

NOTICE TO MEMBERS: 77-24  
Notices to Members should be  
retained for future reference.

# NASD

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

July 21, 1977

TO: All NASD Members  
RE: Quarterly Check List of Notices to Members  
(Second Quarter, 1977)

Topically indexed below are the Notices to Members which were issued during the second quarter of 1977.

The "Reference" column on the right gives the numbers of Notices to Members which were issued on the corresponding topic during the first quarter of 1977.

<u>Topic</u>	<u>Serial No. and Summary Description</u>	<u>Date</u>	<u>Reference</u>
Check List of Notices	77-11 Quarterly Check List (First Quarter, 1977)	4/8/77	77-1
Intrastate Offerings	77-15 Requirement of NASD Review	4/26/77	
Members' Securities	77-13 Proposed Amendments, Schedule E, Article IV, By- Laws	4/20/77	
MSRB Rules	77-16 Individual Fee for Brokers and Dealers	6/3/77	
	77-17 Professional Qualifi- cation	6/3/77	
Net Capital Rule, Uniform	77-18 Interpretations and Amendments to Rules 15c3-1 and 15c3-3	6/3/77	
Options	77-14 Qualification of ROPS	4/22/77	77-7
	77-19 Margin Requirements	6/3/77	77-5
Principals, Qualifi- cation of	77-23 Requirement to Pre- Qualify as Representatives	6/27/77	

Quarterly Check List of Notices to Members  
Page 2

---

Receivers & Trustees, Appointments of	77-20 Francis Eugene Mooney, Jr.	6/3/77	77-4 77-6 77-9
	77-22 I.E.S. Management Group	6/17/77	
Stabilizing Bids on NASDAQ	77-12 Amendment to Schedule D, Article XVI, By-Laws	4/8/77	
Telephone Numbers	77-21 New New York Numbers for NASDAQ and Uniform Practice Department	6/17/77	

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

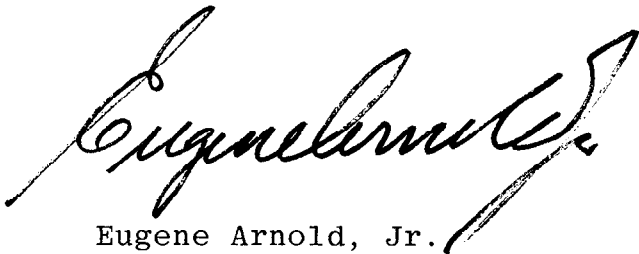
July 21, 1977

Dear NASD Executive Representative:

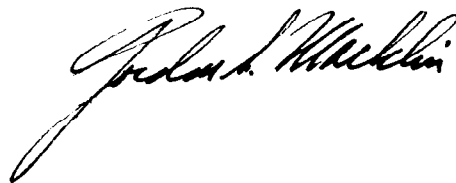
On behalf of the Board of Directors of NASDAQ, Inc. and the Board of Governors of the NASD, we are pleased to announce that both Boards have authorized the rebate of \$1,000,000 in NASDAQ revenues to subscribers to NASDAQ Level 1, 2 and 3 services. The \$1,000,000 will be rebated to subscribers according to their NASDAQ billings for fiscal year 1977.

Subsequent to September 30, 1977, the rebate, which represents approximately 8% of NASDAQ billings, will be disbursed by check to entitled subscribers with account balances not older than 90 days and a credit will be applied to entitled subscribers with account balances older than 90 days.

As you know, one of the primary purposes of NASD acquisition of the NASDAQ System from Bunker Ramo in February 1976 was to be able to reduce the cost of NASDAQ services to subscribers. This rebate is a first result.



Eugene Arnold, Jr.  
Chairman



Gordon S. Macklin  
President

NOTICE TO MEMBERS: 77-25  
Notices to Members should be  
retained for future reference.

## NASD

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

August 24, 1977

# IMPORTANT NOTICE LOST SECURITIES

TO: All NASD Members

The following notice of missing securities has been issued  
by the Department of the Treasury:

A shipment of 230 pieces of unissued stock of registered 6 1/4 percent Treasury Notes, Series S-1979, CUSIP No. 912827 GV 8, dated August 1, 1977, was lost in transit between the Bureau of the Public Debt and the Federal Reserve Bank of New York.

No registered notes of Series S-1979 had been issued at the time of the loss. To distinguish between the missing notes and those being validly issued, and to help prevent the inadvertent acceptance of the missing securities, the remaining stock of registered notes of the above issue has been overprinted with a pattern of stars, outlined in red ink, as follows:

15 small stars have been placed in the inscription area in three horizontal rows of five stars each. They begin one inch in from the frame of the portrait and one-half inch below the words "For value received promises to pay to." The stars are one-half inch apart both horizontally and vertically. Three larger stars have been placed in the area between the security serial number and the loan title.

The beginning serial numbers of the validly issued registered notes of Series S-1979 are as follows:

DENOMINATION

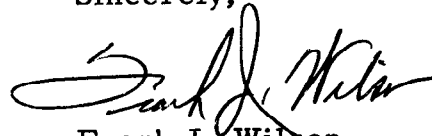
SERIAL NUMBER

\$ 5,000	1,001
10,000	1,001
100,000	101
1,000,000	51

Financial institutions should examine registered Series S-1979 notes presented for transfer or as collateral to determine that they contain the special overprint and have serial numbers that are not lower than those shown above for the denominations involved.

If any questionable notes are received, the nearest office of the U. S. Secret Service should be notified immediately.

