

# NASD

NOTICE TO MEMBERS NO. 75-44  
Notices to Members should be  
retained for future reference.

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

July 1, 1975

TO: All NASD Members

RE: Applications of Mandatory Clearance Provisions/NASD By-Law Article XVII/  
NCC/PCC Interface Arrangement

The following interpretation by the Board of Governors of the Association of the application of the mandatory clearance provisions of Article XVII of the Association By-Laws to transactions between members of the Association, who are also members of either National Clearing Corporation, Pacific Clearing Corporation or both, was adopted at the May 1975 meeting.

Intended as a definition of the obligations of Association members in this area, the interpretation recognizes the arrangement underway since October of 1974 between National Clearing Corporation and Pacific Clearing Corporation whereby a member of either clearing corporation has the ability to net and settle, through its own clearing corporation, trades with members of the other clearing corporation.

The full text of the interpretation is as follows:

NASD By-Laws - Article XVII  
Application of Mandatory Clearance Provisions to Interface Transactions

Background:

The Board of Governors has reviewed the facilities of National Clearing Corporation, a subsidiary of the Corporation, for the clearance and settlement of over-the-counter transactions in securities. Additionally, the Board of Governors has reviewed the application to members of the mandatory clearance and settlement provisions of Article XVII of the Corporation's By-Laws. Article XVII of the Corporation's By-Laws, in general, provides that all over-the-counter transactions in securities between members of the Corporation shall be cleared and settled through the facilities of National Clearing Corporation. In lieu of National Clearing Corporation establishing a facility on the West Coast, it has joined in an interface arrangement with the Pacific Clearing Corporation to allow for the common clearance of securities transactions by Association members. In order to clarify the obligation of members with respect to this interface arrangement, the Board of Governors has adopted the following interpretation:

In accordance with the requirements of Article XVII of the Corporation's By-Laws:

A. Members who submit their trades through National Clearing Corporation, but who are not members of Pacific Clearing Corporation, shall be required to report directly to National Clearing Corporation all interface eligible trades with members who are members

of the Pacific Clearing Corporation and who utilize the National Clearing Corporation/  
Pacific Clearing Corporation interface arrangement.

B. Members who are members of the Pacific Clearing Corporation and who report their interface eligible trades directly to Pacific Clearing Corporation shall, as to these trades, be deemed to be in compliance with the requirements of Article XVII.

C. Members shall continue to be required to report all other eligible over-the-counter transactions in securities directly to National Clearing Corporation where the facilities of National Clearing Corporation are available.

# NASD

Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

July 3, 1975

TO: All NASD Members  
Attention: Municipal Departments

RE: Municipal Securities Legislation Adopted Under the Securities Acts Amendments of 1975

As you are probably aware, on June 5, 1975, the President of the United States signed into law major securities reform legislation officially titled the Securities Acts Amendments of 1975 ("1975 Amendments"). These amendments represent the most significant changes in the regulatory structure of the securities industry since the Securities Exchange Act was adopted in 1934. Under the "1975 Amendments" the basic coverage of the 1934 Act has been extended to provide for, among other things, the registration and regulation of securities firms and banks which underwrite and trade securities issued by states and municipalities.

Because many members are currently engaged or may contemplate doing a business in municipal securities, it is important that they become familiar with those provisions of the "1975 Amendments" which deal with the regulation of municipal securities dealers. The purpose of this notice is to explain certain of those provisions and to describe what measures the Association is taking to establish an appropriate regulatory program for members and persons associated with members who are engaged in municipal securities activities.

Under certain sections of the "1975 Amendments," municipal securities are no longer deemed to be "exempted" securities and all brokers and dealers who either underwrite or trade such securities will be required for the first time to register with the Securities and Exchange Commission. This requirement will not become effective, however, until December 5, 1975, 180 days following the enactment date of the legislation. Broker-dealers already registered with the SEC are unaffected by this requirement. The requirement that municipal securities brokers and dealers register with the SEC also automatically subjects such firms to the requirements of the Securities Investor Protection Act which created the Securities Investor Protection Corporation (SIPC).

The Securities Acts Amendments of 1975 also provide for the creation of a Municipal Securities Rulemaking Board (MSRB) to be formed by the SEC within 120 days following the enactment of the amendments. This Board is to be composed of fifteen persons as follows: five individuals who are representatives of the public including investors and issuers of municipal securities; five individuals who are associated with and representative of municipal securities brokers and dealers which are not banks; and, five individuals who are associated with and representative of municipal securities dealers which are banks. The SEC has asked interested persons to suggest names of individuals to serve on the MSRB and to submit such no later than July 14, 1975.

