

NASD

newsletter

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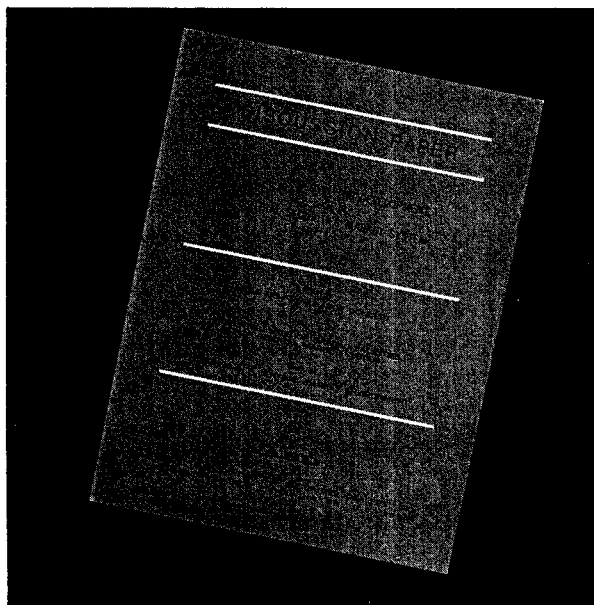
NASD DISCUSSION PAPER ON CENTRAL SECURITIES MARKET SENT TO NATIONAL MARKET ADVISORY BOARD

The NASD has submitted to the National Market Advisory Board (NMAB) a 43-page discussion paper examining three issues in the development of the projected central securities market system: (1) the concept of a sole self-regulatory body for the entire securities industry (2) the potential use of NASDAQ facilities in a national market system, and (3) the performance of clearance and settlement functions in a national market system environment. (Copies of the NASD Discussion Paper may be obtained from the Association's Information Department.)

The NMAB, appointed by the SEC pursuant to the Securities Acts Amendments of 1975, is to make recommendations to Congress by December 31, 1976 on the governance of a national or (central) securities market system.

The Introduction to the NASD paper observes: "This report is not designed as a miracle cure for all questions related to a central market system. Its purpose, however, is to stimulate discussion which should lead toward an efficient utilization of existing facilities in any future restructuring of the securities industry."

Part I of the NASD paper is the "Sole Self-Regulator Concept". It examines the background and origin of the sole self-regulator concept, the arguments for and against the concept, and the feasibility, possible formats and costs of a sole self-regulator. The study finds the concept feasible and lays out five alternative formats for its implementation, without indicating a preference for any one of them. Finally, the study estimates that a sole self-regulator would cost \$20,000,000 a year to operate, a saving of over \$10,000,000, or more than one-third, from \$30,500,000 spent by all present self-regulatory organizations for regulatory purposes in 1974.



Part II of the NASD paper, on the "Potential Use of NASDAQ Facilities in a Central Market System" states:

"The NASD Board of Governors believes that the approach of adapting and building upon the NASDAQ nationwide communications network and the combined computer facilities already utilized in NASDAQ and in other systems operated by the securities exchanges offers the greatest promise for allowing a composite book to be built at minimum cost and time delay."

After describing the current capabilities of the NASDAQ System, Part II examines the adaptability of NASDAQ facilities to three possible phases in the evolution of a central market system for exchange-listed securities: Phase 1, the Composite Quotations System; Phase 2, the Composite Quotations System

MARKET SURVEILLANCE IN THE NASDAQ SYSTEM: SEE PAGES 4-5

with the addition of an automatic execution capability with a preference for public orders; and Phase 3, a single public book maintained by the System along with competing market makers and specialists.

It is estimated that the adaptation of the NASDAQ System to the hypothetical Phase 1 of the central market can be accomplished for \$1,500,000, and would require 6-9 months to implement. The NASDAQ adaptation to Phase 2—the addition of an automatic execution capability—would cost another \$9,500,000-\$11,000,000, and would take 24-27 months to implement, after its final specifications are defined. NASDAQ adaptation to Phase 3—the single public book—would cost \$300,000 more, and could be implemented within 6-8 months.

Part III of the NASDAQ paper, entitled "Clearing in a Central Market Environment", gives NASD endorsement to industry progress toward a standard clearing system available at uniform rates for all members and all markets and to the formation of the new, user-controlled National Securities Clearing Corporation. It also points out the importance of the relationship of securities depositories to clearing systems and the need to integrate these into an overall national plan. Part III further states that a future clearing system should handle transactions from all markets and provide non-discriminatory access to all qualified users under uniform, cost-related rates.