Sincerely,



Frank J. Wilson  
Senior Vice President  
Regulatory Policy and  
General Counsel

NOTICE TO MEMBERS: 77-26  
Notices to Members should be  
retained for future reference.

# NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

August 24, 1977

## IMPORTANT

TO: NASD Members  
Attention: All Operations Personnel

RE: SEC Rule 17f-1; Lost and Stolen Securities Program

### Introduction

On December 10, 1976, the Securities and Exchange Commission adopted Rule 17f-1 under Section 17(f) of the Securities Exchange Act of 1934. The new rule establishes reporting and inquiry requirements with respect to missing, lost, stolen and counterfeit securities.

The purpose of the rule is to establish a program for the validation of securities in the custody or control of broker-dealers and other financial institutions. The provisions of Rule 17f-1 will require, among other things, all such entities to determine whether certain securities coming into their possession are counterfeit or have been reported as missing, lost or stolen. The details concerning the implementation of the Commission's Lost and Stolen Securities Program and the provisions of the rule were announced in SEC Release No. 34-13832 which was published in the Federal Register on August 12, 1977.

Reporting and recordkeeping requirements of the rule will become effective on October 3, 1977. Inquiry requirements and certain other provisions will become effective on January 2, 1978. In addition, the Lost and Stolen Securities Program will be implemented on a pilot basis until December 31, 1978, to permit the SEC to monitor the effectiveness of Rule 17f-1 and the various systems designed to carry out its provisions. The purpose of this notice is to explain some of the important aspects of the Commission's program and the steps members should take to ensure compliance with the provisions of SEC Rule 17f-1. Enclosed with this notice is a reprint of SEC Release No. 34-13832,

dated August 5, 1977, consisting of various appendices which, together, describe more fully the procedures for the implementation of the Lost and Stolen Securities Program, billing arrangements and fees, and the procedures for the submission of registration and reporting forms by participants in the program.

Reporting and Inquiry Requirements - General Procedures

Brokers, dealers, municipal securities dealers and other financial institutions are, for purposes of Rule 17f-1, "reporting institutions" and required to make reports and inquiries with respect to missing, lost, stolen and counterfeit securities within specified time periods. Under SEC Rule 17f-1, a broad range of financial institutions involved in securities transactions or handling securities are required to file reports of securities which are missing, lost or stolen from their possession or control and with respect to the discovery of counterfeit securities which may come into their possession. In addition, all such entities must make an inquiry as to whether securities which come into their possession or control have been previously reported as missing, lost, stolen or counterfeit.

The operating procedures of the Commission's Lost and Stolen Securities Program require all reporting institutions to file reports and inquiries with one of two "appropriate instrumentalities." In the case of United States Government and Agency securities, any Federal Reserve Bank of the Federal Reserve System is an appropriate instrumentality. For all other types of securities, the SEC is the appropriate instrumentality.

Reports of missing, lost, stolen or counterfeit Government or Agency securities should be made in writing on SEC Form X-17F-1A (see Appendix II of the enclosed release) and addressed to a Federal Reserve Bank nearest to the reporting institution. Inquiries may be made by telephone to the same bank. The details of the Federal Reserve System's procedures for reports and inquiries, as well as the addresses and telephone numbers of all Federal Reserve Banks, are included with the attached release in Appendix III.

The SEC has designated the Securities Information Center, Inc., (the "Designee"), to operate the Lost and Stolen Securities Program on its behalf and to receive reports and inquiries from reporting institutions in connection with other than Government and Agency securities. All such reports must be made on recently adopted SEC Form X-17F-1A and signed by an authorized individual of the reporting institution whose signature is on file with the Designee. Reports for which the Commission is the appropriate instrumentality should be mailed to the

Securities Information Center, Inc., P. O. Box 421, Wellesley Hills, Massachusetts 02181. Provision is made in the program for preliminary reports to be submitted by telephone or telex but they must be followed by a written report on Form X-17F-1A and mailed to the above address.

All reporting institutions are required to register as such with the Designee. However, for the purpose of facilitating inquiries into the Designee's system (the "System"), a reporting institution must also register with the Designee as either a Direct Inquirer or as an Indirect Inquirer. Direct Inquirers, as the name implies, will be capable of making direct inquiries and will be assigned an appropriate Access Code to insure entry into the System. A Direct Inquirer will also be able to access the System from various stations within its organization each of which will have its own Access Code. Such stations should be designated and registered as either Primary or Secondary Access Stations.

A Primary Access Station is one which is capable of making reports and inquiries into the System and receiving confirmations directly from the Designee. Every reporting institution which is a Direct Inquirer must designate and register at least one station as a Primary Access Station. Secondary Access Stations will be capable of making inquiries into the System but written confirmations of such will be sent by the Designee to the Primary Access Station with which it is associated. In this regard, a secondary station may only be associated with one primary station.

An Indirect Inquirer is a reporting institution which has made arrangements with a Direct Inquirer who will make inquiries on its behalf. In such cases, confirmations of any such inquiries will be sent to the Direct Inquirer. Only Direct Inquirers will have direct access to the System for the purpose of making inquiries to determine whether securities have been previously reported as missing, lost, stolen or counterfeit.

Attached to the enclosed release as Appendix V is a Registration Form which all brokers, dealers, municipal securities dealers and other reporting institutions must complete as an initial requirement under the Commission's Lost and Stolen Securities Program. This form must be completed and submitted to the Designee no later than September 23, 1977, with an indication of whether the reporting institution will be either a Direct Inquirer or an Indirect Inquirer of the System. For all firms which register as a Direct Inquirer, the Designee will send further information on how to access the System, appropriate Access Codes and forms with which to register the signatures of additional



authorized personnel with respect to the filing of reports on Form X-17F-1A. It is important to note that failure to timely submit a completed Registration Form and to remit applicable fees when billed will prevent access to the System by a given reporting institution and may cause any such firm to be in violation of SEC Rule 17f-1.