The statute provides that the MSRB shall propose and adopt rules, subject to SEC approval, to effect the purposes of the new law with respect to transactions in municipal securities. Among other things, the rules to be developed are to provide for the periodic examination of municipal securities brokers and dealers, prescribe the records to be made and kept by such firms and the periods of time for which such records must be preserved. In addition, the MSRB is directed by statute to adopt rules in the public interest containing minimum qualification standards in the areas of training, experience, competency and such other areas, including standards of operational capability, which would have to be met by municipal securities brokers and dealers and certain persons associated therewith before transactions could be effected.

Although the MSRB will specify the minimum scope and frequency of examinations, it will neither conduct inspections nor enforce its own rules. The "1975 Amendments" require the NASD to enforce the rules of the MSRB through periodic on-site examinations in the case of municipal securities firms who are members of the NASD, including those firms who are members of a national securities exchange and, to administer qualifications tests to persons associated with such members as the MSRB finds necessary or appropriate in the public interest. The legislation specifies that banks engaged in the municipal securities business will be regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System or the Federal Deposit Insurance Corporation, which agencies will similarly enforce the rules developed and promulgated by the MSRB.

The Association is currently preparing detailed suggestions and comments concerning rule proposals which it intends to submit to the MSRB for its consideration in its rulemaking deliberations. In addition, the Association is planning to hold seminars in various sections of the country where significant numbers of broker-dealers engaged in municipal activities conduct their businesses. The purpose of these seminars will be to discuss the major provisions of the new legislation concerning municipal securities and the impact that such will have on the NASD and its members.

Until such time as specific rules and regulations are adopted by the MSRB, the Association will continue to require that all members, including those doing a business exclusively in exempted securities, comply with the provisions of certain SEC rules, i.e. the net capital rule (Rule 15c3-1), the customer protection rule (Rule 15c3-3), and the books and records rules (Rules 17a-3 and 17a-4), unless specifically exempted therefrom by action of the Board of Governors of the Association. <sup>1/</sup>

It is the Association's intention to keep members advised of all new developments as they occur in this area. Should you have any questions with respect to the above or should you desire additional information concerning the "1975 Amendments," please contact Jack Rosenfield, Assistant Director, Department of Regulatory Policy and Procedures, National Association of Securities Dealers, Inc., 1735 K Street, N. W., Washington, D. C. 20006.

Sincerely,



Frank J. Wilson  
Senior Vice President  
Regulation

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<sup>1/</sup> See NASD Notice to Members, Numbers 73-16 and 73-19, dated March 9, 1973 and March 15, 1973, respectively.

**NASD**

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

July 11, 1975

**MAIL VOTE****I M P O R T A N T !**

Officers \* Partners \* Proprietors

TO: All NASD Members

RE: Mail Vote on By-Law Amendment  
Concerning Entry Standards

LAST VOTING DATE IS AUGUST 11, 1975

Enclosed herewith is proposed new subsection (d) of Article I, Section 2, of the Association's By-Laws concerning the disqualification of an officer, director and general partner, among others, of a firm in respect to which proceedings have been instituted pursuant to the Securities Investor Protection Act of 1970 (SIPA proceedings) from membership in the Association or from being associated with a member thereof. An earlier version of the proposed amendment was previously submitted to and approved by membership vote on May 27, 1974, and thereafter filed with the Securities and Exchange Commission. In its review of that proposal, the Commission found several technical problems of a legal nature in the area of due process which it suggested that the Association reconsider. In response thereto, the Association's Board of Governors has determined to amend the language of that proposal to procedurally broaden the due process provisions embodied therein. In this connection, the Board of Governors believes that the amended version of proposed new Section 2(d) is sufficiently modified from the original proposal to warrant a resubmission of the proposal to the membership for vote. If approved, the proposal must be submitted to and not disapproved by the Securities and Exchange Commission prior to becoming effective.

