

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 5, 1975

TO: ALL NASD MEMBERS

RE: False Identification

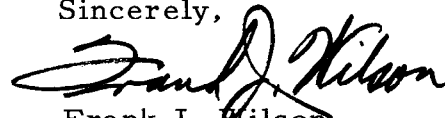
Recently, the United States Department of Justice appointed the NASD to the Federal Advisory Committee on False Identification (FACFI). Established by the Attorney General, the Committee is charged with the responsibility of: (1) identifying the various criminal techniques used to obtain false identification; (2) ascertaining the nature and extent of crimes committed utilizing false identification; and, (3) developing programs to combat this serious problem.

As the representative for the securities industry, the Association has been assigned to the Task Force on Commercial Transactions. At the request of the Department of Justice each Task Force member is conducting a survey of his respective agency, organization or industry in order to identify the full extent of the false identification problem. Since the Association has limited statistical data on the dollar impact of false identification and other information regarding the nature and extent of losses incurred by the securities industry as a result of false identification, all NASD members are requested to complete and return the attached questionnaire to the Association by February 28, 1975.

The data accumulated from the completed questionnaires will be utilized by the Association in the preparation of a written report on false identification to be submitted to the Federal Advisory Committee. In the report, this information will be used solely for statistical purposes with only aggregate dollar amounts being disclosed. No disclosure will be made as to the identity of any individual Association member.

Questions regarding this notice should be directed to David P. Parina, (202) 833-7247.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

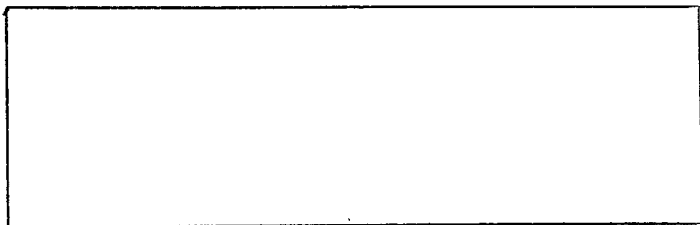
Attachment

NASD FALSE IDENTIFICATION QUESTIONNAIRE

INSTRUCTIONS

For the purpose of this questionnaire the meaning of false identification shall include obtaining, using, altering, reproducing and/or imitating any document, credential or other form of identification so as to disguise an individual's true name identity. Additionally, losses, as referred to in this questionnaire, shall constitute items charged against income for tax purposes and items from which claims are paid by insurance carriers.

IMPORTANT !



INFORMATION REQUESTED BELOW WILL BE USED FOR INFORMATIONAL PURPOSES ONLY. NO DISCLOSURE WILL BE MADE BY THE ASSOCIATION TO CAUSE A MEMBER'S IDENTITY TO BE REVEALED.

1. Did your firm experience any losses as a result of individuals presenting false identification for the establishment of brokerage accounts for the purpose of effectuating securities transactions for calendar years:

 yes no yes no yes no
1974 / / 1973 / / 1972 / /

2. How many of these cases were incurred in calendar years:

1974 _____ 1973 _____ 1972 _____

3. What was the total dollar value of losses and/or claims involved in these cases:

1974 _____ 1973 _____ 1972 _____

4. What types of false identification were presented by the individuals for identity purposes (indicate number in space provided):

- a. Driver's License _____
- b. Social Security Card _____
- c. Credit Cards _____
- d. Bank Reference _____
- e. Other (specify) _____

* * *

Name of Person Completing This Report

Signature

Return To: National Association of Securities Dealers, Inc.
 Regulatory Policy and Procedures
 1735 K Street Northwest
 Washington, D. C. 20006
Attention: David P. Parina

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

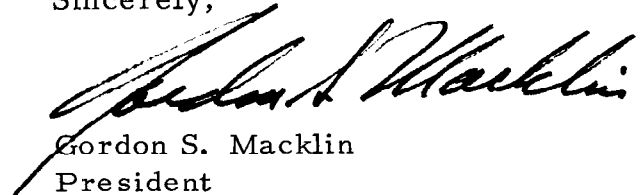
February 5, 1975

TO: ALL NASD MEMBERS
RE: 1975 Schedule of Holidays

Listed below is the NASD 1975 Schedule of Holidays.

February 17, Monday	Washington's Birthday
March 28, Friday	Good Friday
May 26, Monday	Memorial Day
July 4, Friday	Independence Day
September 1, Monday	Labor Day
November 27, Thursday	Thanksgiving Day
December 25, Thursday	Christmas Day
January 1, 1976, Thursday	New Year's Day

Sincerely,


Gordon S. Macklin
President

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 5, 1975

To: All NASD Members

Re: Settlement Date Schedule Involving Lincoln's Birthday
and Washington's Birthday.

The following notice, which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

Transactions made on Lincoln's Birthday, Wednesday, February 12, 1975, and on the days immediately preceding that day, will be subject to the schedule of settlement dates below (for "regular-way" transactions). No settlements will be made on Wednesday, February 12, since many banking institutions will be closed. Securities markets and the NASDAQ system, however, will be in operation for trading.

The schedule takes into account that securities markets and the NASDAQ system will be closed on Monday, February 17, 1975 in observance of Washington's Birthday.

Transactions made on February 12 will be combined with transactions made on the previous business day, February 11, for settlement on February 20.

February 12 shall not be considered as a business day in determining the day for settlement of a transaction, the day on which stock shall be quoted ex-dividend, or in computing interest on bonds.

- Continued -

Further, marks to the market, reclamations, buy-ins and sell-outs as provided for in the Uniform Practice Code, shall not be exercised on February 12.

Settlement dates for "regular-way" transactions

<u>Trade Date</u>		<u>Settlement Date</u>	
February	4	February	11
	5		13
	6		14
	7		18
	10		19
11 and 12 Lincoln's Birthday			20
	13		21
	14		24
	17 Washington's Birthday Observance		
	18		25

Questions regarding this notice may be directed to the Uniform Practice Division of National Clearing Corporation, Two Broadway, 8th Floor, New York, N.Y. 10004.. (212) 952-4018.

File

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

MAIL VOTE

IMPORTANT

OFFICERS: PARTNERS: PROPRIETORS

To: Members of the National Association of Securities Dealers
Date: February 7, 1975
Re: Proposed Article XVIII of the Association's By-Laws

LAST VOTING DATE IS: March 8, 1975

Enclosed herewith is a proposed new Article XVIII of the Association's By-Laws which, pursuant to the provisions of Article IX of the By-Laws, must be approved by the membership. If approved, the proposal must be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

The proposed By-Law would give the Board of Governors authority to adopt rules, procedures and charges in connection with the collection and reporting of transactions on the Consolidated Tape. Such rules, procedures and charges will be incorporated into Schedule G which will be attached to and made a part of the By-Laws. The proposed By-Law and Schedule G were sent to the membership for comment on December 20, 1974 and after reviewing the comments, the Board of Governors has approved the proposed By-Law to be submitted to the membership for vote. Also enclosed is proposed Schedule G which is substantially similar to what the Board intends to adopt if the proposed By-Law is approved. As a result of comments received from the membership, certain changes in Schedule G will be made prior to its adoption by the Board.

Background and Explanation of
Proposals

On December 15, 1972, the Securities and Exchange Commission as a step in the establishment of a Consolidated Tape, adopted Rule 17a-15 requiring the national securities exchanges and the Association to file with the Commission a written plan or plans meeting specific standards respecting the collection and dissemination of information relating to transactions executed by members in certain listed securities. Rule 17a-15 also requires every member of a national securities exchange and every member of the Association to promptly transmit to the exchange or Association, any information and records required under such required plan or plans. On May 17, 1974, the Commission declared effective a joint plan filed by the Association and the national securities exchanges. The plan as filed requires reporting of all transactions in eligible securities to the Consolidated Tape. The term "eligible securities" is defined by the plan as (1) any common stock, long-term warrant or preferred stock registered or admitted to unlisted trading privileges on the New York Stock Exchange or the American Stock Exchange on the date full implementation of the Consolidated Tape is commenced; (2) any common stock, long-term warrant or preferred stock registered or admitted to unlisted trading privileges on any other national securities exchange which, on the date full implementation of the Consolidated Tape is commenced, substantially meets the original listing requirements of the New York Stock Exchange or the American Stock Exchange; (3) after the date on which full implementation of the Consolidated Tape is commenced, any common stock, long-term warrant or preferred stock which becomes registered on any national securities exchange and which at the time of such registration substantially meets the original listing requirements of the New York Stock Exchange or the American Stock Exchange; and (4) any right admitted to trading on a national securities exchange which entitles the holder to purchase or acquire a share or shares of an eligible security provided that both the right and the eligible security are admitted to trading on the same national securities exchange.