#### Schedule of Charges

The Commission has approved a schedule of fees to be charged all reporting institutions that register as Direct Inquirers. They are as follows:

1. an annual registration fee for each Primary and Secondary Access Station;
2. a one-time System development fee; and,
3. usage fees to cover the costs of verification of authorized System access, matching of reports and inquiries, notification of matches and confirmation of inquiries.

The details and an explanation of each of the fees are more fully described in Appendix IV of the enclosed release. Additional information, including procedural instructions and telephone numbers and telex numbers will be mailed to Direct Inquirers after registration forms have been received and processed.

#### Effective Dates

The recordkeeping and reporting requirements of the rule will become effective on October 3, 1977. At that time, reporting institutions will be responsible for submitting reports with respect to all situations involving missing, lost, stolen or counterfeit securities. Copies of reports must also be sent to a registered transfer agent for the security involved. In cases where there is substantial belief that criminal activity is involved, an additional report is required to be sent to an appropriate law enforcement agency. All such reports must be made on Form X-17F-1A and signed by an authorized individual whose signature has been filed with the Designee. The Designee will send each reporting institution a written Report Confirmation on a weekly basis.

The inquiry requirements of Rule 17f-1 will become effective on January 2, 1978. At that time, all reporting institutions will be required to inquire of the System to determine if certain securities

which come into their possession or control have been previously reported in the System as missing, lost, stolen or counterfeit.

### Pilot Program

In order to monitor the effectiveness of the Lost and Stolen Securities Program and to gain experience in connection with user requirements, the System will be operated on a pilot basis for the period from October 3, 1977, to December 31, 1978. During the pilot program, certain reports and inquiries will not have to be made which would otherwise be required under the program. The exceptions to reporting and inquiry requirements for purposes of the pilot program are as follows:

1. Corporate and municipal securities not assigned CUSIP numbers will be exempt from required reporting and inquiry. A certificate will not be exempt merely because it does not have a CUSIP number on it. In order to be exempt, the issue of which the certificate is a part must not have been assigned a CUSIP number;
2. Transactions involving securities of less than \$10,000 face value in the case of bonds and \$10,000 market value in the case of stocks will be exempt from inquiry only. All losses, including those of less than \$10,000, must be reported; and,
3. Registered transfer agents are exempt from inquiry during the pilot program.

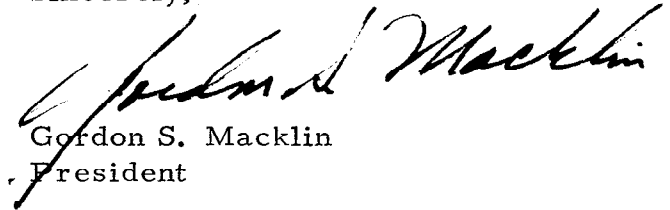
The Commission intends to monitor the appropriateness of the above exceptions in order to determine whether, in light of comments received and experience gained, they should be retained permanently. Unless extended, the exemptions will expire on December 31, 1978.

Members are advised to carefully study and review the enclosed release which details all of the registration and operating procedures under the Commission's Lost and Stolen Securities Program. The requirements of this program are not intended to be a substitute for other steps which members should ordinarily take to prevent losses which might result from processing securities which are stolen or counterfeit. In this regard, members should review the adequacy of their in-house procedures and make adjustments where necessary to

insure that all employees responsible for handling marketable securities are familiar with the requirements of SEC Rule 17f-1. Members may find it helpful to circulate this notice for the benefit of all such individuals.

If further information is needed or should you have any questions with respect to this matter, please contact Jack Rosenfield, Assistant Director, Department of Regulatory Policy and Procedures, (202) 833-4828, at the Association's Executive Office, 1735 K Street, N. W., Washington, D. C. 20006.

Sincerely,



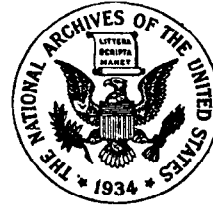
Gordon S. Macklin  
President

Enclosure

Registered  
for  
Trade

FRIDAY, AUGUST 12, 1977

PART II



---

**SECURITIES AND  
EXCHANGE  
COMMISSION**

■

**LOST AND STOLEN  
SECURITIES PROGRAM**

**Implementation**

**Title 17—Commodity and Securities Exchanges**

**CHAPTER II—SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-13832]

**PART 241—INTERPRETATIVE RELEASES RELATING TO THE SECURITIES EXCHANGE ACT OF 1934 AND GENERAL RULES AND REGULATIONS THEREUNDER**

**Lost and Stolen Securities**

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Implementation of program for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities.

**SUMMARY:** This action provides notification of the implementation of the Lost and Stolen Securities Program, sets forth the procedures for making reports and inquiries with respect to missing, lost, stolen or counterfeit securities, and disseminates a Registration Form which must be completed by all reporting institutions before access to the data base maintained by the Commission's designee is authorized. This release is intended to aid reporting institutions in complying with the Commission's regulations promulgated in an effort to reduce securities thefts and traffic in spurious securities. This action also republishes § 240.17f-1 and reporting Form X-17F-1A in their final, amended versions and is necessary to provide reporting institutions with all substantive requirements of the Lost and Stolen Securities Program in a single document.