The Association has long been committed to the development of a regulatory program which would substantially reduce the number of firm failures, and resultant exposure to the SIPC fund, through the implementation of, among other things, an entry standards program for prospective

members. The proposed amendments to Schedule C of the Association's By-Laws recently submitted for membership comment contain entrance requirements that would impose higher standards and, in appropriate cases, restrictions on the type of business to be performed by a new firm. In essence, these proposals address the qualifications standards that must be met by persons to be associated with an applicant firm in order for it to become admitted to membership in the Association. These proposals, however, do not specifically provide the Association with the authority to take prompt action to determine whether it is in the public interest for the Association to bar, suspend or restrict the association with a new or existing member of certain persons formerly associated with a broker or dealer in respect to whom SIPA proceedings have been initiated.

The purpose of the proposed amendment to Article I, Section 2(d), of the By-Laws is, as before, to permit the Association to determine in an expeditious manner whether certain specified individuals may become or continue to be associated with a member of the NASD in consideration of such individuals' previous association with a broker or dealer for whom SIPA proceedings have been instituted. It is not the intent of this proposal to summarily inhibit or restrict the rights of such persons to become associated with a member. Rather, it will establish the Association's right to examine on a timely basis the involvement of the individuals in the activities which led to the demise of the broker-dealer and to determine whether the association of such persons could create immediate and substantial risk to the member with whom such persons are or may become associated or to other members of the Association or public investors. The Board believes that the procedures as contained in the revised proposal will permit the Association to effect a prompt review of such individuals' previous activities and are indeed necessary and in the public interest.

The proposed amendment would redesignate existing subsection (d) of Article I, Section 2, as subsection (e) and add a new subsection (d) containing the new provision. An explanation of the proposal follows.

Paragraph (1) provides that no broker or dealer shall be admitted to or continued in membership if such broker or dealer has associated with it any person not qualified for association with a member or who is associated with a member in contravention of any of the restrictions to association provided in subsection (d).

Paragraph (2) would authorize the Board of Governors to bar, suspend or restrict the association with a member of any person who was previously associated as an officer, director, general partner or owner of ten (10) per centum or more of the voting securities or controlling person with a broker or dealer within six (6) months of the institution of proceedings pursuant to the Securities Investor Protection Act of 1970 in respect to that broker or dealer. However, the proposed paragraph also provides that the decision of the Board to bar, suspend or restrict such association

may only be made after appropriate notice and opportunity for a hearing before a panel selected by the Board, or its delegate, which will take into consideration such person's responsibility for and cause of the financial and/or operational difficulties which led to the institution of SIPA proceedings and that such bar, suspension or restriction is found to be in the public interest. If a hearing were held, a record would be kept of the proceedings.

Paragraph (3) would authorize the President of the Association, or his delegate, to notify within ninety (90) days of the institution of SIPA proceedings any person associated with a member who, within six (6) months of such proceedings, was a principal officer, general partner (including the Financial and Operations Principal), or a person performing similar functions for the broker-dealer in respect to whom SIPA proceedings had been instituted that the Association proposes to bar or suspend him from association, or restrict his right to be associated, with any member of the NASD. The proposed bar, suspension or restriction would become effective fifteen (15) days after notice thereof was sent to the individual unless a stay was granted pursuant to paragraph (4).

Paragraph (3) would require that the notification sent by the President, or his delegate, inform the recipient of his right, upon written request, to a hearing before a panel selected by the Board of Governors, or its delegate, before a final determination shall be made by the Board of Governors to bar, suspend or restrict his association with a member of the Corporation.

Paragraph (4) would permit the recipient of the notification required by paragraph (3) to apply to the Association for a stay of the temporary bar, suspension or restriction, which application would have to be acted upon by the President, or his delegate, within five (5) days following receipt by the Association of such application. Paragraph (4) further provides that the stay shall be granted unless the President, or his delegate, makes a determination that the applicant was responsible for and the cause of the financial and/or operational difficulties which led to the institution of SIPA proceedings against the broker-dealer with whom he had previously been associated and that the granting of the stay could create immediate and substantial risk to the member with whom such person is currently associated, or to other members of the Association or public investors. The determination to deny an application for a stay could be based on records and affidavits.

Paragraph (4) would give the applicant the right, upon notification to him of the denial of the stay, to request the hearing prescribed in paragraph (3) hereof to be held within fifteen (15) days of his request for such hearing. The hearing panel would be required to notify the applicant of its final determination to permanently bar, suspend or restrict his



association with a member of the NASD within thirty (30) days of the applicant's request for the hearing. A record would be required to be kept of the proceedings. The determination of the hearing panel would constitute the final action of the Association at the time notification thereof is sent to the applicant.