The Conclusion of the NASD paper declares:

"Significant advancements have already been made toward the goals of a central market system and economic forces are now at work which could hasten progress in certain areas.

"Within the visible future, most of us expect to see a greatly simplified and more efficient national system for clearing and settling transactions. Economic considerations played the most important role in reconciling the diverse interests and in coordinating the activities of many different clearing corporations. Similar economic considerations may well lead the securities industry to a more effective and efficient regulatory format. If such a goal is attainable, a reassignment of regulatory duties, like the improvement in the industry's clearing system, may be in place before the so-called central market system.

"It seems likely that ultimate decisions relating to coordination and possible unification of trading facilities will also be dictated in the final analysis by economic forces. While we will readily admit a lack of foresight necessary to predict exactly how various trading facilities will be coordinated, the Board of Governors of the NASD is unanimous in its belief that any restructuring of the securities industry should recognize the many excellent facilities already in place and should use these assets to the maximum extent possible."

DEVELOPMENTS IN MUNICIPAL SECURITIES REGULATION

Following are the highlights of recent developments in municipal securities regulation, emanating from the Municipal Securities Rulemaking Board (MSRB), the SEC, the NASD and the Congress:

1. There are presently in effect 13 administrative rules which the MSRB has issued and to which the SEC has given its approval. Most of these rules deal with the internal constitution, make-up and operation of the Board. Rules A-1 through A-11, for example, deal with such matters as the number and representation of Board members, compensation and assessments, officers and employees of the Board, meetings and agendas, etc. The two rules of vital interest to NASD members are A-12, which provides for an initial registration fee of \$100 to be paid to the MSRB by all municipal securities brokers and dealers registered with the SEC, and A-13, which sets forth an underwriting assessment to members by the Board in addition to the initial fee. This assessment would be ".005% (\$.05 per \$1,000) of the face amount of all municipal securities which are purchased from an issuer as part of a new issue . . . and which have a final stated maturity of not less than two years from the date of the securities."

In regard to the above, all members are advised that should they execute or effect transactions in municipal securities and, in so doing, meet the statutory definition of either a municipal securities dealer or municipal securities broker [Sections 3(a)(30) and 3(a)(31) of the Securities Exchange Act of 1934], they would become subject to all rules and regulations of the MSRB.

2. Under the provisions of the Securities Acts Amendments of 1975, the NASD has the responsibility to enforce all applicable MSRB and SEC rules and regulations with respect to all NASD members transacting business in municipal securities. Therefore, a preliminary format for examining the operations of members other than those engaging solely in municipals has been developed. It was distributed to all NASD Districts on April 8 and is being used in connection with data-gathering visits to the municipal securities departments of firms in the general securities business.

The current schedule is for the completion of this program by June 30. The purpose of the new examination report form is to gather additional information in order to increase the NASD staff's understanding of the particular intricacies and problems of the municipal securities segment of the business, and to provide the staff with a foundation upon which to build a more comprehensive regulatory program. With regard to those 240 sole municipal securities firms which recently have applied for NASD membership, the Association

has been administering Pre-Membership Interview Programs.

3. On April 8, the MSRB filed three proposed rules (G-8, G-9 and G-10) with the SEC, and on April 30, the SEC published the rules in the Federal Register for a 45-day comment period. These rules all deal with municipal recordkeeping—G-8 as to specifically what records must be kept, G-9 specifying the period of time each record must be kept, and G-10 dealing with the required designation of a municipal securities principal responsible for the maintenance and preservation of the records.

4. On April 27, the MSRB released two exposure drafts on proposed Rules G-11 and G-12. The first concerns the Board's statutory mandate to establish the terms and conditions under which any municipal broker/dealer may sell any part of a new issue to a municipal securities investment portfolio. G-11 establishes these terms and conditions which will apply during the underwriting period.

G-12 aims to codify industry practices relating to transactions in municipals between brokers and dealers (including bank dealers) and would represent a uniform practice code for the municipal industry. The rule covers the following subjects: settlement dates, dealer confirmations, comparison and verification of confirmations, delivery of securities, payment, rejections and reclamations, close-out procedures, return of good faith deposits, and settlement of syndicate accounts.