**EFFECTIVE DATES:** Reporting and record keeping requirements: October 3, 1977. Inquiry requirements and remaining provisions: January 2, 1978.

**FOR FURTHER INFORMATION CONTACT:**

Gregory C. Yadley, Division of Market Regulation, Securities and Exchange Commission, Washington D.C. 20549, 202-755-7826.

**SUPPLEMENTARY INFORMATION:** In order to avoid duplication and to implement the Lost and Stolen Securities Program in a more efficient manner, the Securities and Exchange Commission has amended § 240.17f-1 to require that copies of reports of missing, lost, stolen or counterfeit securities be filed with a registered transfer agent for the issue. This release provides notification of this action and also sets forth the procedures for implementation of the Lost and Stolen Securities Program, including information regarding access to the data bases maintained by the Commission's designee and the Federal Reserve Banks, billing arrangements, and submission of registration forms. The release republishes § 240-17f-1 and Reporting Form X-17F-1A in their final, amended versions.

**BACKGROUND**

The problems relating to missing, lost, counterfeit or stolen securities have been described by the Commission<sup>1</sup> and were the subject of a series of Congressional hearings.<sup>2</sup> The recommendation for a system for the receipt of reports and inquiries concerning missing, lost, stolen or counterfeit securities has been supported widely. Section 17(f) of the Act established the legislative framework for such a system by providing that every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency and participant therein, member of the Federal Reserve System and bank whose deposits are insured by the Federal Deposit Insurance Corporation shall report and inquire with respect to missing, lost, counterfeit or stolen securities in accordance with rules promulgated by the Commission.

On December 6, 1976, the Commission adopted § 240.17f-1, establishing reporting and inquiry requirements with respect to missing, lost, stolen or counterfeit securities.<sup>3</sup> Certain technical amendments to the section were made on February 18, 1977,<sup>4</sup> and further amendments regarding the role of transfer agents in the Lost and Stolen Securities Program were proposed.<sup>5</sup>

**IMPLEMENTATION OF THE PROGRAM AND APPROPRIATE INSTRUMENTALITIES**

In order to implement § 240.17f-1 in the most efficient manner, the Commission determined that it would be appropriate to institute a pilot program to monitor the effectiveness of the section and the system designed to carry out its provisions. Accordingly, the Lost and Stolen Securities Program will be implemented on a pilot basis until December 31, 1978. In accordance with the inquiry and reporting requirements of paragraphs (b) and (c) of § 240.17f-1, any Federal Reserve Bank or Branch is an appropriate instrumentality with respect to United States Government or Agency securities. A description of the general operating procedures of the Federal Reserve Banks is attached as Appendix III.

Section 17(f)(1)(A) of the Act states that reports and inquiries shall be made to the Commission or "other person designated by the Commission." The Com-

<sup>1</sup> Study of Unsafe and Unsound Practices of Brokers and Dealers, Report and Recommendations of the Securities and Exchange Commission (pursuant to Section 11(h) of the Securities Investor Protection Act of 1970), December 1970.

<sup>2</sup> Organized Crime—Stolen Securities, Hearings Before the Permanent Subcommittee on Investigations, Senate Committee on Government Operations, 92nd Cong., 1st Sess. (1971); 93rd Cong., 1st Sess. (1973); 93rd Cong., 2d Sess. (1974).

<sup>3</sup> Securities Exchange Act Release No. 13053, 41 FR 54923 (December 16, 1976).

<sup>4</sup> Securities Exchange Act Release No. 13280, 42 FR 11829 (March 1, 1977).

<sup>5</sup> Securities Exchange Act Release No. 13281, 42 FR 11844 (March 1, 1977).

mission determined that a manual, computer-assisted system would best achieve the purposes of the pilot program and that the goals of the Act would best be fulfilled by the designation of a private entity to perform certain functions under the Commission's direction. Accordingly, the Commission published "Criteria for a Lost and Stolen Securities Reporting and Inquiry System" and solicited submissions of proposed systems from entities interested in serving as the Commission's designee during the pilot program. The plans which were received were analyzed, and the Securities Information Center, Inc. ("SIC" or the "Commission's designee"), a subsidiary of ITEL AutEx, Inc. was designated to receive reports and respond to inquiries on behalf of the Commission.<sup>6</sup> All reports and inquiries required to be made with the Commission, therefore, shall be made with SIC. A description of SIC's general operating procedures is attached as Appendix IV.

On February 13, 1977,<sup>7</sup> the Commission adopted Form X-17F-1A, "Lost, Missing, Stolen, Counterfeit Securities Report," (17 CFR 249.1200) which, pursuant to paragraph (b)(6) of § 240.17f-1, shall be used for all reports. Where reports are made by telephone, telex or other means, a hardcopy confirmation of the report must still be filed with the appropriate instrumentality within the time periods specified in paragraph (b) of this section. Certain technical modifications to Form X-17F-1A and the accompanying instructions have been made, and the Form is attached as Appendix II.

**SECTION 240.17f-1<sup>8</sup>**

(a) **Definitions.** Paragraph (a) defines the terms "reporting institution" and "appropriate instrumentality."