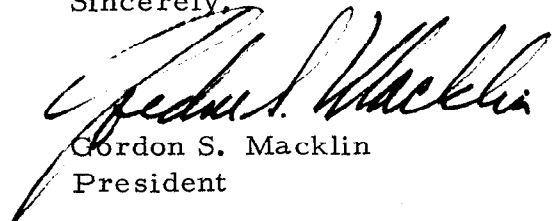
Paragraph (5) would authorize the Board of Governors to adopt appropriate procedures with respect to, among other things, the creation of hearing panels, the composition of such and to prescribe time limitations in connection with proceedings instituted pursuant to and consistent with the provisions of Section 2(d).

Paragraph (6) provides that any member or person who is aggrieved by any final action of the Corporation may apply to the Securities and Exchange Commission for review of such action pursuant to Section 15(A) of the Act.

The proposed By-Law amendment is important and merits your immediate attention. Please mark your ballot according to your conviction and return it in the enclosed, stamped envelope to "The Corporation Trust Company." Ballots must be postmarked no later than August 11, 1975.

The Board of Governors believes the proposed amendments to Article I, Section 2, of the Association's By-Laws to be necessary and in the public interest and recommends that members vote their approval.

Sincerely,



Gordon S. Macklin  
President

Enclosures

Amendment to Article I, Section 2, of the Association's By-Laws  
by Addition of a New Subsection (d) and by Relettering  
Existing Subsection (d) as Subsection (e)

- (d)(1) No broker or dealer shall be admitted to or continued in membership in the Corporation if it has associated with it any person barred from association with a member or in contravention of restrictions imposed pursuant to the authority granted by this subsection (d).
- (2) The Board of Governors may bar, suspend or restrict the association with a member of any person who, within six (6) months of the institution of proceedings against a broker or dealer pursuant to the Securities Investor Protection Act of 1970, was an officer, director, general partner, or owner of ten (10) per centum or more of the voting securities, or controlling person, of that broker or dealer if, after appropriate notice and opportunity for hearing before a panel selected by the Board of Governors, or its delegate, the Board of Governors finds such bar, suspension or restriction to be in the public interest, taking into consideration such person's responsibility for and cause of the financial and/or operational difficulties that led to the institution of such proceedings. A record shall be kept of the proceedings.
- (3) At any time within ninety (90) days of the institution against a broker or dealer of proceedings pursuant to the Securities Investor Protection Act of 1970, the President of the Corporation, or his delegate, may notify any person who is then associated with a member and who, within the six (6) months prior to the institution of the said proceedings, was a principal officer or general partner (including the Financial and Operations Principal) of that broker or dealer, or a person performing similar functions for that broker or dealer, that the Corporation proposes to bar or suspend him from association, or restrict his right to be associated, with any member of the Corporation pending a final determination by the Board of Governors as to whether such person shall be permanently barred, suspended or restricted. The notification shall inform the recipient of his right, upon written request, to a hearing before a panel selected by the Board of Governors, or its delegate, before a final determination shall be made. Unless a stay, pursuant to paragraph (4) hereof, is granted, the proposed bar, suspension or restriction shall become effective fifteen (15) days after notice thereof.

(4) After receipt of a notification required by paragraph (3) hereof, a person may, upon written request, apply to the Corporation for a stay of such temporary bar, suspension or restriction. Within five (5) business days of the receipt by the Corporation of an application for a stay, the President of the Corporation, or his delegate, must act upon said application and give notice thereof to the applicant. A stay shall be granted on the basis of such an application unless the President, or his delegate, makes a determination (which may be based on records and affidavits):

- a. that such person was responsible for and the cause of the financial and/or operational difficulties which led to the institution against the broker-dealer of proceedings pursuant to the Securities Investor Protection Act of 1970, and
- b. the granting of the stay could create immediate and substantial risks to the member with which such person is currently associated, or to other members of the Corporation or public investors.

If a stay is denied, the applicant, upon written request, shall have the right to request the hearing prescribed in paragraph (3) hereof to be held within fifteen (15) days of the date of his request therefor. He shall be notified of this right at the time of the denial of the stay. The hearing panel shall make its determination and give notice thereof within thirty (30) days of the date of request for the hearing. Such determination shall constitute the final action of the Corporation as of the date of the notification thereof. A record shall be kept of the proceedings.