On October 18, 1974, the Consolidated Tape commenced on a test basis covering transactions in fifteen selected securities executed by members of the American, New York, Pacific and PBW Stock exchanges and certain third market makers. When the Consolidated Tape is fully implemented, all transactions in eligible securities will be covered.

Proposed Article XVIII of the
By-Laws

The proposed Article XVIII of the By-Laws authorizes the Board of Governors to adopt rules and procedures in order to carry out the Association's duties under Commission Rule 17a-15 and to implement the plan required by the rule. The proposed By-Law also gives the Board of Governors authority to use the Association's automated quotations system (NASDAQ) whenever necessary and appropriate to further the implementation and operation of the Consolidated Tape. The Board would also have authority to impose reasonable and equitable fees and charges in connection with the collection and dissemination of last sale information.

Scope and Summary of Proposed Schedule G

As noted above, the rules, procedures and charges which the Board intends to adopt if the proposed By-Law is approved are substantially similar to those contained in attached Schedule G. The Schedule covers all over-the-counter transactions in eligible securities as defined in the required plan referred to above. The Schedule does not apply to over-the-counter transactions in any other securities.

(1) Transaction Reporting

a) Designated Reporting Members - Section 1(a) of Schedule G provides that the Association shall designate as Reporting Members those members which the Association determines execute a substantial amount of over-the-counter transactions in eligible securities. There shall be attached to Schedule G a list of Reporting Members and it is contemplated that the list will initially include the major third market makers. The list will be amended from time to time as more information becomes available concerning over-the-counter volume in eligible securities.

Each designated Reporting Member shall be required, during the hours of the Consolidated Tape, to transmit to the Association reports of all purchases and sales except for those less than a round-lot within one and one-half minutes after execution and all trade tickets must be time stamped at the time of execution. The reports of transactions shall be made through the Association's NASDAQ Trade Reporting

System. This system will accept trade reports through a NASDAQ Level III terminal or a NASDAQ Transaction Reporting terminal and will validate and transmit such reports to the processor of the Consolidated Tape. Each transaction is required to be reported at the price reflected on the order ticket exclusive of commissions, taxes or other charges except principal transactions executed at a price plus or minus a differential where the reported price shall be the price inclusive of the differential. The Securities and Exchange Commission has expressed its view that transactions of the latter type should be reported to the Consolidated Tape in this manner and, accordingly, the proposal reflects this view. In transactions between Reporting Members only the selling member is required to report.

b) Members Not Designated As Reporting Members -

Section 1(b) of Schedule G establishes the circumstances under which members not covered by Section 1(a) are required to report transactions in eligible securities. These members are required to report all their transactions in eligible securities except for transactions with designated Reporting Members and transactions executed on an exchange. In addition, where any transaction is with another member not designated as a Reporting Member only the selling member shall be required to report. The price and time within which the report must be made are the same as applicable to members covered by Section 1(a) except that members who do not have a modified Level III terminal or a Transaction Reporting terminal may report via Telex, TWX or telephone. The Board of Governors has also recognized that some members may execute only occasional transactions in eligible securities. Therefore Section 1(b) provides that members may report in writing, on a weekly basis, transactions in eligible securities which do not exceed 300 shares and \$3,000 in any one trading day.

(2) Suspension of Trading

Section 2 of Schedule G makes clear that suspension of trading in an eligible security by an exchange does not affect the requirements that members continue to report transactions in the particular eligible security.

Section 2 also requires members to promptly notify the Association whenever they have knowledge or information concerning an eligible security or the issuer which has not been adequately disclosed to the public or have knowledge of any regulatory problem.

(3) Prohibitions Against Certain Practices in Dealings in Eligible Securities

Section 3 of Schedule G declares that certain specified practices are prohibited when engaged in by members in their dealings in eligible securities. These practices primarily relate to manipulative and fraudulent activities such as: executing transactions for the purpose of creating misleading activity; influencing the market price or establishing a false market price; executing "wash sales" for the purpose of creating a false appearance of activity; joining in any pool syndicate or joint account in order to unfairly influence the market price of a security; disseminating false or misleading information; and preferring their own interests over those of customers when executing transactions. Many of these practices are currently prohibited under the anti-fraud and anti-manipulative provisions of the federal securities laws.

In addition, Section 3 would impose several specific requirements concerning, among other things, the handling of customer stop orders, and the reporting of certain information with respect to members' participation in joint accounts.

(4) Fees and Charges

Section 4 contains the fees and charges applicable to those members required to report their transactions in eligible securities to the Association. The Association has developed a highly sophisticated trade reporting system to collect and disseminate to the Consolidated Tape reports of transactions in eligible securities. The purpose of the fees and charges is to help defray the costs to the Association of developing this trade reporting system. It is contemplated that the fees and charges will be reviewed annually by the Board of Governors.

Those members having NASDAQ Level III service can have their terminals modified to permit reporting of transactions. The charge for modifying a NASDAQ Level III terminal will be a single \$25 charge for each terminal. The basic charges for NASDAQ Level III service are contained in Part IV of Schedule D under the By-Laws. The charge for reporting transactions through a modified NASDAQ Level III terminal will be \$.20 per transaction. Members with NASDAQ Level III service who want their terminals modified please contact Richard Peters, NASDAQ Operations, 1735 K Street, N. W., Washington, D. C. 20006

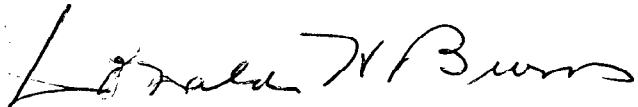
Members may also obtain a NASDAQ Transaction Reporting terminal which is a NASDAQ Level III terminal which has transaction reporting capability but does not have NASDAQ quotation capability. The charge for NASDAQ Transaction Reporting service will be \$300 per month for the first terminal and \$250 per month for each additional terminal. The charge for reporting transactions through a Transaction Reporting terminal will be \$.20 per transaction for the first 300 transactions in one day and \$.35 for each transaction in excess of 300.

Members may report transactions to the NASDAQ supervisory office in New York City via Telex, TWX or telephone. The charge for reporting transactions in this manner will be \$.20 per transaction.

The proposed By-Law is important and merits your immediate attention. Please mark your ballot according to your convictions and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than March 8, 1975.

The Board of Governors believes this By-Law is necessary and appropriate and recommends that members vote their approval.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Donald H. Burns".

Donald H. Burns
Secretary

TEXT OF PROPOSAL

Proposed Article XVIII of the Association's By-Laws

Article XVIII

Under the provisions of Rule 17a-15 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the Corporation is required to file with the Securities and Exchange Commission a written plan meeting specified standards concerning the collection and dissemination by the Corporation of information relating to over-the-counter transactions executed by its members in securities registered or admitted to unlisted trading privileges on an exchange. The Board of Governors is hereby authorized to adopt rules and procedures in order to carry out the Corporation's responsibilities and duties under Rule 17a-15 and implement the plan filed pursuant to the rule as it may be amended from time to time. Such rules and procedures may include, among other things:

- (1) The manner of collecting and reporting last sale information;
- (2) The standards and methods to insure the promptness, accuracy and completeness of reporting and similar matters; and
- (3) The procedures to provide that last sale information will not be reported in a fraudulent or manipulative manner.

The Board of Governors shall also have authority to use any automated quotations system established under the provisions of Article XVI of the By-Laws in any manner it deems necessary and appropriate to further the implementation and operation of any composite transaction reporting system established pursuant to Rule 17a-15. The Board of Governors shall also have authority to impose reasonable and equitable fees and charges in connection with the collection and dissemination of last sale information.

Such rules, procedures and charges shall be incorporated into Schedule G attached to and made a part of these By-Laws. The Board of Governors shall have the power to adopt, alter, amend, supplement or modify the provisions of Schedule G from time to time without recourse to the membership for approval as would otherwise be required by Article IX hereof, and Schedule G as adopted, altered, amended, supplemented or modified shall become effective as the Board of Governors shall prescribe unless disapproved by the Commission.

SCHEDULE G

Section 1 - Trade Reporting

(a) Reporting Members - The members appearing in the attached list are designated by the Association as "Reporting Members". Such list of Reporting Members consists of those members which the Association has determined effect a substantial portion of over-the-counter transactions in listed securities required by the plan to be reported on the Consolidated Tape (eligible securities). Such members shall be subject to the reporting requirements of this paragraph (a). Such list shall be amended from time to time as the Association deems it appropriate.