5. Senate bills S. 2969 and S. 2574 are still pending before the Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Affairs.

S. 2969 would amend the 1934 Act to require that "Any issuer of municipal securities which has outstanding during any portion of a fiscal year an aggregate principal amount of municipal securities exceeding \$50 million" will prepare for that fiscal year an annual report and other such distribution statements and reports as may be mandated by Congress. The rest of the bill dictates the specific information that such reports must disclose. S. 2574 would amend the 1933 Act to provide for the registration of public offerings of securities issued by state and local governments.

The sale of municipal securities traditionally has been exempted from regulation (except for Anti-Fraud enforcement) under the Securities Act of 1933 and the Securities Exchange Act of 1934, and the MSRB presently does not have the authority to promulgate rules which would require issuers of municipal securities to furnish information to investors concerning their securities. However, the pending Congressional legislation, if adopted, would extend the existing regulatory scheme to issuers.

GUIDELINES FOR SHAREHOLDER COMMUNICATIONS SERVICES

The NASD has become aware of complaints that certain organizations which are not associated with registered broker/dealers have been charging publicly-owned companies for the forwarding of shareholder materials. There have also been reports of charges for forwarding reports to other than beneficial shareholders and even billings rendered by companies claiming to have forwarded reports when in fact they had never been provided with such materials in the first place.

The Association has a long-established policy which sets forth the duties and responsibilities of NASD members to ensure the timely dissemination of proxy materials and other issuer communications to beneficial owners for whom NASD members hold securities in a name other than that of the beneficial owner. Incorporated in that policy is the recognition that a member may request reimbursement from issuers for reasonable expenses incurred in assisting issuers in meeting their obligations to forward proxy and other materials to beneficial owners.

So that members, in the course of proper and reimbursable shareholder communications services to issuers, do not run afoul of the accusations being levied against other organizations, the Association has adopted the following additional guidelines:

- A. At the time NASD members order issuer communications such as proxy solicitation sets, annual or quarterly reports, or other issuer communications, either on their own order form or on "search cards" provided by the issuing corporation, members must also indicate the amount of such materials required, and must specifically certify that the materials ordered are to be forwarded to beneficial owners only.
- B. On invoices sent to issuers by NASD members for reimbursement of expenses incurred in forwarding proxy and other materials, members must set forth individually the number of sets of such materials, the postage expense, the total charge and any other expense items included in the total charge. NASD members shall also specifically certify on the invoice that all such materials were sent to beneficial owners.

The Association has suggested to NASDAQ issuers that they not furnish materials to or pay bills for shareholder communications services from any organization which does not provide this information.

This subject is particularly important at this time of year when corporations traditionally hold their annual meetings and stockholders vote on corporate matters for the coming year.

MARKET SURVEILLANCE AI



During a recent series of NASD Seminars for NASDAQ company executives, in Atlanta, Chicago, Dallas, New York and San Francisco, NASD President Gordon S. Macklin in his opening address described the work of the Association's Market Surveillance Section. In view of the interest in this activity expressed by the seminar participants, a reprint of Mr. Macklin's remarks follow.

"Our Market Surveillance Section was created to insure that the NASDAQ market incorporates sufficient regulatory controls to insure a fair and orderly marketplace for the protection of investors. Market Surveillance monitors the NASDAQ marketplace for unusual price or volume activity. At the close of each trading day, the NASDAQ System analyzes the day's activity and produces a Stock Watch Report which the Section receives before the market opens the following morning. This report lists all of the issues whose previous day's bid price movement or volume exceeded certain pre-set parameters. These parameters are designed

to draw the attention of Market Surveillance's specially-trained analysts to unusual market behavior.

Using this daily computer printout, the analysts determine which of the issues appearing on the report require further review. The activity of many of the issues can be explained by a recent news item or by reference to the Section's background files on the issues. Press releases received by Market Surveillance from NASDAQ issuers assist the analysts in this initial selection process. After the analysts have prepared a list of those issues meriting further inquiry, the research clerks prepare a statistical analysis of each issue's activity over an extended period of time. The analyst familiarizes himself with this historical data as well as with all recent news items and any previous Market Surveillance reviews of the issue prior to commencing telephone interviews of market makers and broker/dealers. Through telephone interviews, the analyst can usually determine with reasonable certainty that the market activity in question is either free of regulatory criticism or that further inquiry is warranted.