(5) The Board of Governors is authorized to adopt appropriate procedures, not inconsistent with the provisions of this subsection (d), for the proper implementation of the provisions hereof. Such procedures may, among other things, specify the nature and composition of hearing panels and prescribe appropriate time limitations in connection with proceedings instituted pursuant thereto.

(6) Any member or person who is aggrieved by any final action of the Corporation pursuant to this subsection (d) may make application for review of such action to the Securities and Exchange Commission pursuant to Section 15(A) of the Act.

**NASD**

Notices to Members should be retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

July 14, 1975

TO: All NASD Members

RE: Quarterly Check-List of Notices to Members (Second Quarter, 1975)

Listed below are the Notices to Members which have been issued during the second quarter of 1975.

Members should note that only one copy of each Notice to Members is mailed to every main office of every member. Copies are not mailed to branch offices or to additional personnel in the main office other than the Executive Representative. Therefore, we suggest that all members retain the original copy of each Notice to Members in a separate file in their main office, and that copies needed for internal or branch office distribution be duplicated from the original Notice.

If your main office file is missing any of the following notices, please write to the Office Services Administrator at the NASD Executive Office. Requests for copies should be accompanied by a self-addressed label.

<u>Serial No.</u>	<u>Subject</u>	<u>Date</u>
75-27	Appointment of SIPC Trustee for G. H. Sheppard & Co., Inc.	4/2/75
75-28	Commencement of Negotiations with Bunker Ramo Corporation for the Addition of a Block Information Display Capability to the NASDAQ System	4/2/75
75-29	Quarterly Check List (First Quarter, 1975)	4/18/75
75-30	Appointment of SIPC Trustee for Saxon Securities Corp.	4/21/75
75-31	Appointment of SIPC Trustee for Richardson & Co., Inc.	4/21/75
75-32	Notice of Lost or Stolen Securities	4/21/75
75-33	New Regulatory "New Issues" Proposals for Comment	4/25/75
75-34	New Interpretation of Article III, Section 1 of Rules of Fair Practice Relating to "Private Transactions"	4/29/75

75-35	Extension of Comment Period of Notice to Members: 75-25 Concerning "Entry Standards"	4/29/75
75-36	Appointment of SIPC Trustee for Horvat, Maniscalco & Co.	5/1/75
75-37	Correction of Notice to Members 75-34	5/1/75
75-38	Notice of Lost or Stolen Securities	5/1/75
75-39	President Ford's Veterans Program	5/1/75
75-40	NCC Settlement Date Schedule for Memorial Day Closing	5/13/75
75-41	Adoption of SEC Rule 17a-20 and Related Form X-17A-20 In Connection with Monitoring the Unfixed Commission Rate Environment	5/16/75
75-42	Rules Governing Reporting of Transactions to Consolidated Tape	6/10/75
75-43	NCC Settlement Date Schedule for July 4th Closing	6/18/75

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# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

July 23, 1975

To: All NASD Members

Attention: Managing Partner/Officer, Operations Partner/Officer,  
Dividend Manager

Subject: Dividend Claims Made to DTC Against Stock in the Name of  
CEDE & Co.

On July 1, 1975, Depository Trust Company (DTC) announced that effective August 1, 1975, it will inaugurate a new procedure on a test basis under which formal cash dividend claims, made by non-DTC Participants against stock registered in the name of CEDE & Co., DTC's nominee, will be accepted by DTC.

Attached hereto is a copy of DTC's Important Announcement with regard to the new procedures. Questions regarding the announcement should be directed to Depository Trust Company.

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

\* This 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.

# THE DEPOSITORY TRUST COMPANY

## IMPORTANT

B 2282

July 1, 1975

To: All Participants

Attention: Managing Partner/Officer, Dividend Manager

Subject: Dividend Claims

It has been the policy of The Depository Trust Company to accept dividend claims from non-DTC Participants only when the claims are supported either by physical presentation of the certificates or accompanied by Confirmations of Registration signed by appropriate transfer agents. These procedures are not required of DTC Participants, who submit only photocopies of certificates. This policy was established to protect DTC and its Participants from potential cash loss due to claims filed erroneously by entities which DTC did not have access to through daily settlement procedures.

DTC recognizes, however, that the costs involved in securing Confirmations of Registration are often a disincentive to the filing of dividend claims for small dollar amounts.

In order to alleviate this problem, DTC will, effective August 1, 1975, inaugurate a new procedure on a test basis under which formal cash dividend claims containing a standard indemnification clause and having a value of \$25.00 or less will be accepted by DTC when accompanied by a photocopy of the certificate (front and back).