1) Reporting Members shall transmit to the Association last sale reports of transactions in eligible securities executed during the trading hours of the Consolidated Tape, within one and one-half minutes after execution of the transaction. If the last sale report is not transmitted within one and one-half minutes after execution, such report shall be designated as late. All last sale reports of transactions executed during the trading hours of the Consolidated Tape shall be transmitted through the NASDAQ Trade Reporting System. Last sale reports of transactions executed outside of trading hours shall be reported weekly in writing to the NASDAQ supervisory office in New York City.

2) Reporting Members shall transmit last sale reports for eligible securities for all purchases and sales in such securities except transactions for less than a round-lot at the price recorded on the trade ticket exclusive of commissions, taxes or other charges, provided however, that principal transactions which are effected at a price plus or minus a commission, commission equivalent or differential shall be reported at the net price after addition or subtraction of the commission, commission equivalent or differential.

3) In transactions between two Reporting Members, only the Reporting Member representing the sell side shall report.

4) Reporting Members shall not transmit last sale reports for transactions executed on an exchange.

5) All trade tickets on transactions in eligible securities must be time-stamped at the time of execution.

(b) Members Not Designated as Reporting Members - Members not designated in paragraph (a) above as Reporting Members shall be subject to the reporting requirements of this paragraph (b).

1) Members not designated as reporting members shall not transmit last sale reports for the following transactions.

(i) Transactions with a Reporting Member;

(ii) Transactions executed on an exchange.

2) Members not designated as reporting members shall transmit last sale reports for eligible securities for all purchases and sales in such securities except transactions for less than a round-lot at the price recorded on the trade ticket exclusive of commissions, taxes or other charges, provided however, that principal transactions which are effected at a price plus or minus a commission, commission equivalent or differential shall be reported at the net price after addition or subtraction of the commission, commission equivalent or differential.

3) In transactions between two members not designated as reporting members only the member representing the sell side shall report.

4) All trade tickets on transactions in eligible securities must be time-stamped at the time of execution.

5) Members not designated as reporting members must transmit last sale reports of transactions executed during the trading hours of the Consolidated Tape within one and one-half minutes after execution of the transactions except as provided in paragraph (6). If the last sale report is not transmitted within one and one-half minutes after execution such report shall be designated as late. Last sale reports may be transmitted through the NASDAQ Trade Reporting System or, if such System is unavailable, via Telex, TWX or telephone to the NASDAQ supervisory office in New York City. Last sale reports of transactions executed outside of the trading hours of the Consolidated Tape shall be reported weekly to the NASDAQ supervisory office in New York City.

6) Members not designated as reporting members may report transactions in eligible securities by completing a Form T report to be filed weekly with the NASDAQ supervisory office in New York City provided that:

- (i) The aggregate number of shares of eligible securities which such member executed and is required to report does not exceed 300 shares in any one trading day; and
- (ii) The total dollar amount of shares of eligible securities which such member executed and is required to report does not exceed \$3,000 in any one trading day.

A member not designated as a reporting member whose transactions in any one day exceed the limits of (i) or (ii) above must report such transactions pursuant to paragraph (5).

Section 2 - Suspension of Trading

(a) Members shall promptly notify the Association whenever they have knowledge of any matter related to an eligible security or the issuer thereof which has not been adequately disclosed to the public or where they have knowledge of a regulatory problem relating to such security.

(b) Whenever any market for any eligible security halts or suspends trading in such security, members may continue to conduct trading in such security during the period of any such halt or suspension and shall continue to report all last sale prices reflecting transactions in such security.

Section 3 - Trading Practices

(a) No member shall execute or cause to be executed or participate in an account for which there are executed purchases of any eligible security at successively higher prices, or sales of any such security at successively lower prices, for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price which does not reflect the true state of the market in such security.

(b) No member shall, for the purpose of creating or inducing a false or misleading appearance of activity in an eligible security or creating or inducing a false or misleading appearance with respect to the market in such security:

- 1) execute any transaction in such security which involves no change in the beneficial ownership thereof, or
- 2) enter any order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties, or
- 3) enter any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

(c) No member shall execute purchases or sales of any eligible security for any account in which such member is directly or indirectly interested, which purchases or sales are excessive in view of the member's financial resources.

(d) No member shall participate or have any interest, directly or indirectly, in the profits of a manipulative operation or knowingly manage or finance a manipulative operation.

- 1) Any pool, syndicate or joint account organized or used intentionally for the purpose of unfairly influencing the market price of an eligible security shall be deemed to be a manipulative operation.
- 2) The solicitation of subscriptions to or the acceptance of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation.

- 3) The carrying on margin of a position in such securities or the advancing of credit through loans to any such pool, syndicate or joint account shall be deemed to be financing a manipulative operation.

(e) No member shall make any statement or circulate and disseminate any information concerning any eligible security which such member knows or has reasonable grounds for believing is false or misleading or would improperly influence the market price of such security.

- (f) 1) No member shall (i) personally buy or initiate the purchase of an eligible security for its own account or for any account in which it or any person associated with it is directly or indirectly interested, while such member holds or has knowledge that any person associated with it holds an unexecuted market order to buy such security in the unit of trading for a customer, or (ii) sell or initiate the sale of any such security for any such account, while it personally holds or has knowledge that any person associated with it holds an unexecuted market order to sell such security in the unit of trading for a customer.
- 2) No member shall (i) buy or initiate the purchase of any such security for any such account, at or below the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to buy such security in the unit of trading for a customer, or (ii) sell or initiate the sale of any such security for any such account at or above the price at which it personally holds or has knowledge that any person associated with it holds an unexecuted limited price order to sell such security in the unit of trading for a customer.
- 3) The provisions of this section shall not apply (i) to any purchase or sale of any such security in an amount less than the unit of trading made by a member to offset odd-lot orders for customers, or (ii) to any purchase or sale of any such security upon terms for delivery other than those specified in such unexecuted market or limited price order.

(g) No member or person associated with a member shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling an eligible security, unless such joint account is promptly reported to the Association. The report should contain the following information for each account:

- 1) Name of the account, with names of all participants and their respective interests in profits and losses;
- 2) a statement regarding the purpose of the account;
- 3) name of the member carrying and clearing the account;
and
- 4) a copy of any written agreement or instrument relating to the account.

(h) No member shall represent that a transaction to buy or sell an eligible security will be the closing transaction on the Consolidated Tape.

(i) 1) No member shall accept a stop order in an eligible security.

(i) A buy stop order is an order to buy which becomes a market order when a transaction takes place at or above the stop price.

(ii) A sell stop order is an order to sell which becomes a market order when a transaction takes place at or below the stop price.

2) Members may accept stop limit orders in eligible securities where the stop price and the limit price are the same. When a transaction occurs at the stop price, the order to buy or sell becomes a limit order at the stop price.

Section 4 - Fees and Charges

(a) NASDAQ Level III Terminal

1) Charges for regular NASDAQ Level III services are contained in Part IV of Schedule D under Article XVI of the By-Laws.

- 2) The charge for modifying a NASDAQ Level III terminal for transaction reporting capability shall be \$25.
- 3) The charge for each transaction reported via a modified NASDAQ Level III terminal shall be \$.20 per transaction.

(b) NASDAQ Transaction Reporting Terminal

- 1) A NASDAQ Transaction Reporting terminal can be utilized for transaction reporting but does not have the capability of performing any of the NASDAQ bid/ask functions.
- 2) The charge for the first Transaction Reporting terminal shall be \$300 per month. The charge for each additional Transaction Reporting terminal shall be \$250 per month.
- 3) The charge for each transaction reported via a Transaction Reporting terminal shall be \$.20 per transaction for the first 300 transactions per day and \$.35 per transaction for each transaction in excess of 300 transactions per day.
- 4) Installation, removal and relocation charges for control units and Transaction Reporting terminals are the same as those for NASDAQ Level III service contained in Part IV of Schedule D under Article XVI of the By-Laws.

(c) The charge for any transaction reported through the NASDAQ supervisory office in New York City via Telex, TWX, telephone or other accepted method of communication shall be \$.20 per transaction.

(d) There shall be no charge for transactions reported in writing in conformance with the provisions of this Schedule.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 10, 1975

TO: All NASD Members

Re: R. L. Whitney Securities, Inc.
295 Madison Avenue
New York, New York 10017

The following notice, which applies to all NASD Members has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

On Thursday, February 6, 1975, a SIPC Trustee was appointed for the above captioned firm. Accordingly, members may use the "immediate close-out" procedures described in Section 59(i) of the NASD's Uniform Practice Code to close-out open contracts with the firm.