(b) **Reporting requirements.** Paragraph (b) requires financial institutions and others to report missing, lost, counterfeit or stolen securities within specified time periods. Reports with respect to U.S. Government or Agency securities or securities of certain international organizations are to be made to the nearest Federal Reserve Bank or Branch; reports with respect to all other securities are to be made to the Commission's designee. Copies of all reports must be sent to a registered transfer agent for the issue involved.<sup>9</sup> Where there is a

<sup>6</sup> In Securities Exchange Act Release No. 13538, 42 FR 26495 (May 24, 1977), AutEx, Inc. was named as the designee. Subsequently, as a consequence of the acquisition of AutEx by ITEL Corporation, SIC was created as a wholly-owned subsidiary of ITEL AutEx, Inc.

<sup>7</sup> Securities Exchange Act Release No. 13280, 42 FR 11829 (March 1, 1977).

<sup>8</sup> Section 240.17f-1 is attached as Appendix I.

<sup>9</sup> Where more than one registered transfer agent performs transfer agent functions for the issue, notification to any of them will satisfy the requirements of this section. It is expected that where there are co-transfer agents, internal procedures will be established to ensure prompt notification of losses to all co-transfer agents.

substantial belief that criminal activity is involved, an additional report must be made to the appropriate law enforcement agency.<sup>10</sup>

Unissued certificates which are lost or stolen are also required to be reported, and appropriate instructions are provided for such reports in the Instructions to Form X-17F-1A. Coupons, however, are not required to be reported. A report is also required if a security previously reported missing, lost or stolen is recovered.

The information required to be reported is set forth in paragraph (b) (5) of this section<sup>11</sup> and shall be provided on Form X-17F-1A. A copy of Form X-17F-1A is annexed to this release as Appendix II, and additional copies of the Form are available from the Publication Office of the Commission or the Commission's Regional Offices. The form may be reproduced in any manner by entities subject to the section so long as the graphics and format of the Form are not altered and 8½" x 11" paper is used. In order to avoid duplication, the Commission encourages transfer agents to utilize Form X-17F-1A as their stop transfer forms.

This section requires reporting institutions to report: (1) Those securities missing, lost, or stolen from their possession or control and (2) those securities which are missing, lost or stolen from the possession or control of a person which is not a reporting institution and which securities have not been reported by another reporting institution. For example, if securities are missing from the control of a broker, the broker would be

required to report. The transfer agent who receives a copy of Form X-17F-1A concerning such securities would not be required to report. In contrast, where a loss of securities is reported to the transfer agent by a non-reporting entity such as an individual, the transfer agent would be required to make a report when it receives the information.

Unless the Commission announces to the contrary, transfer agents will not be required to report stops received prior to October 3, 1977. However, the Commission may obtain and include in the data base such information obtained from insurance companies and law enforcement sources. For the purpose of paragraph (b) (2) only, but not paragraphs (b) (2) (i)-(iii), the time periods for reporting begin to run when, on the basis of all relevant circumstances, the reporting institution believes a certificate to be lost or missing as opposed to a belief that the certificate is merely misplaced or misfiled by the institution. Reporting institutions should diligently follow up on indications of non-receipt submitted by receiving institutions in order to determine their responsibilities under this section.

Counterfeit securities, including altered or forged securities, are required to be reported to the appropriate law enforcement agency as well as to the appropriate instrumentalities. Reports of recoveries of lost, missing, or stolen securities are required to be made to the appropriate instrumentality and to a registered transfer agent for the issue. Where stolen securities were reported to a law enforcement agency, a report of recovery is required to be made to such agency. Recovery may only be reported by the institution which reported the security as missing, lost or stolen. However, report of recovery may be made by a successor institution, trustee or the recovering institution where the reporting institution no longer exists. For certain exemptions applicable until December 31, 1978, see the section below entitled "Pilot Program."

(c) *Inquiry requirements.* Paragraph (c) of Section 240.17f-1 requires financial institutions to determine whether securities coming into their possession or keeping under certain circumstances have been reported as missing, lost, counterfeit or stolen. Inquiry with the appropriate instrumentality is required whenever securities are received, whether by pledge, transfer or in some other manner, unless they are received (1) from the issuer on original issue, (2) from another reporting institution, or (3) from a customer and are registered in the name of such customer or its nominee. Coupons are not required to be the subject of inquiry.

Under the section, inquiry would be required of a reporting institution whenever a non-reporting institution such as an individual submits securities in bearer form, street name or registered to a third person. All securities delivered to a reporting institution by the issuer or another reporting institution are ex-

empt from inquiry regardless of the form of registration.<sup>12</sup>

The inquiry requirements as set forth in the section must be followed even though a reporting institution may determine through other means that the security is not lost or stolen. For example, if a bank takes a bearer security from a customer as collateral for a loan and the bank sends the security to the transfer agent for transfer to the bank's name or the customer's name, the bank must still make inquiry with the appropriate instrumentality.

As a practical matter, however, a reporting institution may assume the inquiry responsibility of another reporting institution. This may be a common practice where Broker A clears on a fully disclosed basis for Broker B, and Broker B's customers deliver their securities to Broker A. If Broker A, as part of its clearing arrangement, undertakes to make the required inquiry, Broker B would not have to make the inquiry.

These exceptions are intended to make inquiry unnecessary in the majority of instances and to require inquiry in those circumstances most likely to involve missing, lost, counterfeit or stolen securities. The system has been designed to avoid undue disruption to the course of normal commercial transactions.

When an inquiry reveals that the security in question has been reported as missing, lost or stolen, the inquiring institution will be provided with the name of the institution which reported the loss. In such instances, the section does not set forth any further requirements. Consequently, the inquiring institution would be expected to follow current business practices in dealing with securities which it knows to be lost or stolen.

As a part of the design of the Commission's system, inquiries will be recirculated against reports of loss which may have come in subsequent to the inquiry. Through this procedure, the system will be able to identify those securities which were negotiated before a lost or stolen securities report was received.

