

NASD

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

To NASD Members and Registered Representatives:

JUSTICE ELECTED PRESIDENT OF NCC

The Board of Directors of the National Clearing Corporation, an operational subsidiary of the NASD, has unanimously elected C. Richard Justice to succeed David H. Morgan as president of NCC, effective September 1, 1973. Mr. Morgan, president since the start of NCC operations in 1969, announced his resignation to accept a position outside the securities industry.

Dick Justice, who is the Executive Vice President of NCC, has extensive experience in innovating clearing operations and brings a high degree of technical expertise to his new position. After spending several years as a systems engineer on national defense contracts, he joined the NASD as Technical Director in 1968. In his first assignment with the NASD, Justice was instrumental in developing NASDAQ. As executive vice president of NCC, Justice implemented the continuous net settlement system used in the clearing operation and, along with Mr. Morgan, he has been deeply involved in both the technical and administrative activities of the organization for the past four years.

"While we are sorry to see Dave Morgan leave us and recognize the fine work he has done during the past few years," commented NASD President Gordon S. Macklin, "every member of the NCC Board expressed a strong vote of confidence on Dick Justice's behalf. His record since NCC's founding has been outstanding and his knowledge of our organization, its capabilities and responsibilities is excellent."

NCC SELECTS NEW DIRECTORS; OPENS NEW CENTERS

Donald L. Wetmore, Executive Vice-President of Birr, Wilson & Company, Inc., San Francisco and John D. McClure, Senior Vice-President of Bateman, Eichler, Hill Richards Incorporated, Los Angeles have been elected to the Board of Governors of the National Clearing Corporation. Membership on the 14-man Board includes representatives from small regional firms as well as large New York based firms, reflecting both the size and geographical dispersion of the OTC market.

With the opening of three new clearing centers, NCC has been making good progress toward its major goal of developing a nationwide clearing system. Washington, D.C., which began operations on April 17, 1973, St. Louis, Missouri, on May 21, 1973 and Milwaukee, Wisconsin on June 25, 1973, joined New York, Atlanta, Boston, Chicago and Philadelphia in the clearing network.

To meet its 1973 goal of having the capability to handle 90% to 95% of all OTC transactions, NCC is planning expansion into other cities. Although plans are not firm for the next target cities, NCC hopes to extend its services to the West Coast in cooperation with the Pacific Stock Exchange.

Both Mr. Wetmore and Mr. McClure presently serve as directors of the Pacific Coast Clearing Corporation and bring extensive operational experience to the NCC Board during this expansion period.

Mr. Wetmore was an officer and director of First National Fund and First National Management Corporation, subsidiaries of Birr, Wilson. Presently, he is a director of the Irrbay Leasing Corporation and a member of Birr, Wilson's Management Committee. A native Californian, he entered the securities industry in 1947 and joined Birr, Wilson in 1959.

Mr. McClure, a CPA in New York and California began his career in that field before joining the securities industry in 1960. He has been with Bateman, Eichler, Hill Richards since 1967.

Active in industry affairs, he has served on the Operations Committee for the Association of Stock Exchange Firms and presently is a member of the AICPA, the New York Society of CPA's, the Operation Advisory Committee to the Chairman of the New York Stock Exchange and a director of Broker Data Services, Inc.

REVISIONS PROPOSED TO NATIONAL LIST

The Association has proposed to replace share volume with dollar value of shares traded as the criteria for listing issues in the National List of over-the-counter stock quotations carried in many newspapers across the country. Through NASDAQ, the Association supplies to wire services, for retransmission to newspapers, daily bid and ask quotations and volume figures for all 3,260 securities which are currently listed in NASDAQ. Some 2,350 of these OTC stocks are presently included in the National List.

The present National List is divided into two sections. The first section, now known as the Most Active National List, consists of the 1,400 most active NASDAQ issues determined by their average weekly volume (as calculated by the NASDAQ computers). The issues on the list must also meet certain minimum price requirements. The National List, contains volume for the day, closing bid and ask price and net change from the previous day.

The second section, now called the Supplementary National List, includes the next 950 most active issues which meet minimum price and dollar volume requirements. Only the representative bid and ask price is reported for securities on this list.

The Association has, for some time, been concerned over the present criteria and is aware of dissatisfaction with the standards on the part of issuers, investors and the press. Companies and shareholders alike argue that the present criteria forced many old line corporations with considerable investor interest off the National List. These are companies with high dollar value but with lower share volume activity. In addition, newspapers have complained of the frequency and number of changes made in the Supplementary List.