On occasion, the analyst may call the NASDAQ System liaison officer of your company to determine if there have been any recent corporate releases or if there is any substance to rumors which are circulating in the marketplace. If any undisclosed material corporate developments exist, and market activity indicates that information about the developments may have leaked out, the analyst may request that your company consider immediate public disclosure of the information.

In situations where the market activity cannot be readily explained through telephone interviews, further information is gathered from all NASD member firms that had transactions during the period in question. In order to complete the investigation, statements may be

D I N V E S T O R P R O T E C T I O N

requested from NASD registered individuals or from the NASDAQ issuer. Letters to issuers normally request information relating to the timing of merger negotiations or verification of the process by which material corporate news was released.

If possible violations of NASD rules and regulations or of the securities laws are uncovered during the investigation, the analyst prepares a summary of his findings for referral to an NASD District Office. All cases are pursued to the limits of the NASD's jurisdiction. If the NASD lacks jurisdiction in the case, the investigation is referred to the SEC, a State Securities Commission, or other regulatory agency, depending on the nature of the problem.

The Quotations Halt

Market Surveillance also is effective in maintaining a fair and orderly market on NASDAQ through the Quotations Halt Procedure. Any time that your company anticipates releasing information which may have a material effect on the price of your stock, you may find it advantageous to your shareholders and yourselves to so notify the Market Surveillance Section prior to the release of the information so that a quotations halt on NASDAQ can be considered. Quotations halts can be an important step in providing for full dissemination and public evaluation of the news.

A NASDAQ Quotations Halt differs from an SEC trading suspension in that it does not prevent trading. However, it has been our experience that the market generally waits until the news has been fully disseminated and the quotations resumed on NASDAQ before resumption of trading.

The Quotations Halt Procedure normally commences when an officer of a NASDAQ company calls the Market Surveillance Section to alert it to the imminent

release of material news and to request a quotations halt. After verifying the authority of the caller making the request, Market Surveillance seeks approval for the halt from an officer of the NASD. Upon receiving approval, the company is advised, and the halt is implemented. When a market maker or broker/dealer inter-rogates NASDAQ on a stock whose quotes are being held, a message is transmitted on Level II and Level III terminals telling him to check the news frame. The news frame message will state that the quotes are held pending news.

Media Influence

Market Surveillance monitors four newswires: Dow Jones, Reuters, Business Wire and PR News Wire, for coverage of the news. When the news has been noted on the wires, the adequacy of the coverage is discussed with the company, and a tentative termination for the halt is agreed upon. The length of the halt will vary with the nature of the news and the extent of the coverage. If the release is carried by the national news wires, the quote is normally held for two hours after the release to allow for adequate dissemination. Frequently, smaller NASDAQ companies do not receive national coverage and must rely on local newspapers or a stockholder mailing to insure complete dissemination of important corporate developments. The termination of the halt in such a case may be delayed overnight. At the agreed-upon time, the termination of the halt is implemented, quotations resume, and the company is advised of the termination. Market Surveillance has halted quotations on 38 occasions during 1975 for such news as mergers, acquisitions, bankruptcy filings and law suits. In each case the company requesting the halt anticipated that the news would materially affect the price of its stock."

NASDAQ NEWS

New Issues

There have been 86 new issues entered in the NASDAQ System since January 1, 1976. During this same period, there were 61 deletions from the System for a net gain of 25 stocks. Specific information concerning these companies may be obtained by writing the Association's NASDAQ Qualifications Department.

New Subscriber Contract Terms

For all new NASDAQ Level II and III service contracts, the initial minimum subscription period has been reduced to one year, from two years. Additionally, cancellation of service will require only 30 days notice prior to expiration of the contract instead of the present 90 days notice. All existing contracts will continue to the stated expiration date. Members with existing contracts will receive cancellation notices prior to their stated expiration dates, at which time new contracts will be executed.

Although the NASDAQ System is now owned by NASDAQ, Inc., an NASD subsidiary, the System operator continues to be the Bunker Ramo Corporation. Accordingly, any member interested in obtaining NASDAQ service or additional terminals under the new contracts should write or call: Mr. Alfred G. James, Vice President / NASDAQ Administration, Bunker Ramo Corporation, Trumbull Industrial Park, Trumbull, Conn. 06609, Telephone (203) 377-4141.