NCC Members, in a separate notice, have been advised on handling NCC transactions.

Questions regarding the firm should be directed to:

SIPC Trustee
Thomas J. Ungerland, Esq.
Burns, Van Kirk, Greene & Kafer
521 5th Avenue
New York, New York 10017
Telephone (212) 972-0500

Questions regarding this notice may be directed to the Uniform Practice Division of National Clearing Corporation, Two Broadway, New York, N.Y. 10004 (212) 952-4018.

NASD*file*

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 18, 1975

NOTICE

TO: All NASD Members And Interested Persons

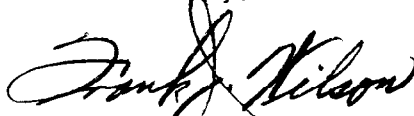
RE: Amendments To Schedule E Of Article IV,
Section 2(c) Of The Association's By-Laws

Enclosed herewith are proposed amendments to Schedule E of Article IV, Section 2(c) of the Association's By-Laws. Schedule E deals with the public distribution of issues of members' securities and affiliates thereof. These amendments have been proposed by the Board of Governors of the Association as a result of experience gained in the implementation of Schedule E.

The proposed changes are being published at this time to enable all members and other interested parties an opportunity to comment thereon. Such comments must be in writing and received by the Association by March 20, 1975, in order to receive consideration. After the comment period has expired the proposals must again be reviewed by the Board. If the changes, or an amended version thereof, are at that time approved by the Board, they must then be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

All comments should be directed to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, Inc., 1735 K Street, N. W., Washington, D. C. 20006. All communications will be considered available for inspection.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

INTRODUCTION

Several of the proposed amendments embody a significant new concept, i. e., that of extending the requirements of an audit committee and the election of a public director presently required of all publicly held broker/dealers to the publicly held parent of any member. A definition of the term "parent" is also included. See Section 1(i) and Section 2(j), (k) and (l) for these provisions. Most of the proposed amendments, however, represent a refinement, expansion or liberalization of existing policies, such as:

- (1) expanding the definition of "affiliate" to include a company which has the future power to control a member in view of its ownership of securities (i. e. convertible bonds) which could result in the company ultimately owning 10 per centum or more of the outstanding voting securities of the member; and the reverse situation where a member is in a similar situation in respect to the ownership of another company's securities with the possibility of future control relationship.
- (2) renaming "tax sheltered programs" to "direct participation programs" and definitional changes to be consistent with changes elsewhere in the Association's regulations.
- (3) adding two definitions, "parent" and "public offering."
- (4) amending the definition of "qualified independent underwriter" to clarify the original intent of the phrase "a profit from its operations" to mean net operating income of the broker/dealer entity, only, exclusive of extraordinary items.
- (5) expanding and clarifying the definition of "restricted securities" to include those securities subject to the provisions of Rule 144 of the General Rules and Regulations of the Securities Act of 1933 which was promulgated subsequent to the last amendment of Schedule E.
- (6) eliminating the requirement that in those cases where an issuer-member is a member of a registered national securities exchange the member's net capital computation must be made by or certified by such exchange as being correct.
- (7) eliminating the requirement that stockholders must ratify the selection of independent auditors.
- (8) modifying the reporting requirements utilizing Part III of the NASD Form 17A-10 to accommodate existing policies involving national registered securities exchanges.

- (9) amending certain language under Section 4(b) to specify that if the aggregate percentage ownership of a registrant prior to the offering's effectiveness by all members of the distribution is 10% or more, the maximum aggregate participation by these members could be no more than 10% of the total dollar amount of the offering without invoking the more restrictive provisions of Section 4(a) of Schedule E.
- (10) clarifying who is subject to Section 7 (Sales To Employees - No Limitations) as was originally intended and making more lenient some of its provisions regarding length of the required holding period of securities subject to this Section.
- (11) clarifying that a public offering of securities by a member firm or a member-affiliate that is specifically exempt from filing under the Board of Governors' Interpretation relating to the "Review of Corporate Financing" (such as "B" or better rated bond offerings) is required to be filed pursuant to the provisions of Schedule E.

EXPLANATION OF PROPOSED AMENDMENTS

Several of the proposed amendments are not referred to above since they are technical in nature only. They will be discussed hereafter in the section-by-section analysis as will all other proposed amendments.

Section-By-Section Analysis Of Proposed Amendments

Schedule E To Article IV, Section 2(c) Of The By-Laws

Section 1 -- Definitions

This Section would be changed by the addition of two new definitions, "Parent" (Subsection (i)) and "Public offering" (Subsection (l)) and by amending the definitions of "Affiliate" (Subsection (a)), "Qualified Independent Underwriter" (Subsection (m)), "Restricted securities" (Subsection (o)) and "Tax sheltered program" (Subsection (d)).

Affiliate (Existing subsection (a)) -- The definition of "affiliate" would be amended by changing paragraphs (1), (2) and (3). A technical amendment would also be made to the exclusion section.

The proposed amendment to Paragraph (1) expands the definition to include situations where a member could be deemed in a control position

with a company if there existed the likelihood of future control by the member although technically such a relationship currently does not exist. Such could exist where non-convertible debt (subordinated or non-subordinated) comprises a significant portion of the member's capitalization and by the member's failing to comply with certain covenants of the loan agreements, the lender would gain representation or control on the member's board of directors.

Paragraph (2) would be amended to include as an affiliate a company which holds securities which would result in the company ultimately owning 10 percent or more of the outstanding voting securities of a member firm. This paragraph is being expanded to cover situations where a potential but very real possibility of an affiliate relationship exists between the company and the member firm but technically does not exist at the time. Such would occur where a company currently owns a substantial portion of a member's capital in the form of debt which is convertible into equity of the member at some future date.

Paragraph (3) would be amended to include as an affiliate a company in which a member or person associated therewith holds securities which could result ultimately in the ownership of 10 percent or more of the company's outstanding voting securities. This provision is considered necessary because of several situations which were encountered where affiliate status appeared in fact to exist but were not technically within the scope of the then definition. This expanded provision is a reverse of the proposed amendment to Paragraph (2) above.

The proposed change in the proviso paragraph of this Section replacing the term "tax sheltered program" with "direct participation program" is consistent with changes elsewhere in the Schedule; however, the new term, prefaced by "non-debt," is more restrictive in that partnership units would still be exempt but debt offerings by a partnership where the general partner is affiliated with a member would not be exempt. The Board believes because of the control relationship of the member-general partner over the partnership and the terms of the offering, the potential pricing problems evident in corporate debt offerings also exist for these offerings.

Parent -- This would be a new definition contained in subsection (i). The proposed definition of "Parent" would specify that a parent of a member would be any entity affiliated with it whose principal source of revenues (50% or more) are derived from, or 50% or more of its assets are employed by, the broker/dealer member. It arose out of the need to identify the applicability of the provisions of Schedule E should a member firm become a subsidiary of a publicly held holding company or where the public entity's revenues are substantially generated from the broker/dealer member or where its assets are principally those of the member. It seems

clear to the Board that in such cases Schedule E should be applicable to the "Parent."

Public offering -- This would be a new definition contained in subsection (l). The proposed definition of "Public offering" would clarify the intent of the By-Law as being applicable to all types of offerings of a member or issuer-affiliate. It would eliminate the need to explain in each introductory section of the Schedule the various types of securities offerings which are intended to be included within the scope of the provisions of the respective sections.

Qualified Independent Underwriter (Existing subsection (j), redesignated subsection (m)) -- This definition would be amended in paragraph (2) by deleting the phrase "a profit from its operations" and substituting therefor language to make clear the intent of the paragraph to apply only to a profit from the operations of the broker/dealer entity, exclusive of extraordinary items. This would clarify the provisions of the paragraph in situations where a member was profitable or unprofitable due to the occurrence of an extraordinary item or because of the consolidation of the operations of other entities for financial statement purposes.

Restricted securities (Existing subsection (l), redesignated subsection (o)) -- This definition would be amended by including within the scope thereof those securities subject to the provisions of Rule 144 of the General Rules and Regulations under the Securities Act of 1933. Rule 144 was promulgated by the Securities and Exchange Commission subsequent to the adoption of Schedule E. Such securities are properly includable within the scope of the definition.

Tax sheltered program (Existing subsection (n), redesignated subsection (d)) -- The title of this definition would be changed from "Tax sheltered program" to "Direct participation program" to reflect the renaming of the proposed tax shelter rule and to more clearly summarize the content of the definition. In the definition, the word "benefit" was changed to "consequence" to reflect changes being made in the Association's proposed tax shelter rule.