Under the proposal, the Most Active National List will be redesignated the "National OTC-NASDAQ List" and will be composed of the 1,400 issues having the highest dollar value of volume traded. The Supplementary National List, to be known as the "Additional NASDAQ-OTC List," will include the next 950 issues, measured by the same criteria. There would be no change in the minimum price requirements of a representative bid price of \$5.00 for initial qualification and a \$2.00 minimum bid to continue on both lists at the time the lists are revised, which will be at approximately six month intervals.

A minimum average weekly volume standard of 750 shares would be imposed for qualifying issues on the National OTC-NASDAQ List at the time of revision. Transfers from the Additional NASDAQ-OTC List to the National OTC-NASDAQ List would take place when vacancies occur between revision periods.

"We believe the proposed revisions will go a long way toward rectifying the problems which have been brought to our attention," commented NASD President Gordon S. Macklin when the proposals were distributed for comment. All comments have been received and the proposal is awaiting official non-disapproval by the SEC.

TAX SHELTER PROPOSALS REVISED

On July 2, 1973, the Securities and Exchange Commission requested public comment on the NASD's proposed regulatory program for tax sheltered offerings. While interested in comments on specific details of the Association's proposal, the SEC asked that special consideration be given to certain basic policy issues: (1) whether the NASD, in its exercise of its broad authority under the Exchange Act over the conduct of its members, would be engaged in a type of issuer-oriented regulation inconsistent with the intent of the 1933 Act; (2) in view of the increasing involvement by NASD members in the sponsoring of these programs, whether it would be deemed appropriate for the NASD to enact its rules limiting their applicability to member affiliated issuers; and (3) should the regulation of issuers of these programs be achieved through a comprehensive federal regulatory program rather than NASD rule making. Comments are due at the SEC by September 15, 1973.

In recent years interest in tax sheltered investments has accelerated to represent a substantial portion of the securities industry. Significant to the NASD was the growing member involvement in the distribution, management, or sponsorship of tax sheltered investments. Because of its growing concern at the time over the lack of adequate regulation in the tax shelter area, on May 9, 1972, the Association published and solicited comment on proposed regulations which reflected nearly two years of work and study in this area. Prior to and since the release of these proposals, the Association has worked with other regulatory authorities, both state and federal, and certain national trade organizations, to assure that the rules are not inconsistent with the regulations proposed by other regulatory bodies. The Association also sought to construct the proposals in a manner which would not be adverse to the industry but would still protect the public interest to the maximum extent possible.

The May 9, 1972 publication of the proposals generated an extensive number of comments. Based on these comments, as well as the coordinated efforts of the regulatory bodies and trade associations, the proposals were modified in many respects. Concurrently with the SEC request for comments, the Association redistributed to its membership and others a revised version of the tax shelter proposals.

Public units of all tax sheltered programs that are underwritten or distributed by members, as well as all tax sheltered programs that are sponsored by members, would be covered under the proposed rules. A key provision in the proposals would require the establishment of customer suitability standards for each program, which would apply to the sale, solicitation and recommendation of public units of the program. Other provisions would cover underwriting terms and arrangements and other relevant factors concerning the distribution of tax sheltered programs to the public. Included would be all items of compensation to be paid to sponsors or broker/dealers and the terms and conditions concerning the operation, structure, and management of the programs. Also covered in the comprehensive package of proposals are conflicts of interest of sponsors; standards of knowledge, experience and financial responsibility of sponsors or managers of tax sheltered programs; and the content of advertising and sales literature.

Although not part of the recently distributed proposals, the Association is considering regulations covering qualification, examination and licensing of individuals wishing to sell tax sheltered securities.

TAX SHELTER FILINGS

The number of tax shelter offerings filed with the Association has increased substantially in the last several years; while first half figures for 1973 have nearly

equalled year-ago levels, reflecting continuing and sustained interest in tax sheltered programs by public investors.

Basically, a "tax shelter" is an investment in which flow-through tax benefits are a factor affording investors relatively large deductions. Because of their tax significance these investments are usually sold to individuals who have substantial incomes. Some of the popular tax shelter programs commonly used by investors are oil and gas programs, real estate syndications, farming, and cattle feeding and breeding.