For certain exemptions which will be applicable until December 31, 1978, see the section below entitled "Pilot Program."

(d) *Permissive inquiry.* Paragraph (d) describes the availability of the reporting and inquiry system to any reporting entity whether or not § 240.17f-1 would require a report or inquiry. With respect to the granting of authority to make permissive inquiries, it should be pointed out that this authority is provided to allow sufficient flexibility when an inquiry is not mandated but suspicious circumstances are involved. The Commission, in allowing permissive in-

<sup>12</sup> It bears emphasis that not all financial institutions are reporting institutions as defined by § 240.17f-1. If in doubt as to whether an entity is a reporting institution, it is suggested that reporting institutions check the available reference works to determine whether the entity is an FDIC insured bank or other reporting institution enumerated in this section.

<sup>10</sup> The following general guidelines may be useful in deciding which law enforcement agencies to notify in certain instances:

(1) *Local Police Department*—All cases involving thefts or mysterious disappearances of securities or discoveries of securities reported stolen.

(2) *Federal Bureau of Investigation*—All cases involving securities thefts of \$5,000 or over, all thefts from banks, all thefts of Government securities, all counterfeits of non-Government securities, all counterfeits presented as collateral for a bank loan, all stolen or counterfeit securities involved in interstate commerce, and all counterfeit securities used in a violation of a Federal law.

(3) *U.S. Secret Service*—All cases involving counterfeits of securities which are direct obligations of the United States Government or are issued with Government backing. The Secret Service reportedly has a general interest in all counterfeit activity.

These are general guidelines. Good faith determination and notification to any of the above agencies shall be deemed compliance with paragraph (b) (1) of § 240.17f-1.

<sup>11</sup> One item of information required is the reporting institution's FINS number. FINS ("Financial Industry Number Standard") numbers are compiled in the 1976 FINS Directory (First Edition), published by the Depository Trust Company. If an institution is uncertain as to whether it has a FINS number, it should consult this Directory, its self-regulatory organization or its trade association. If an institution has not been assigned a FINS number, a number may be obtained at no cost by writing the Depository Trust Company. Attention: FINS Publication, 55 Water Street, New York, New York 10041.

quiries, does not intend to incorporate an inquiry requirement into the bona fide purchaser doctrine each time a reporting institution receives a security certificate. The Commission recognizes that to require or suggest inquiry in all cases would seriously jeopardize the ability of financial institutions to function in an efficient manner.

Section 240.17f-1 also provides that the Commission may grant other persons access to the system upon such terms or conditions as it deems necessary and appropriate in the public interest and for the protection of investors. The Commission recognizes that a number of foreign banks and other financial institutions, such as insurance companies, are not included in the definition of "reporting institutions." Consequently, securities received from such institutions which are not registered in the names of those institutions or their nominees are required to be the subject of inquiry under § 240.17f-1.

The Commission is aware that this may cause hardship to certain reporting institutions. In order to alleviate this hardship and to allow those reporting institutions dealing with these non-reporting financial institutions the exemption allowed under paragraph (c) (1) (ii) of this section, the Commission encourages financial institutions not within the jurisdiction of this section to apply under paragraph (d) to become so included. The Commission, as a condition to granting such a status, will require those institutions to undertake to comply with § 240.17f-1 on the same basis as a reporting institution. Letters requesting participation in the Lost and Stolen Securities Program should be denominated "Application for Designation as a Reporting Institution Pursuant to § 240.17f-1" and should be addressed to the Division of Market Regulation.<sup>13</sup>

The Commission shall have the right to withdraw this designation upon written notice. The Commission will withdraw such designation if the financial institutions violates its undertaking to comply with § 240.17f-1, applicable instructions issued by the Commission, its designee, or the Federal Reserve Banks, or if it does not remit the appropriate fees which are assessed for the use of the system. Such financial institutions shall not be charged a fee greater than

<sup>13</sup> The letter should identify:

1. The primary business of the financial institution.

2. Whether the financial institution is registered with or regulated by any Federal, State or foreign government or agency thereof.

3. Whether the institution engages in a retail securities business with non-institutional customers and the portion of such in relation to the institution's total business.

4. The names of the officers or principal shareholders of the financial institution. In the letter the financial institution shall agree to comply with all applicable provisions of section 240.17f-1 and applicable instructions issued by the Commission, its designee or the Federal Reserve Banks and shall agree to pay an appropriate fee for participation in the system.

that charged a reporting institution of comparable size.

(e) *Exemptions.* Section 240.17f-1 provides in paragraph (e) that registered securities for which a Federal Reserve Bank or Branch is the appropriate instrumentality or counterfeits of such securities are not the subject of required reporting and inquiry. Reports with respect to such securities should continue to be made to the U.S. Treasury Department or the Federal Reserve Bank of New York, in accordance with outstanding Treasury instructions and current practices in the financial community. Where a stolen security is involved, reports are required to be made to the appropriate law enforcement agency.

With respect to coupons, the Commission stated in Release No. 34-13280 that, as a matter of interpretation, § 240.17f-1 does not require reporting and inquiry with respect to coupons.

(f) *Recordkeeping.* Paragraph (f) of section 240.17f-1 codifies the recordkeeping and record retention procedures established by the Lost and Stolen Securities Program.<sup>14</sup> Essentially, copies of all Forms X-17F-1A filed pursuant to this section and all confirmations of inquiry or other information received from the appropriate instrumentality must be retained for a period of three years in an easily accessible place. Sections 240.17a-3 and 240.17a-4 have also been amended to incorporate these requirements into the general recordkeeping and retention provisions applicable to certain exchange members, brokers, and dealers.