Section 2 -- Offerings By An Issuer-Member Of Its Own Securities

Subsections (a) through (h) would remain unchanged.

Subsection (i) -- The proposed change to subsection (i) of Section 2 would delete the statement "provided, however, that the computation is made by such an exchange or certified by it as being correct." This provision requires that the net capital computation of an issuer-member which is required to be submitted to the Association as of settlement date be computed

or certified by the national registered securities exchange of which the member firm is a member. In lieu thereof the member would be permitted to submit to the Association a computation of its net capital computed pursuant to the provisions of the net capital rule of the exchange of which it is a member.

Subsections (j), (k) and (l) -- The proposed amendments to Subsections (j), (k) and (l) would make those subsections applicable not only to members of the Association which are publicly held, but also to the public parent (as defined in proposed Subsection 1(i) discussed above) of a public or non-public member. The requirements of an audit committee and a public director would therefore apply to a public "parent" of a member. The clearest illustration of such would be where a member is a wholly-owned subsidiary of a publicly-owned holding company which has no source of revenues other than that derived from the member.

The deletion of existing paragraph (1) under Subsection (j) requiring the ratification of the selection of independent auditors by stockholders of the issuing company would remove a burden from Association members which is not required by the corporate law of most states of other companies. The other changes in this subsection are conforming in nature.

Subsection (n) -- This subsection would be amended by permitting a procedure which more accurately coincides with the actual mechanics of filing the NASD Form 17A-10 for those Association members which are members of a registered national securities exchange. The data in Part III of the 17A-10 as filed with certain exchanges are subsequently transmitted to the NASD on computer tape.

Section 3 -- Underwriting By Issuer-Member Of Issue Of Its Own Securities

Proposed changes in the introductory language of subsection (a) of this Section would add the proposed term "Public offering" as defined above and used throughout. This term describes the various types of offerings which are subject to the By-Law.

Section 4 -- Member Underwriting Or Participating In The Distribution Of Issue Of Securities Of An Affiliate

Subsection (a) -- Proposed changes in the introductory language of this subsection are the same as those made in the introductory language to subsection (a) of Section 3.

Subsection (b) -- The proposed amendment to this subsection would clarify the intent to aggregate the percentage of equity ownership of the registrant in an initial public offering by participating underwriters and

selling group members for purposes of determining the extent of their participation in the distribution. If the aggregate equity ownership is 10 percent or greater, the total aggregate participation of such members would be limited to 10 percent of the total dollar amount of the offering. For example, three participating firms of which each is an 8 percent equity owner (thus 24 percent) would no longer be permitted to participate up to 10 percent of the total dollar amount of the offering each. The aggregate participation would be limited to 10 percent. The same would be true if the three firms each owned 12 percent (thus 36 percent) of the equity of the company. This subsection would continue to require that all firms subject thereto satisfy Section 3(a)(3) criteria regarding experience and financial stability.

Section 7 -- Sales To Employees - No Limitations

This Section is proposed to be amended by extending to persons who will become employees or persons associated with a member firm as a result of a merger or acquisition the existing restrictions contained under this Section. In this connection, situations have been encountered where potential employees of a successor firm in a merger or acquisition who were employees of the merged disappearing firm were to receive securities in the successor firm pursuant to the terms of the merger or acquisition with such being specifically provided for in the registration statement. Questions were raised as to the applicability of the one-year restriction period provided for in this Section. The proposed amendment would make clear that the one-year restriction period applies in all such cases.

Also, this Section is proposed to be amended so as to reduce in cases where a bona fide independent market (as defined in Section 1(b)) exists and a secondary distribution is planned, the restriction period for persons subject to this Section from one year to ninety days. The reduction would eliminate an inequity created by the fact that if an employee of the issuer-member purchased securities in the open market prior to the offering's effective date they would, pursuant to the provisions of Section 2(b)(2), be restricted only for a period of ninety days whereby if he purchased in the secondary distribution a one-year restriction would apply. The relationship of the person to the issuer is identical in either case thus the Board believes the holding period should likewise be identical.

Section 8 -- Relationship Of Schedule E To Interpretation With Respect To Review Of Corporate Financing

A new subsection (c) is proposed to be added to Section 8 to clarify the fact that a public offering of securities by a member firm or a member-affiliate that is specifically exempt from filing under the "Filing Requirements" provision contained in the Board of Governors' Interpretation relating to the "Review of Corporate Financing" is required to be filed pursuant to the provisions of this By-Law.

PROPOSED AMENDMENTS TO SCHEDULE E TO ARTICLE IV,
SECTION 2(c) OF THE ASSOCIATION'S BY-LAWS

It is proposed that the following sections of Schedule E be amended by deleting the language which has been lined out and by adding the language which is underlined. Schedule E in its entirety appears in the manual commencing on page 1101-3.

Section 1 -- Definitions

(a) Affiliate:

- (1) a company which controls, is controlled by, has the power to control in the future or is under common control with a member; or a person associated with such a company who is actively engaged in the management of its business and who is actively engaged in the management of a member's business or in a position to exercise control;
- (2) a company which directly or indirectly owns, controls or holds with power to vote 10 per centum or more of the outstanding voting securities, or holds securities which could result in the company ultimately owning 10 per centum or more of the outstanding voting securities of a member; or
- (3) a company in which a member or person associated with a member, directly or indirectly, owns, controls, holds with power to vote 10 per centum or more of the outstanding voting securities, or holds securities which could result ultimately in the ownership of 10 per centum or more of the outstanding voting securities of the company; ~~or holds an option to acquire with power to vote 10 per centum or more of the outstanding voting securities;~~
- (4) a partnership wherein any partner, general or limited, or, in the case of a sole proprietorship where the individual, has an interest in 10 per centum or more of the distributable profits or losses of a member; or a partnership in which a member, or a person associated with a member who is actively engaged in the management of the member's business, has an interest in 10 per centum or more of the partnership's distributable profits or losses; or
- (5) a company wherein an officer, or person active in the management of the company's business, has a direct or indirect interest in 10 per centum or more of the distributable profits or losses of the member-partnership;

provided, however, that the term "affiliate" shall not be deemed to include an investment company registered as such with the Securities and Exchange Commission pursuant to the provisions of the Investment Company Act of 1940, as amended; a separate account as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended; a real estate investment trust as defined in Section 856 of the Internal Revenue Code or a ~~tax-sheltered-program~~ non-debt offering of a direct participation program.

(b) (Unchanged)

(c) (Unchanged)

~~(n)~~(d) ~~tax-sheltered-program-(program)~~ Direct participation program - - a program which provides flow-through tax benefits consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate syndications (except real estate investment trusts), citrus-grove-developments agricultural programs, cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof.

~~(d)~~(e) (Unchanged)

~~(e)~~(f) (Unchanged)

~~(f)~~(g) (Unchanged)

~~(g)~~(h) (Unchanged)

(i) Parent -- any entity affiliated with a member from which the principal source (50% or more) of its gross revenues are derived from or 50% or more of its assets are employed by the broker/dealer member.

~~(h)~~(j) (Unchanged)

~~(i)~~(k) (Unchanged)

(l) Public offering -- a primary or secondary distribution of securities made pursuant to a registration statement including exchange offerings, rights offerings, offerings made pursuant to a merger or acquisition, straight debt offerings and all other securities distributions of any kind whatsoever.

(j)(m) Qualified Independent Underwriter - a member which:

- (1) has been actively engaged in the investment banking or securities business for at least five years immediately preceding the filing of the registration statement;
- (2) in at least three of the five years immediately preceding the filing of the registration statement has had a-profit-from-its operations net income from the broker/dealer entity, exclusive of extraordinary items, as computed in accordance with generally accepted accounting principles.
- (3) as of the effective date of the filing of the registration statement and as of the effective date of the offering:
 - a. if a corporation, has a majority on its board of directors of persons who have been actively engaged in the investment banking or securities businesses for the five-year period immediately preceding the filing of the registration statement;
 - b. if a partnership, the majority of its general partners has been actively engaged in the investment banking or securities business for the five-year period immediately preceding the filing of the registration statement;
 - c. if a sole proprietorship, the proprietor has been actively engaged in the investment banking or securities business for the five-year period immediately preceding the filing of the registration statement;
- (4) has actively engaged in the underwriting of public offerings of securities for at least the five-year period immediately preceding the filing of the registration statement;
- (5) is not an affiliate of the issuer-member; and
- (6) has agreed in connection with the offering in respect to which he is acting as such to undertake the full legal responsibilities and liabilities of an underwriter under the Securities Act of 1933, specifically including those inherent in the provision of Section 11 thereof.