In 1972 the number of tax shelter offerings filed with the NASD expanded 61 percent to 539, compared to 334 offerings in 1971 and 145 filings in 1970 (see chart following for comparisons). Over this three year span oil and gas filings comprised the largest number, followed by real estate programs (excluding real estate investment trusts). The total dollar value of registered offerings was in excess of \$3.22 billion in 1972, compared to almost \$1.57 billion in 1971, and about \$985 million in 1970.

First half comparisons for 1973 show that there were 235 tax shelter filings, with total dollar figures for these offerings aggregating \$1.32 billion. For the first half of 1973 oil and gas programs generated the largest number of filings (120) with an aggregate dollar value of \$513,839,770. Real estate products constituted the next major number of tax shelter filings (74), with a dollar value in excess of \$467 million.

NASD—TAX SHELTERED FILINGS

PRODUCT	1970		1971		1972		1973—First Half	
	Number	Dollars Registered	Number	Dollars Registered	Number	Dollars Registered	Number	Dollars Registered
Oil and Gas	62	\$664,337,000	155	\$740,093,579	226	\$1,027,452,045	120	\$513,839,770
Real Estate	54	\$256,485,390	139	\$523,534,085	243	\$1,910,662,045	74	\$467,564,876.80
Farming	3	\$ 10,742,000	7	\$ 30,226,611	21	\$ 43,284,834	5	\$ 13,952,380
Cattle Feeding and Breeding	13	\$ 26,764,000	22	\$244,636,000	30	\$ 192,012,000	22	\$181,167,400
Miscellaneous *	13	\$ 26,336,260	11	\$ 29,915,620	19	\$ 55,256,000	14	\$143,815,000
Total	145	\$984,664,650	334	\$1,568,405,895	539	\$3,228,666,924	235	\$1,320,339,426.80
REIT's		Not Available	71	\$2,540,358,976	63	\$1,417,466,823	28	\$554,239,160

* Miscellaneous includes products such as: Cable TV, Auto Racing, Mining,, Computer Leasing, Theatrical Productions, Restaurants, Commodities and many others

NASD CELEBRATES ANNIVERSARY

The 35th Anniversary of the enactment of the Maloney Amendment, the law which gave birth to the NASD, was commemorated June 22 in Washington at a NASD-sponsored symposium. The legislation, an amendment to the Securities Exchange Act of 1934, authorized the creation of associations of brokers and

dealers for the purpose of voluntary regulation of the over-the-counter securities market. The NASD is the only organization registered under this provision.

Speakers at the symposium included Senator Harrison A. Williams, Jr., Congressman John E. Moss, Hugh F. Owens, Acting Chairman of the SEC, and Byron D. Woodside, Chairman of the Securities Investor Protection Corporation.

Senator Williams, who is chairman of the Securities Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs, reviewed the Association's performance under the Maloney Act. He praised the Association's past activities, emphasizing NASDAQ and the National Clearing Corporation. Noting the current overlap in the present allocation of jurisdiction among the various self-regulatory agencies, Senator Williams expressed the hope that in the future there would be a clearer, more rational allocation of the respective responsibilities of the NASD, the exchanges and the Commission. In conclusion he noted, "I know that the Association, having functioned in the past as an instrument for positive change, will continue to strengthen the industry and to protect the interests of the public."

Discussing the provisions of H.R. 5050, a comprehensive bill affecting many facets of the securities industry, Congressman Moss emphasized, "I believe that reforms should be enacted, not on a patchwork basis, but in the form of a balanced program designed to reweave the entire fabric of the securities markets." The Congressman chairs the Subcommittee of the House Committee on Interstate and Foreign Commerce which is currently holding extensive hearings on H.R. 5050.

Stating that "preserving public confidence in the integrity of the investment process may well be the major regulatory challenge that faces us in the 1970's," Acting SEC Chairman Hugh F. Owens emphasized the need for professionalism by corporate management, management of financial institutions, by money managers, brokers/dealers, securities analysts, independent accounts, legal counsel, underwriters and thousands of investment advisers. He stated that this need is especially acute in light of the success of the securities industry in the last three decades in attracting the savings of increasing millions of Americans. "With professionalism and effective regulation," Owens concluded, "we can go far in heading off . . . breaches of public trust and restoring public confidence in our markets."

Stressing his belief in the workability of the Securities Investor Protection Corporation and the legislation that created it, SIPC Chairman Byron Woodside reviewed some of the problems encountered by trustees supervising liquidations. The primary difficulty in settling customer claims has been a lack of accurate or complete records of nearly two-thirds of the broker/dealer firms undergoing SIPC liquidation. Some delays are also caused by litigation. "I think eventually," concluded Woodside, "SIPC will head somewhat in the direction of a modified FDIC type of organization in the sense that it will seek a less cumbersome liquidation procedure than the one we now have."