#### PILOT PROGRAM

In order to implement § 240.17f-1 in the most efficient manner, the Commission determined that it would be appropriate to institute a pilot program to monitor the effectiveness of the section and the system designed to carry out its provisions. Accordingly, § 240.17f-1 will be implemented on a pilot basis until December 31, 1978.

During the pilot program, the Commission will not require certain reports and inquiries to be made which otherwise would be required under the section.

1. Corporate and municipal securities not assigned CUSIP numbers will be exempt from required reporting and inquiry. Consequently, short term securities such as commercial paper are not subject to the requirements of § 240.17f-1 during the pilot program.<sup>15</sup>

2. Transactions involving securities of less than \$10,000 face value in the case of bonds and \$10,000 market value in the case of stocks will be exempt from inquiry only. All losses, including those of less than \$10,000, must be reported.

3. Registered transfer agents are exempt from inquiry during the pilot program.

<sup>14</sup> See Securities Exchange Act Release No. 13831 (August 5, 1977).

<sup>15</sup> A certificate is not exempt under this provision because the certificate itself does not have a CUSIP number on it. In order to be exempt, the issue of which the particular certificate is a part must not have been assigned a CUSIP number.

On the basis of the impact studies conducted and the comment letters received, the Commission believes that allowing these additional exemptions from reporting and inquiry during the pilot program will allow the efficient implementation of a system to carry out the mandate of the Act. In addition, these exemptions will allow financial institutions subject to this section an opportunity to adapt to the operation of the section without undue disruption to the course of normal commercial transactions. During the pilot program, the Commission intends to monitor the appropriateness of these special exemptions in order to determine whether they should be retained permanently. These exemptions will expire on December 31, 1978 unless they are extended by the Commission.

#### APPROPRIATE INSTRUMENTALITIES AND OPERATION OF SYSTEMS

Attached as Appendices III and IV to this release are descriptions of the general operations of the appropriate instrumentalities, including procedures for making reports and inquiries. With respect to securities for which a Federal Reserve Bank or Branch is the appropriate instrumentality, telephone numbers and mailing addresses pertinent for compliance with § 240.17f-1 are included in Appendix III. A map of the twelve Federal Reserve Districts is also included to assist reporting institutions in locating the closest Federal Reserve Bank or Branch.

Appendix IV contains the operating procedures and a description of the system of the Securities Information Center, Inc., the Commission's designee for receipt of reports and inquiries for which the Commission is the appropriate instrumentality. Included in these materials as Appendix V is a Registration Form which must be completed and returned to the Commission's designee no later than September 23, 1977. Each reporting institution must determine whether it will be a Direct or Indirect Inquirer of the System and so indicate on the Registration Form.

The Commission has determined that the method of allocating fees and the fees to be charged are reasonable in making available to reporting institutions information regarding missing, lost, counterfeit or stolen securities pursuant to Section 17(f) (1) (A) of the Act. Authorized signatures and an indication as to whether the entity will be a Direct or Indirect Inquirer must be provided to the Commission's designee by September 23, 1977 in order for the reporting institution to be able to fulfill the requirements of § 240.17f-1. The Commission wishes to emphasize that failure to submit the Registration Form, and if a Direct Inquirer to remit applicable fees when billed, will prevent access by a given reporting institution to the system and hence cause the reporting institution to be in violation of § 240.17f-1.

The Commission will study the operation of § 240.17f-1 and the system for

reporting and inquiry during the pilot program and will make modifications where appropriate.

**EFFECTIVE DATES AND RESPONSIBILITIES OF APPROPRIATE INSTRUMENTALITIES**

The reporting and recordkeeping requirements of § 240.17f-1 will become effective on October 3, 1977; the inquiry requirements and the remaining provisions of the section will become effective on January 2, 1977.

The appropriate instrumentalities undertake no responsibility with regard to any party in maintaining the lists of missing, lost, counterfeit or stolen securities or responding to inquiries pertaining thereto and will not be liable for any act or failure to act with respect to any procedures set forth in § 240.17f-1.

**IMMOBILIZATION AND ELIMINATION OF CERTIFICATES**

It should be noted that this program is not intended to be a substitute for other steps which are being undertaken to improve securities processing, prevent losses and reduce the risk of theft. The Commission continues to endorse the concepts of improved securities processing and certificate immobilization and elimination through greater use of depositories and book entry systems. It is expected that this program will be developed in a manner appropriate to meet existing needs and will be flexible enough to adjust to changing circumstances.

By the Commission.

SHIRLEY E. HOLLIS,  
Assistant Secretary.

AUGUST 5, 1977.

**§ 240.17f-1 Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities.**

(a) *Definitions*—(1) *Reporting institution*. For purposes of this section, the term "reporting institution" shall include every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System and bank whose deposits are insured by the Federal Deposit Insurance Corporation.

(2) *Appropriate instrumentality*. For purposes of this section the term "appropriate instrumentality" shall mean:

(i) Any Federal Reserve Bank or Branch thereof with respect to securities issued by:

- (A) The United States Government,
- (B) Any agency or instrumentality of the United States Government,
- (C) The International Bank for Reconstruction and Development,
- (D) The Inter-American Bank, or
- (E) The Asian Development Bank; and

(ii) The Securities and Exchange Commission with respect to all other securities.