(k)(n) (Unchanged)

(4)(o) Restricted securities - securities subject to the provisions of Rule 144 of the General Rules and Regulations under the Securities Act of 1933 and securities in respect to which a registration statement must be filed and become effective before being sold to the public.

(m)(p) (Unchanged)

Section 2 -- Offerings By An Issuer-Member Of Its Own Securities

Any ~~corporate~~ member may make a public offering of an issue of its own securities. ~~A public offering shall be deemed to include exchange offerings, rights offerings, offerings pursuant to a merger and all other public offerings of any kind whatsoever.~~ The following general criteria shall apply to all such offerings ~~whether primary or secondary in nature, or a combination thereof,~~ unless otherwise specified hereafter:

(a) (Unchanged)

(b) (Unchanged)

(c) (Unchanged)

(d) (Unchanged)

(e) (Unchanged)

(f) (Unchanged)

(g) (Unchanged)

(h) (Unchanged)

(i) Every issuer-member shall immediately notify the Association when its offering has been terminated and settlement effected and it shall file with the Association a computation of its net capital computed pursuant to the provisions of Rule 15c3-1 of the General Rules and Regulations under the Securities Exchange Act of 1934 (the net capital rule) as of the settlement date, or computed pursuant to the provisions of the net capital rule of the registered national securities exchange exempt therefrom if the issuer-member is a member of such an exchange. ~~provided, however, that the computation is made by such an exchange or certified by it as being correct.~~ If at such time its net capital ratio as so computed is more than 10-1, all monies received from sales of securities of the offering must be returned in full to the purchasers thereof and the offering withdrawn, unless a member has obtained

from the Securities and Exchange Commission a specific exemption from the net capital rule. Proceeds from the sales of such securities may be taken into consideration in computing net capital ratio for the purpose of this paragraph.

- (j) Any member or its parent who makes a public offering of an issue of its own securities shall also be required to establish within twelve (12) months of the effective date of said offering an Audit Committee composed of members of the board of directors (except that it shall not include the chief accounting or chief financial officer of the member) the functions of which, among others, shall be the following:
- (1) ~~recommend to the board of directors the independent auditors to be selected subject to ratification and approval of the stockholders~~
 - (2) (1) review the scope of the audit;
 - (3) (2) review with the independent auditors the corporate accounting practices and policies and recommend to whom reports should be submitted within the company;
 - (4) (3) review with the independent auditors their final reports;
 - (5) (4) review with internal and independent auditors overall accounting and financial controls; and
 - (6) (5) be available to the independent auditors during the year for consultation purposes.
- (k) Any member or its parent who makes a public offering of an issue of its own securities shall cause to be elected to its board of directors within twelve (12) months of the effective date of said offering a public director who shall serve as a member of the Audit Committee except where such election is inconsistent with the rules of a registered national securities exchange.
- (l) Any member who has heretofore made a public offering of an issue of its own securities shall be required ~~within twelve (12) months of the effective date of this Subsection~~ by April 1, 1975 to establish an Audit Committee which shall be charged with the functions set forth in Subsection (j) hereof and cause to be elected to its board a public director except where such election is inconsistent with the rules of a registered national securities exchange. In the case of any member's parent who has heretofore made a public offering

of an issue of its own securities, such shall be required by [within 12 months of this amendment].

- (m) (Unchanged)
- (n) After a member has made a distribution to the public of an issue of its securities, notwithstanding that it would not otherwise be required to do so, it shall periodically file with the Corporation Part III of the NASD Form 17A-10 as required by resolutions of the Board of Governors appearing at paragraphs 4194 and 4196 of the NASD Manual. A member firm that is a member of a registered national securities exchange need only report such information to the appropriate exchange, provided that exchange has made arrangements for transmittal of the information to the Association. If the offering is subject to the provisions of Rule 463 of the General Rules and Regulations under the Securities Act of 1933, copies of the forms required by that Rule to be filed with the Securities and Exchange Commission shall also simultaneously be filed with the Corporation.
- (o) (Unchanged)

Section 3 -- Underwriting By Issuer-Member Of Issue Of Its Own Securities

- (a) Any ~~corporate~~ member may underwrite or participate as a member of the underwriting syndicate or selling group in the distribution of a public offering of an issue of its own securities only if:
 - (1) (Unchanged)
 - (2) (Unchanged)
 - (3) (Unchanged)
- (b) (Unchanged)
- (c) (Unchanged)

Section 4 -- Member Underwriting Or Participating In The Distribution Of Issue Of Securities Of An Affiliate

- (a) Any member may underwrite, ~~or~~ participate as a member of the underwriting syndicate or selling group, or assist in the distribution of a public offering of an issue of securities of an affiliate only if:

(1) (Unchanged)

(2) (Unchanged)

(3) (Unchanged)

(4) (Unchanged)

(5) (Unchanged)

(b) Notwithstanding the provisions of subsection (a) hereof, a member may participate as a member of the underwriting or selling group in the distribution of an issue of an affiliate-issuer's securities which is the subject of a firm commitment underwriting managed by an underwriter who is a qualified independent underwriter in an amount not exceeding 10% of the total dollar amount thereof, provided, however, that in an initial public offering, or in the case of any other public offering where a bona fide independent market for the securities does not exist, where more than one participating member is an equity owner of the registrant and their aggregate equity ownership is 10% or greater, the aggregate participation in the distribution by such members shall be limited to 10% of the total dollar amount of the offering, provided the requirements of Section 3(a)(3) have been fully satisfied by ~~the member~~ such participating members.

(c) (Unchanged)

Section 5 -- Suitability (Unchanged)

Section 6 -- Discretionary Accounts (Unchanged)

Section 7 -- Sales To Employees - No Limitations

Notwithstanding the provisions of the Board of Governors' Interpretation With Respect to "Free-Riding and Withholding" an issuer-member may sell securities in an initial public offering which are subject to the provisions of Section 2 or 3 hereof to its employees; potential employees resulting from intended mergers, acquisitions, or other business combination of members resulting in one public successor corporation, or persons associated with it, and those members of the family residing with, or dependent for their support upon said employees or associated persons without limitation as to amount and regardless of whether such persons have an investment history with the member as required by that Interpretation; provided, however, that the sale or transfer of such securities shall be restricted for a period of twelve (12) months except in the case of a bona fide gift of such securities in which case the period of

restriction shall apply to the donee. Where a bona fide independent market exists for the securities of a public offering, all securities held or acquired by the above categories of persons shall be restricted for a period of ninety (90) days from the date of the termination of the offering.

Section 8 -- Relationship Of Schedule E To Interpretation With Respect
To Review Of Corporate Financing

(a) (Unchanged)

(b) (Unchanged)

(c) All public offerings of securities of a member firm or an issuer-affiliate subject to the provisions of this Schedule shall be required to file the appropriate documents and filing fee as referred to under the "Filing Requirements" contained in the Board of Governors' Interpretation relating to the "Review of Corporate Financing" notwithstanding the fact that the securities may be expressly exempted from filing under that Interpretation.

Section 9 -- (Unchanged)

Section 10 -- (Unchanged)

file

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 20, 1975

TO: All NASD Members

RE: Recent Amendment to SEC Rule 17a-5(n) - Financial Statements Furnished to Customers of Broker-Dealers

In Release No. 11186, dated January 16, 1975, the Securities and Exchange Commission announced the adoption of an amendment to paragraph (n) of Rule 17a-5 under the Securities Exchange Act of 1934.^{1/} Prior to this amendment, every member subject to paragraphs (k), (l) and (m) of this rule was required to furnish customers with quarterly reports of financial condition and certain other information concerning its net capital.

The new amendment modifies the requirements of paragraph (n) of Rule 17a-5 to require each member subject to paragraphs (k), (l) and (m) to furnish customers one unaudited balance sheet and statement of net capital and required net capital each year, together with an explanation thereof, as of a date approximately six months after the sending to customers of the audited statement of financial condition. Under the revised rule, broker-dealers will be required to send customers two financial reports annually, one audited and one unaudited.

Although the reporting requirements of broker-dealers in this area have been reduced, the Commission believes that public customers will still receive sufficient information concerning the financial condition of brokerage firms with whom they entrust their funds and securities.