NASD Chairman J. Logan Burke, Jr. opened the program and, noting the outstanding attendance at the meeting, commended those present for ". . . a clear demonstration of (their) dedication to solving the industry's problems and setting the proper course for the securities market of the future."

As a second speaker on the program, NASD President Gordon S. Macklin previewed remarks to be made by upcoming speakers, touching on the planned hookup between the NASDAQ system and National Clearing Corporation computers, NASD plans to publish rules for comment on entry standards for new

Association members, and a new qualifications program for people entering the business. Looking towards the future, Macklin concluded his remarks by reaffirming, "You've got to figure that as long as there is a free economy in this country there will be a need for a capital raising process and a securities industry."

Other NASD staff members making presentations were Frank J. Wilson, Senior Vice President—Regulation, who spoke on cooperative regulation; John H. Hodges, Jr., Senior Vice President—Member Services, who reviewed progress with NASDAQ; and David H. Morgan, President of the National Clearing Corporation, who provided an update on NCC activities.

Peter R. Wilde, Vice President of Connecticut General Life Insurance Company and former member of the NASD Board of Governors, reviewed the participation of insurance companies in the securities business. A NASDAQ corporation's view of the NASD was provided by Leland S. Prussia, Jr., Senior Vice President of Bank of America.

The program closed with a panel discussion moderated by Manuel F. Cohen, former Chairman of the Securities and Exchange Commission. Three former Chief Executive Officers of the NASD, Robert Haack, Robert Gardiner and Richard Walbert, reviewed the Association's history and progress. Wallace Fullton, Executive Director of the NASD from 1939 to 1964, was unable to attend for health reasons.

SEC CLEARS RECIPROCAL RULE

In May of this year, the Securities and Exchange Commission cleared the Association's proposed rule to bar certain reciprocal practices between mutual funds and broker/dealers. As a result, NASD President Gordon S. Macklin declared the rule, an amendment to Article III, Section 26 of the Rules of Fair Practice and a companion Interpretation of the Board of Governors, effective as of July 15, 1973.

In general, the new rule is designed to prohibit members from favoring or disfavoring the distribution of particular investment companies on the basis of portfolio brokerage commissions expected or received. Members are also barred from soliciting or making promises of brokerage commissions in connection with the distribution of fund shares and from seeking orders for the execution of portfolio transactions on the basis of their sales of fund shares.

At the request of the SEC—a request contained in the Commission's February, 1972 Statement of the Future Structure of the Securities Markets as well as a subsequent letter from the Commission—the Association drafted a proposal which was distributed for comment in July of 1972. A revised version of the proposal was submitted to the membership for a vote on November 29, 1972.

When announcing its non-disapproval of the reciprocal rule, the SEC encouraged the NASD to broaden the rule's coverage to include closed-end investment companies and to amend the Interpretation to clarify that unit investment trusts would be covered. Accordingly, the NASD is developing an amendment to Section 26 which would extend coverage of the reciprocal rule to the distribution of shares of all registered investment companies.

The Commission also suggested that the Association consider a companion rule covering the distribution of variable contracts. Such a rule is currently under development by the Association.

**NEW YORK STOCK
TRANSFER TAX**

As of July 1, the rate of stock transfer tax payable on sales made by individuals who qualify as non-residents of New York was reduced. For the period July 1, 1973 and thereafter, the applicable tax rates are as follows:

<i>Selling Price Per Share</i>	<i>Rate in Cents</i>
Less than \$5	.625
\$5 to less than \$10	1.25
\$10 to less than \$20	1.875
\$20 or more	2.5

In addition, the maximum tax on a "single taxable sale" is \$350 for the period July 1, 1973 and thereafter. This maximum is applicable to all sales whether made by a resident or a non-resident.

Auditors Group Affiliates with SIA

The Securities Industry Association's Internal Auditors Group has announced that its membership rolls are open to the internal auditors of all NASD members. The Group, formerly an independent body known as the Wall Street Association of Internal Auditors, became affiliated last year with the SIA. It offers monthly meetings on current topics, a sharing of basic audit programs within the industry, and the professional advice and ability of men from the major C.P.A. firms and security exchanges. Applications may be obtained by writing:

The Membership Committee
SIA Internal Auditors
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