This new procedure will be evaluated after a reasonable period to determine whether it should be continued or modified.

Claims submitted by non-DTC Participants in excess of \$25.00 must continue to be accompanied by either the physical certificates themselves or Confirmations of Registration from transfer agents. Claimants are cautioned against "breaking up" claims in excess of \$25.00 to take advantage of the new procedure since all claims will be closely monitored. If this practice is noted, the respective claims will be rejected to the claimant for resubmission with the appropriate proof. DTC reserves the right to disallow this procedure to any claimant who, in DTC's opinion, has abused the procedure.

Arnold Fleisig  
Vice President

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

July 23, 1975

TO: All NASD Members  
RE: Appointment of a SIPC Trustee for a SECO Firm  
ATTN: Operations Officer, Cashier, Fail-Control Department

On Friday, July 11, 1975, a SIPC Trustee was appointed for the below indicated SECO firm. Previously, a temporary receiver had been appointed for the firm. While not a member of the Association or the Clearing Corporation, members are advised to direct any questions regarding the firm to the Trustee.\*

SECO Firm

Ben Campo, Jr.  
d/b/a Campo & Co.  
6900 E. Camelback Road  
Scottsdale, Arizona 85251

SIPC Trustee

Ronald E. Warnicke Esq.  
Treon, Warnicke & Dann T.A.  
Suite 2250 First Nat'l Bank Plaza  
100 West Washington  
Phoenix, Arizona 85003  
Telephone (602) 252-4895

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.

\* This notice, which is directed 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.



# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

July 23, 1975

## I M P O R T A N T

TO: All NASD Members

RE: Revision of Operating and Interim Rules to Establish Charges  
for Envelope Settlement System (ESS), Continuous Net Settlement (CNS)  
System and Free Position Insurance Funds

National Clearing Corporation (NCC), the Association's wholly-owned clearing subsidiary, is in the process of implementing a nationwide clearing system for the over-the-counter market. In providing such a system, NCC has attempted to make its services available to all NASD brokers without creating excessive exposure and liabilities to its participating members and the Corporation itself.

In Important Notice to Members dated February 20, 1974, you were notified of and your comments were invited regarding a revision of NCC By-Laws, Operating and Interim Rules to accommodate implementation in its CNS and ESS systems of Insurance Funds. The proposed Insurance Funds would provide a buffer to absorb losses of an insolvent clearing member otherwise borne by NCC and its members. Without such Insurance Funds, losses from insolvent clearing members would be covered, first, from NCC's earned surplus, to the extent the Board determines this will "not impair the continuing operation of" NCC; second, pro rata from the Clearing Fund deposits of other participating members and, finally, from direct assessments against the membership. The revisions were filed with the Securities and Exchange Commission in March of 1974.

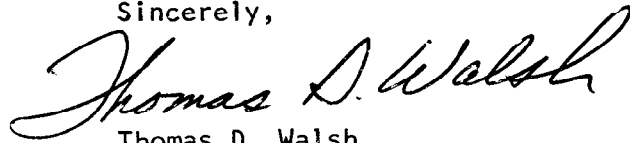
As you will remember, the abovementioned notice did not contain schedules of the charges to be assessed for financing the Insurance Funds. Recently, the Board of Directors of NCC and the Board of Governors of the Association considered amendments to the Operating and Interim Rules to establish charges for each fund. The content of these charges is based upon the recommendations of the NCC Subcommittee on Capital, Regulation and Clearing Funds report which also provided the basis for the revisions outlined in the February 20, 1974 Notice to Members.

The NCC Board of Directors has requested that the attached proposed amendments be forwarded to all NASD broker/dealers for comment, since these charges will apply to both present members of the Clearing Corporation and those NASD

broker/dealers who, as NCC's systems continue to expand, will become a part of the nationwide clearing network.

We would request your comments on these proposed charges by August 25, 1975. All comments and questions should be directed to Robert J. Woldow, Corporate Secretary, National Clearing Corporation, 1735 K Street, N.W., Washington, D. C. 20006.

Sincerely,

A handwritten signature in cursive script that reads "Thomas D. Walsh". The signature is written in dark ink and is positioned above the typed name and title.