It is important to note that this amendment does not obviate the requirement that copies of these statements be furnished the Commission, the NASD and each national securities exchange of which a broker-dealer is a member at the same time they are sent to customers. In this connection, material required to be filed with the Association should be sent to your local District Office to the attention of the District

Director. Questions regarding this notice should be directed to Mr. Gerard F. Foley of the Department of Regulatory Policy and Procedures at (202) 833-7320.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

1/ Below is a reprint of the text of Rule 17a-5(n) as amended:

(n) Every member, broker or dealer who is subject to paragraphs (k), (l) and (m) of this rule shall furnish customers (as defined in paragraph (o) of this rule) and shall file with the Regional Office of the Commission for the region in which the member, broker or dealer has his principal place of business and with the national securities exchange and the national securities association of which he is a member (or, if he is not a member, only with the Commission) not later than 285 days from the date of the audited statements required by paragraph (m) of this rule, an unaudited statement containing the information specified in subparagraphs (m)(1) and (m)(2) of this rule which shall be as of the date of the member's, broker's or dealer's fiscal period which ends nearest to 6 months from the date of the audited statements required to be furnished to customers pursuant to paragraph (m) of this rule.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 20, 1975

TO: All NASD Members and NASDAQ Issuer Companies

RE: Payments By Issuers to Market Makers

Recently, questions have arisen with respect to the propriety of an issuer paying a member to make a market in its securities and whether it would be permissible under applicable securities laws for a member to charge an issuer for out of pocket expenses incurred in the course of making a market in an issuer's securities. An additional question concerns the acceptance by a member of unsolicited payments from an issuer in whose securities the member makes a market.

In connection with the above, the Association wishes to advise members that ramifications of these and several other related questions are currently being reviewed. As part of this review, the Association staff has recently met with the Securities and Exchange Commission staff to discuss, in general terms, the applicability of the federal securities laws to these practices and whether there were areas where some measure of liberalization could be achieved. For the reasons discussed below, both members and issuers are cautioned that it appears such payments may be prohibited under existing laws and are advised to consult with their counsel prior to taking any action in this regard.

By way of background to the above, it is important to note that members generally have considerable latitude and freedom to make or terminate market making activities in over-the-counter securities. The decision to make a market in a given security and the question of "price" are generally dependent on a number of factors including, among others, supply and demand, the firm's attitude toward the market, its current inventory position and exposure to risk and competition. The additional factor of payments by an issuer to a market maker would probably be viewed as a conflict of interest since it would undoubtedly influence, to some degree, a firm's decision to make a market and thereafter, perhaps, the prices it would quote. Hence, what might appear to be independent trading activity may well be illusory. In view of these and other

factors, any arrangement whereby a member charges an issuer a fee for making a market or accepts an unsolicited payment from an issuer whose securities the member makes a market in raises serious questions under the anti-fraud provisions of the federal securities laws. In addition, the payment by an issuer to a market maker to facilitate market making activities may also violate Section 5 of the Securities Act of 1933.

Members should also be aware that in addition to the above mentioned concerns, Section 17(b) of the Securities Act of 1933 explicitly makes it unlawful for any person receiving consideration, directly or indirectly from an issuer, to publish or circulate any material which describes such issuer's securities without fully disclosing the receipt of such consideration, whether past or prospective, and the amount thereof. In addition, such conduct may violate the provisions of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

Any questions with regard to this notice should be directed to Mr. Jack Rosenfield at (202) 833-4828.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank J. Wilson". The signature is written in a cursive style with a large initial "F".

Frank J. Wilson
Senior Vice President
Regulation

*file***NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

To: All NASD Members
Date: February 20, 1975
Re: Executive Securities Corp.
25 Broadway
New York, New York 10004

Attention: Operations Officer, Cashier, Fail Control Department

On Friday, February 14, 1975, A SIPC Trustee was appointed for the above firm. Accordingly, members may use the "immediate close-out" procedure detailed in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts.*

NCC only Members please refer to separate NCC Important Notice No.46-75.

Questions regarding the firm should be directed to the SIPC Trustee indicated below:

Mr. Cameron F. MacRae, III
LeBoeuf, Lamb, Leiby & MacRae
140 Broadway
New York, New York 10007
(212) 269-1100

Questions regarding this notice may be directed to the Uniform Practice Division of National Clearing Corporation, Two Broadway, New York, New York 10004 (212) 952-4018.

- * The following notice, which applies to all NASD Members, has been issued by the National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

file

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 26, 1975

To: All NASD Members

Re: Saxon Securities Corp.
52 Broadway
New York, New York 10004

Attn: Operations Officer, Cashier, Fail Control Dept.

On Friday, February 21, 1975 a Temporary Receiver was appointed for the above firm. Accordingly, members may use the immediate close-out procedures detailed in Section 59(i) of the NASD's Uniform Practice Code to close-out open OTC contracts.*

The firm is not a member of NCC.

Questions regarding the firm may be directed to the Temporary Receiver indicated below:

Mr. Joseph Barton
c/o Mr. Courtlandt Nicoll
630 5th Avenue - 39th Floor
New York, New York 10020
Telephone (212) 397-9755

Questions regarding this notice may be directed to the Uniform Practice Division of National Clearing Corporation, Two Broadway, New York, N.Y. 10004 (212)952-4018.

* This notice, which applies to all NASD Members, has been issued by the National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

file

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

February 26, 1975

NOTICE

TO: All NASD Members

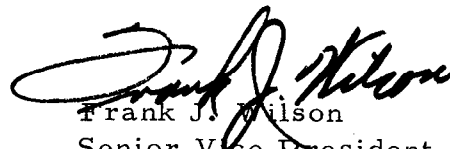
RE: Qualification Examination for Registered Representatives
Selling Investment Company Products and Variable Contracts

On November 7, 1974, the NASD sent a Notice to Members #74-45 postponing the introduction of the Qualification Examination for Registered Representatives Selling Investment Company Products and Variable Contracts from January 1, 1975 to March 1, 1975.

This is to advise that the March 1, 1975 implementation of this examination has been delayed until further notice is received from the NASD. All candidates for registration, other than those qualifying as General Securities Registered Representatives, will continue to take the current Test Series 1 NASD Qualification Examination for Registered Representatives until such time the specialized examination is introduced. The introduction of the examination will be preceded by a notice from the Association. It is presently anticipated that the implementation date will be in approximately two months. Various technical problems have caused this delay.

Questions concerning this notice should be directed to Frank J. McAuliffe, Director, Qualifications and Examinations Department at (202) 833-7394.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 28, 1975

TO: All NASD Member Firm Main Offices and Branches

ATTENTION: Training Personnel and Registration Departments

Effective April 1, 1975, the NASD will no longer accept the Series 1 Qualification Examination for Registered Representatives as meeting the qualification requirements for general securities representatives. Following this date the only examination which will be accepted by the NASD for general securities registrations will be the Series 7 Qualification Examination for General Securities Registered Representatives.

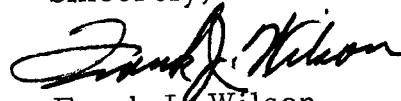
The Series 7 examination program was implemented jointly by the Association and the New York Stock Exchange in September, 1974 (see NASD Notice to Members #74-34 dated August 16, 1974). All candidates for registration whose applications were received by the Association on or after September 1, 1974, and who specified that application was being made for a general securities registration, were required to take and were issued certificates for the Series 7 examination. These individuals are not effected by this notice.

Individuals whose applications were received by the Association prior to September 1, 1974, however, were permitted to take and were issued certificates for the Series 1 examination. If this examination is taken and passed prior to April 1, 1975, these individuals will be registered as general securities representatives. After April 1, 1975, the Series 1 examination will only qualify individuals to sell investment company products, variable contracts and direct participation programs and to engage in security trading activities for member firms.

After April 1, 1975, individuals holding Series 1 certificates, including re-examination certificates, who wish to register as general securities representatives must return the Series 1 certificate to the NASD and request a certificate for the Series 7 Qualification Examination for General Securities Registered Representatives.

Questions concerning this notice should be directed to Ms. Janet G. Hale or Robert L. Lewis of the Qualifications and Examinations Department at (202) 833-7180.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

February 28, 1975

I M P O R T A N T

Please forward to Registration Personnel in your firm

TO: All NASD Members

RE: Form U-4/ "Uniform Application for Securities and Commodities Industry Representative and/or Agent"

Since the introduction of Form U-4 to NASD members in late December, 1974 (see Notice to Members 74-53), a number of questions have been raised by registration personnel in member firms. Certain of these questions were asked with a degree of frequency that warrants this Notice to Members. Among these general questions were the following:

1. Will the NASD continue to accept the B-302?

The Association will accept either Form U-4 or B-302 until such time as technical corrections have been made in Form U-4 and that Form has been printed in sufficient quantity for distribution. After that time, members will receive notice well in advance of the date when the Association will stop accepting Form B-302.

