G. Kuch and Company  
Philadelphia, Pennsylvania

**Henry L. McKay**  
Dean Witter & Co. Incorporated  
Philadelphia, Pennsylvania

**Robert M. Stewart**  
Moore, Leonard & Lynch, Incorporated  
Pittsburgh, Pennsylvania

**Willard J. Tilotson, Jr.**  
Arthur R. Hefren & Co., Inc.  
Pittsburgh, Pennsylvania

**Ronald J. Young**  
One Eleven Distribution Company  
Philadelphia, Pennsylvania

**Jerome S. Pilpel**  
*Director*  
1932 Philadelphia National Bank Building  
Philadelphia, Pennsylvania

\* With the exception of counties adjacent to New York City

259 MEMBERS • 480 BRANCH OFFICES • 16,455 REGISTERED REPRESENTATIVES

## DISTRICT NO. 12



**NEW YORK CITY\***

\*Includes adjacent New York and New Jersey counties.



**Alfred J. Rauschman**  
Chairman  
Reynolds Securities, Inc.  
New York, New York

**Robert W. Swinarton**  
Vice-Chairman  
Dean Witter & Co.  
Incorporated  
New York, New York

**George H. Angelos**  
F. S. Moseley & Co.  
New York, New York

**Richard Bove**  
American Securities  
Corporation  
New York, New York

**Joseph A. Del Duca**  
Shearson, Hammill & Co.,  
Inc.  
New York, New York

**Frank Dunne, Jr.**  
White, Weld & Co.,  
Incorporated  
New York, New York

**John E. Eckelberry**  
Clark, Dodge & Co.,  
Incorporated  
New York, New York

**William B. Harvey**  
Blyth Eastman Dillon &  
Co., Incorporated  
New York, New York

**Robert E. Linton**  
Drexel Burnham & Co.,  
Incorporated  
New York, New York

**Gerald C. McNamara**  
G. A. Saxton & Co., Inc.  
New York, New York

**Edward I. O'Brien**  
Bache & Co. Incorporated  
New York, New York

**N. J. Prestigiacomio**  
F. Eberstadt & Co., Inc.  
New York, New York

**John H. Schwieger**  
Paine, Webber, Jackson &  
Curtis, Incorporated  
New York, New York

**Thomas I. Unterberg**  
C. E. Unterberg, Towbin Co.  
New York, New York

**John D. Weeden**  
Weeden & Co.  
New York, New York

**Morton N. Weiss**  
Troster, Singer & Co.  
New York, New York

**George J. Bergen**  
Vice President, Director  
77 Water Street  
New York, New York

**1,227 MEMBERS • 581 BRANCH OFFICES • 34,601 REGISTERED REPRESENTATIVES**

## DISTRICT NO. 13

**CONNECTICUT  
MAINE  
MASSACHUSETTS  
NEW HAMPSHIRE  
RHODE ISLAND  
VERMONT  
NEW YORK\***



**Nelson S. Burbank**  
Chairman  
Burbank & Company, Inc.  
Boston, Massachusetts



**Dana C. Djerf**  
Vice-Chairman  
Kidder, Peabody & Co.,  
Incorporated  
Boston, Massachusetts

**Raymond Cocchi**  
Baystate Securities  
Company  
Springfield, Massachusetts

**Donald J. Holly**  
Sage, Ruddy & Company,  
Inc.  
Rochester, New York

**David A. Hughey**  
Putnam Fund Distributors,  
Inc.  
Boston, Massachusetts

**R. Willis Leith, Jr.**  
Burgess & Leith  
Boston, Massachusetts

**Alan C. Leland**  
Advest Co.  
Boston, Massachusetts

**Peter G. Lisle**  
Brown, Lisle & Marshall,  
Incorporated  
Providence, Rhode Island

**John L. McDonough**  
H. C. Wainwright & Co.  
Boston, Massachusetts

**John K. Pierce**  
H. M. Payson & Co.  
Portland, Maine

**Walter Schnabel**  
E. F. Hutton & Company,  
Inc.  
Rochester, New York

**David B. Smith**  
Carreau, Smith, Inc.  
Bridgeport, Connecticut

**Edward P. Ward**  
Phoenix Equity Planning  
Corporation  
Hartford, Connecticut

**William S. Clendenin**  
Director  
75 Federal Street  
Boston, Massachusetts

**328 MEMBERS • 575 BRANCH OFFICES • 27,573 REGISTERED REPRESENTATIVES**



## In Memoriam

On January 16, 1974 Wallace H. Fulton, NASD's first Executive Director, passed away in California. Mr. Fulton helped organize the Association and served as its staff director for 25 years until his retirement in 1964. He was widely respected in the securities industry for the guidance he provided to the Association and his knowledge of the over-the-counter market.

Born in Oakland, California in 1896, Mr. Fulton attended the University of California from 1915 to 1916 and the University of Minnesota from 1920 to 1922. In 1924 he joined Walkers Manual, Inc., a statistical research publication in San Francisco, and became the firm's president after six years. From 1930 to 1934 he was also Vice President of the Financial Publications Holding Company.

Mr. Fulton's involvement with securities industry regulation began in 1933 when he was elected Secretary of the San Francisco Security Dealers Association. Subsequently, in 1934, he was elected Secretary of the Regional Code Committee of the Investment Bankers Code Committee that was established under the Industrial Recovery Act.

When the NASD became registered as a national securities association in 1939 under the Maloney Amendment to the Securities Exchange Act, Mr. Fulton began the task of nurturing the fledgling organization into a mature, effective self regulatory body for the over-the-counter market.

Under his leadership, the Association's Rules of Fair Practice were implemented through a program of surprise examinations of members. In addition, qualification standards for brokerage business personnel were established, and individuals were for the first time required to register with the Association. Guidelines and regulations regarding specific business areas, such as free-riding, investment company advertising, variable annuities and a uniform practice code for brokerage firms, were formulated under Fulton's direction.

Mr. Fulton set the course for a pattern of cooperative regulation that has continued since his retirement. The industry and investors will remain very much in his debt. He will be remembered and missed by his many friends and associates.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS INC.  
1735 K STREET N.W., WASHINGTON, D.C. 20006