Thomas D. Walsh  
Secretary

ATTACHMENT A

NCC Operating Rule 20

Schedules Adopted in Accordance with Rule 20

- B.XI. Each Clearing Member in the Continuous Net Settlement system shall be charged monthly, for the purpose of establishing and maintaining a Continuous Net Settlement system Insurance Fund as authorized by Operating Rule 5(h), an amount equal to  $\frac{1}{1000}$  of 1% of its daily aggregate short valued positions. This Initial Rate shall continue for a period of twelve months after creation of said Fund or twelve months subsequent to the time a party becomes a Clearing Member in the Continuous Net Settlement system, whichever is longer. Thereafter, said Clearing Member shall be charged an amount based on its daily aggregate short valued positions that the Board of Directors shall, in its discretion, deem appropriate for maintaining in said Insurance Fund an amount sufficient to cover potential losses; but at no time will said monthly charges exceed the Initial Rate.
- B.XII. Each Clearing Member in the Continuous Net Settlement system shall be charged monthly, for the purpose of establishing and maintaining a Free Position Clearing Fund as authorized by Operating Rule 5(q), an amount equal to  $\frac{1}{5000}$  of 1% of its aggregate daily Free Position credits. This Initial Rate shall continue for a period of twelve months after creation of said Fund or twelve months subsequent to the time a party becomes a Clearing Member in the Continuous Net Settlement system, whichever is longer. Thereafter, said Clearing Member shall be charged an amount based on its daily aggregate Free Position credits that the Board of Directors shall, in its discretion, deem appropriate for maintaining in said Insurance Fund an amount sufficient to cover potential losses; but at no time will said monthly charges exceed the Initial Rate.

## SUMMARY OF RULES CHANGES

The proposed Insurance Fund charges are based upon recommendations contained in the report of NCC's Subcommittee on Capital, Regulation and Clearing Funds recommending the creation of same. (See Notice to NASD Members dated February 20, 1974.) The Subcommittee recommended charges at an initial and maximum rate of 1/5000 of one percent of each day's aggregate ESS credits, i.e., \$2 per \$1,000,000 of credits to finance the ESS Insurance Fund and 1/1000 of one percent of each day's aggregate CNS short valued positions, i.e., \$10 per \$1,000,000 of short valued positions to finance the CNS Insurance Fund. This initial rate would be charged to present members for a period of twelve months after the proposed amendments become effective. Under the amendments, the NCC Board of Directors has the power to reduce rates thereafter based upon loss experience, volume and potential exposure; such revised rates may not, however, exceed the specified initial rates. To equalize present and subsequent joining members' contributions to the Funds, new members will be charged the specified initial rate for the first twelve months of their participation regardless of the magnitude of any reduced rate charged those who are members at that time.

Though the creation of a Free Position Insurance Fund was not covered by the Subcommittee report, it was considered advisable to create one to cover possible losses sustained in regard to members' Free Position accounts and authority for same was included in the rules and by-law amendments adopted by the NCC and NASD boards, submitted to the NASD membership for comment in the abovementioned Notice to Members dated February 20, 1974, and subsequently filed with the Securities and Exchange Commission. The proposed charges for the Free Position Insurance Fund would parallel those for the ESS Insurance Fund since the activity and risks involved are very similar in both.

Based upon a projected yearly activity in the ESS system of gross credits totalling \$31,479,434,705 and projected yearly short valued positions in the CNS system of \$13,747,618,856, the proposed charges would yield in the first year, \$62,958 and \$137,476 for the respective Insurance Fund. These amounts approximate the amounts currently booked by NCC as a reserve for losses from financially impaired clearing members which is based upon actual losses in previous years.

ATTACHMENT B

NCC Interim Rule 116

Charges for an Insurance Fund

Sec.

116.04

Each Clearing Member in the Envelope Settlement System shall be charged monthly, for the purpose of establishing and maintaining an Envelope Settlement System Insurance Fund, as authorized by Addendum to the By-Laws §8.10, an amount equal to 1/5000 of 1% of its daily aggregate Envelope Settlement System credits. This Initial Rate shall continue for a period of twelve months after creation of said Fund or a period of twelve months subsequent to the time a party becomes a Clearing Member in the Envelope Settlement System, whichever is longer. Thereafter, said Clearing Member shall be charged an amount based on its daily aggregate Envelope Settlement System credits that the Board of Directors shall, in its discretion, deem appropriate for maintaining in said Insurance Fund an amount sufficient to cover potential losses; but at no time will said monthly charges exceed the Initial Rate.