New Level I Distributor

Monchik-Weber Associates, Inc. has become the fourth active and sixth authorized domestic Level I distributor. Monchik-Weber will retransmit Level I data via Data General "Nove 2" computers which are connected to desk-top CRT terminals.

NATIONAL CLEARING CORPORATION ACTIVITIES

The National Securities Clearing Corporation, (NSCC), the new entity formed to provide combined clearing services for the NYSE, AMEX and OTC trades, was incorporated in March, and in early April, filed for registration as a clearing agency with the SEC. The Commission has scheduled public hearings for the last week in May, and approval is expected by the end of June.

In order for NASD members to continue to receive the services provided by NCC without interruption after transfer of registration, members will have to join the NCC Division of the NSCC by executing certain agreements. These agreements have been distributed to the membership, and as of the publication of this Newsletter, it is expected that all agreements will have been finalized.

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During the months of March and April 1976, NCC's daily average trade volume was 24,445 and 22,046 sides respectively, as compared to a daily average of 19,676 for the entire year ending December 31, 1975.

* * * *

A new Regional Clearing Center was opened in Jersey City on March 5 and in Cleveland on April 9, bringing the total of NCC offices to 13. The other cities offering clearing and settlement services are Atlanta, Baltimore, Boston, Chicago, Dallas, Milwaukee, Minneapolis, New York, Philadelphia, St. Louis, and Washington, D.C.

MEMBERS' HELP SOUGHT TO INCREASE MEDIA COVERAGE OF NASDAQ/OTC QUOTATIONS

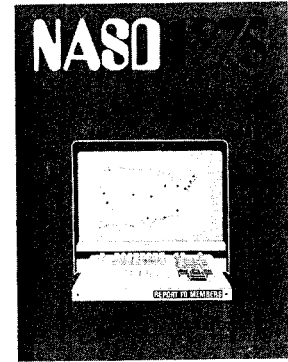
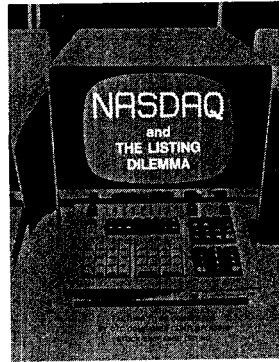
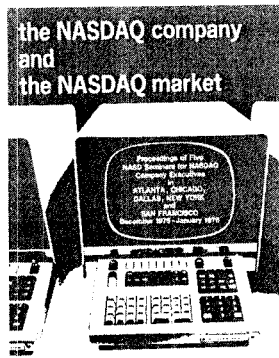
Assistance from the membership is being sought by the Association for a renewed effort to increase coverage of NASDAQ/OTC quotations by the media—newspapers, radio and TV. The Association considers that NASDAQ/OTC quotations should receive media coverage comparable to that of the major exchanges because the NASDAQ/OTC share volume is greater than the share volume for all the exchanges combined except for the NYSE.

A gain in radio coverage of NASDAQ/OTC information was made at the end of April, when the Mutual Broadcasting System began to include the NASDAQ Composite Index in its 12:35 p.m. (EDT) Wall Street Report. Some 400 Mutual affiliates carry this stock market newscast.

The assistance being asked of members includes:

- In stock market news which they tape or telephone to radio and TV stations, inclusion of items like the NASDAQ Composite Index, volume, most active issues, etc.;
- In the case of radio and TV stations which originate their own stock market news shows, discussions with the newscasters and/or program directors concerning the inclusion of NASDAQ/OTC information; and
- In the case of newspapers which carry the NYSE and AMEX full tables, discussions with the financial and/or managing editors concerning additional coverage of the National NASDAQ/OTC list.

Members willing to provide such assistance are asked to get in touch with the Association's Information Department for statistical material and other data which can be used in local presentations.



NEW SEMINAR BOOKLET, OTHER NASD PUBLICATIONS

A new, illustrated 36-page booklet, the NASDAQ company and the NASDAQ market, is now available from the Association's Information Department. It contains all the information given by NASD, NASDAQ company and government speakers to 242 NASDAQ company executives at five all-day seminars held last December and January in Atlanta, Chicago, Dallas, New York and San Francisco. Subjects covered include the regulatory activities of the NASD, the make-up of the OTC marketplace, market making in OTC securities, shareholder communications problems of the NASDAQ company, "The SEC Today," "Our Capital Markets

and their Outlook", "NASDAQ and the Listing Decision" and answers to important questions asked by NASDAQ company executives. (Price: \$1.00 postpaid.)