2. What is my NASD firm number?

Question #4 on Form U-4 asks for the NASD firm number. As is indicated in the instructions accompanying Form U-4, firms are to insert this number only if it is known and applicable. Firms need not be concerned with indicating this number on Form U-4 if it is not known; it will be inserted for you upon arrival of the copy of the Form filed with the NASD in Washington.

3. Must Form U-4 be notarized?

While acceptable, it is not necessary that the copy of Form U-4 submitted to the NASD be notarized. Certain other agencies, jurisdictions or organizations do require notarization of the copy of the Form submitted to them, however. Thus, firms should check this point with other regulatory bodies with which they are filing Form U-4.

4. Must an original Form U-4 be completed for each organization with which it will be filed?

No, copies are acceptable to all agencies, jurisdictions or organizations using the Form, subject to the following conditions:

- (a) The copy of Form U-4 is readable;
- (b) The copy is on 8½ x 11 paper;
- (c) The copy contains original signatures of the Applicant and Registered Principal; and
- (d) The "GENERAL INSTRUCTIONS FOR PREPARING AND FILING FORM U-4" found on the gold cover accompanying Form U-4 are followed.

Mechanically, it is envisioned that member firms may use a procedure similar to the following in executing Form U-4:

- (a) After very carefully reading the instructions which accompany the Form, a single Form U-4 is prepared but without the signatures of the Applicant and the Registered Principal.
- (b) Sufficient copies of the filled-out Form U-4 are made for filing with each agency, jurisdiction or organization with which the applicant is to be registered.
- (c) Each of these copies is signed by the Applicant and the Registered Principal.
- (d) The proper addendum (or addenda) is (are) executed, if required, by the Applicant and Registered Principal.
- (e) The proper addendum (see Question 5 below for NASD requirements) is attached to an originally signed copy of the Form U-4 (be sure each page is signed by the required individual) and forwarded to the appropriate regulatory body. Please note that it is not necessary to send copies of all addenda prepared by the firm to each organization with which registration is requested. Attach only the addendum required by an agency, jurisdiction or organization when submitting the Form U-4 to that particular regulatory body.
- (f) The firm keeps in its files the completed original Form U-4, and copies of all addenda executed by the firm. Of course an extra copy of Form U-4 containing the signatures of the Applicant and Registered Principal may also be kept by the firm.

5. Must an original Form N-1 (the NASD addendum to Form U-4) be submitted to the NASD?

Yes, the ORIGINAL Form N-1 must be attached to the copy of Form U-4 submitted to the Association. The N-1 is a perforated form; therefore, copies of the N-1 should not be sent by member firms. See further discussion relative to Form N-1 in Question 10 below.

6. Must I file a Form U-4 with the NASD for personnel who are currently registered with my firm?

No. Form U-4 (or for this transitional period either Form U-4 or Form B-302) is to be used to register new applicants for registration, or for re-registration of currently registered persons if they terminate their registration with their present firm and join another firm.

7. Where an attachment is required to answer fully a question on Form U-4, must each response be on a separate sheet of paper?

No, not for NASD purposes. Instruction #6 on the "GENERAL INSTRUCTIONS FOR PREPARING AND FILING FORM U-4" should be followed, but if the answer to more than one question will fit onto one sheet of 8½ x 11 paper, such will be acceptable to the NASD. Make certain that both the Applicant's name and the firm name are on every attachment.

8. Does the NASD now require checking with all employers of the applicant during the past three years as indicated in Question #12?

Section 27(e) of the Rules of Fair Practice (Paragraph 2177 in your NASD Manual) requires that:

"Each member shall have the responsibility and duty to ascertain by investigation the good character, business repute, qualifications and experience of any person prior to making such a certification in the application of such person for registration with this Association."

Question #12, and the Member Notification in Block "I, Part A 1," on Form N-1 (the NASD addendum) provide a convenient way for recording what was done in this regard. The question must be completed for the applicant's employment for the last three years, prior information received on this point notwithstanding.

In block "I" on N-1, information must be recorded regarding the check made with the last employer in the securities industry, if applicable, regardless of the three year time period specified in Question #12. It is possible, if the last employer of the applicant was in the securities industry, that the part of the response in Question #12 on Form U-4 and block "I, Part A 1" on N-1 will show identical information.

If the member firm routinely uses a retail credit report in making non-securities industry checks on applicants, for NASD purposes with respect to Question #12, appropriate information may be extracted from that report to respond to Question #12 for non-securities industry employers. Individual member firm checks should be made with the former employer in the securities industry.

9. How can I have a Registered Principal "witness" the applicant's signature on N-1 when there is no Registered Principal required to be in some of our branches?

The Association does not require a Registered Principal of a member firm to actually watch an applicant sign the N-1. It does require, however, a Registered Principal attest the accuracy and completeness of the information contained in

Form U-4 and N-1. Through the member firm's internal procedures, established pursuant to Section 27 of the Rules of Fair Practice (Paragraph 2177 in your NASD Manual), the Registered Principal should assure himself that the individual in charge of the branch where the applicant is located has exercised appropriate supervision on that level to ensure proper execution of the forms at the branch level.

A new printing of Form N-1 has replaced the word "Witness" with the words "Attest accuracy and completeness of information contained in Form U-4 and N-1" below the Applicant's Certification. Both printings of the N-1 are equally acceptable to the Association, and are understood to be executed with the latter meaning.

10. How do I get more N-1's?

An ample supply of N-1's is available from the Association's office in Washington. District Offices also have a supply on hand. However, we are asking that member firms request only the number of N-1's they will need for the next 30-45 days.

Firms will be notified when technically corrected Form U-4's are available in quantity from the NASD. Upon receiving that notice, simply request the specific number of forms needed from the Association in the same manner you have requested registration forms in the past.

UPDATE ON STATE ACCEPTANCE OF FORM U-4

Additional Accepting States

Since publication of Notice to Members #74-53 on December 27, 1974, the Association has been advised that the following states and/or jurisdictions shown in that Notice as NOT accepting Form U-4 in lieu of their own registration form, now DO accept the Form U-4:

- | | |
|---|-----------------|
| 1. Delaware | 4. Pennsylvania |
| 2. District of Columbia
(as of approx. 5/1/75) | 5. Puerto Rico |
| 3. Oklahoma | 6. Rhode Island |

This means that all registered national stock exchanges, certain commodities exchanges, and now 45 states or jurisdictions in addition to the exchanges and the NASD, accept Form U-4 in lieu of their individual applications for registration of representatives, principals, and/or agents.

Summary of Non-Accepting States

While the Association is aware that consideration is being given in certain of the following states to accept Form U-4, as of this writing those states NOT accepting Form U-4 are as follows:

- | | |
|----------------|-----------------------------|
| 1. Connecticut | 5. New Jersey |
| 2. Maine | 6. New York |
| 3. Maryland | 7. Ohio <u>1/</u> <u>2/</u> |
| 4. Mississippi | |

States Not Accepting Lined-Out Sentence in Question #12 (See Notice to Members #74-53)


States which have agreed to accept Form U-4 but which will NOT accept it if the third sentence is lined out in the present Question #12 on Page 1 of Form U-4 ("Also, the acts of this employee. . .") are as follows:

- | | | |
|--------------|-----------------------|--------------------------|
| 1. Alabama | 5. North Carolina | 9. Vermont ^{3/} |
| 2. Arkansas | 6. Ohio ^{2/} | 10. Washington |
| 3. Louisiana | 7. South Carolina | |
| 4. Nebraska | 8. Texas | |

Please note: When filing Form U-4 with a regulatory body which accepts the Form with the third sentence of Question #12 lined out, make certain that the initials of the Principal lining out the sentence appear on the left-hand margin of the Form beside the line-out.

Questions regarding this Notice should be directed to Joseph F. Thompson, Director, Membership Department, NASD in Washington, D. C.: (202) 833-7395.

Sincerely,



Frank J. Wilson
Senior Vice President
Regulation

- 1/ The Association had previously been advised that this State would accept Form U-4. Latest information as of the date of this Notice is that Form U-4 is not being accepted in lieu of the State's own registration form.
- 2/ The State of Ohio requires its current registration form to be filed, though Form U-4 may be filed along with that State's registration form so long as the third sentence of the present Question #12 is not lined out.
- 3/ Vermont will accept Form U-4 with the sentence lined out only with the special Vermont addendum (different from AD-A) filed with Form U-4 and AD-A.