Other NASD publications available from the Information Department include:

- "NASDAQ and the Listing Dilemma" (12 pgs. @ 40¢)
- "NASDAQ and the OTC Market: The 3,000-Mile-Long Trading Floor" (28 pgs. @ 55¢)
- "Investor Protection in the Over-the-Counter Securities Market" (24 pgs. @ 35¢)
- The condensed version of the 1975 Report to Members (no charge)

All orders must be pre-paid and in writing.

STATISTICS ON DIRECT PARTICIPATION PROGRAMS

The NASD's Corporate Financing Department has released statistics for the years 1973-75 relating to Direct Participation Programs, also referred to as tax

sheltered programs, filed with the Association for distribution by its members. The figures represent only public offerings registered with the proper federal and/or state authorities and are not indicative of the number or dollar amount of the offerings actually sold.

NASD DIRECT PARTICIPATION PROGRAMS FILINGS

Product	1973		1974		1975	
	Number	Dollars Registered	Number	Dollars Registered	Number	Dollars Registered
Oil & Gas	228	\$ 908,615,170	158	\$ 836,006,102	121	\$ 575,994,990
Real Estate	172	849,436,163	94	521,457,932	76	341,425,001
Vintage & Farming	29	59,894,880	17	29,666,600	4	2,465,150
Cattle Feeding & Breeding	47	329,111,000	18	142,561,010	8	27,845,000
Miscellaneous *	28	205,712,000	19	98,446,190	33	57,457,300
Total:	504	\$2,352,769,213	306	\$1,628,137,834	242	\$1,005,187,441
Real Estate Investment Trusts	51	\$1,320,457,871	13	\$ 122,983,560	10	\$ 138,911,490

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

Daily trading volume on NASDAQ, the automated quotation system for the over-the-counter securities market, averaged 7,107,403 for the first five months of 1976, up from 5,495,700 shares per day in 1975. An 11-million share day was registered on February 20, the first time since January 1973 that such daily volume had been reached. Total aggregate volume for the year-to-date as of May 27 reached 732,062,513 shares on NASDAQ as compared with 327,770,965 shares on the American Stock Exchange and 2,493,-834,975 shares on the New York Stock Exchange.

As of May 27, 2,637 securities were quoted in the NASDAQ System compared with 2,598 at the end of 1975. Also as of May 27, 1976 there were 367 active market makers in the System, with a total of 15,952 market-making positions, and an average of 6.1

market makers per security. At the end of 1975, there were 372 active market makers and an average of 5.7 market makers per security. Quotations on NASDAQ stocks were available through approximately 28,000 terminals used by registered representatives, institutions and broker/dealers throughout the world.

All leading stock market averages registered gains in the first five months of 1976. The NASDAQ Composite Index, measuring performance of the over-the-counter securities market, rose 13%, and the NASDAQ Industrial Index rose 16%. The Dow Jones Thirty Industrials closed 13% higher, while the New York Stock Exchange Industrial Index and the Standard and Poor's 425 Industrial Average, both broader-based indexes of stocks on the New York Stock Exchange, gained 12% and 11% respectively.

A comparative table of leading market indexes and NASDAQ statistics for the first five months of 1976 is shown below.

FIVE MONTH COMPARISON OF MARKET INDEXES

	<u>December 31, 1975</u>	<u>May 27, 1976</u>	<u>% Change</u>
NASDAQ Composite	77.62	87.78	+13
NASDAQ Industrials	80.95	93.98	+16
NASDAQ Banks	72.37	82.90	+15
NASDAQ Insurance	80.90	83.56	+ 3
NASDAQ Other Financial	79.02	88.54	+12
NASDAQ Transportation	85.52	100.14	+17
NASDAQ Utilities	65.95	72.66	+10
DJIA (NYSE)	852.41	965.57	+13
S & P 425 (NYSE)	100.88	111.74	+11
NYSE Industrials	52.73	59.22	+12
AMEX Market Value	83.48	102.53	+23

GENERAL NASDAQ STATISTICS

	<u>December 31, 1975</u>	<u>May 27, 1976</u>
Securities in the System	2,598	2,637
Active Market Makers	372	367
Market-Making Positions	14,815	15,952
Average number of market makers per security	5.7	6.1