(b) *Reporting requirements*—(1) *Stolen securities*. (i) Every reporting institution shall report to the appropriate

instrumentality and to a registered transfer agent for the issue the discovery of the theft or loss of any security where there is substantial basis for believing that criminal activity was involved. Such report shall be made within one business day of the discovery and, if the certificate numbers of the securities cannot be ascertained at that time, they shall be reported as soon thereafter as possible.

(ii) Every reporting institution shall promptly report to the appropriate law enforcement agency upon the discovery of the theft or loss of any security where there is substantial basis for believing that criminal activity was involved.

(2) *Missing or lost securities*. Every reporting institution shall report to the appropriate instrumentality and to a registered transfer agent for the issue the discovery of the loss of any security where criminal actions are not suspected when the security has been missing or lost for a period of two business days. Such report shall be made within one business day of the end of such period except that:

(i) Securities lost in transit to customers, transfer agents, banks, brokers or dealers shall be reported by the delivering institution no later than two business days after notice of non-receipt or as soon after such notice as the certificate numbers of the securities can be ascertained.

(ii) Securities considered lost or missing as a result of securities counts or verifications required by rule, regulation or otherwise (e.g. dividend record date verification made as a result of firm policy or internal audit function report) shall be reported no later than ten business days after completion of such securities count or verification or as soon after such count or verification as the certificate numbers of the securities can be ascertained.

(iii) Securities not received during the completion of a delivery, deposit or withdrawal shall be reported in the following manner:

(A) Where delivery of securities is through clearing agency, the delivering institution shall supply the receiving institution the certificate number of the security within two business days from the date of request from the receiving institution. The receiving institution shall report within one business day of notification of the certificate number;

(B) Where the delivery of securities is over the window and where the delivering institution has a receipt, the delivering institution shall supply the receiving institution the certificate numbers of the securities within two business days from the date of request from the receiving institution. The receiving institution shall report within one business day of notification of the certificate number;

(C) Where the delivery of securities is over the window and where the delivering institution has no receipt, the delivering institution shall report within two business days of notification of non-receipt by the receiving institution; or

(D) Where delivery of securities is made by mail or via draft, if payment is not received within ten business days, the delivering institution shall confirm with the receiving institution the failure to receive such delivery; if confirmation shows non-receipt, the delivering institution shall report within two business days of such confirmation

(3) *Counterfeit securities*. Every reporting institution shall report the discovery of any counterfeit security to the appropriate instrumentality and the appropriate law enforcement agency within one business day of such discovery.

(4) *Recovery*. Every reporting institution shall report the recovery or finding of any security previously reported missing, lost or stolen pursuant to this section to the appropriate instrumentality and to a registered transfer agent for the issue within one business day of such recovery or finding. If a report of stolen securities was made to the appropriate law enforcement agency, a report of such recovery shall also be made to such agency. Recovery may only be reported by the institution which reported the security as missing, lost or stolen.

(5) *Information to be reported*. All reports made pursuant to this section shall include, if applicable or available, the following information with respect to each security:

- (i) Issuer;
- (ii) Type of security and series;
- (iii) Date of issue;
- (iv) Maturity date;
- (v) Denomination;
- (vi) Interest rate;
- (vii) Certificate number, including alphabetical prefix or suffix;
- (viii) Name in which registered;
- (ix) Distinguishing characteristics, if counterfeit;
- (x) Date of discovery of loss or recovery;
- (xi) CUSIP number; and
- (xii) FINS number.

(6) *Forms*. All reports made pursuant to this section shall be made on Form X-17F-1A.

(c) *Required inquiries*. (1) Every reporting institution shall inquire of the appropriate instrumentality with respect to every security which comes into its possession or keeping, whether by pledge, transfer, or otherwise, to ascertain whether such security has been reported as missing, lost, counterfeit or stolen, unless

(i) The security is received directly from the issuer or issuing agent at issuance;

(ii) The security is received from another reporting institution or Federal Reserve Bank in its capacity as fiscal agent;

(iii) The security is received from a customer of the reporting institution and is registered in the name of such customer or its nominee.

(2) *Form of inquiry*. Inquiries shall be made in such manner as prescribed by the appropriate instrumentality.

(d) *Permissive reports and inquiries*. Every reporting institution may report to or inquire of the appropriate instru-



## RULES AND REGULATIONS

mentality with respect to any security not otherwise required by this section to be the subject of a report or inquiry. The Commission on written request or upon its own motion may permit reports to and inquiries of the system by any other person or entity upon such terms and conditions as it deems appropriate and necessary in the public interest and for the protection of investors.

(e) *Exemptions.* Registered securities of the United States Government, any agency or instrumentality of the United States Government, the International Bank for Reconstruction and Development, the Inter-American Development Bank, or the Asian Development Bank, and counterfeit securities of such entities are not subject to the provisions of this section relating to reporting and in-

quiry with the appropriate instrumentality.

(f) *Recordkeeping.* Every reporting institution shall maintain and preserve in an easily accessible place for three years copies of all Forms X-17F-1A filed pursuant to this section and all confirmations or other information received from the appropriate instrumentality or its designee as a result of inquiry.

**RULES AND REGULATIONS**

41027

APPENDIX II

Please Type or  
Print Clearly

**FORM X-17F-1A**  
**MISSING/LOST/STOLEN/COUNTERFEIT**  
**SECURITIES REPORT**

Designee's Use Only

Date / File Number

1. REPORTING INSTITUTION: NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

ZIP CODE \_\_\_\_\_

ATTENTION: \_\_\_\_\_

FINS, SIC IDENTIFIER NUMBER       / ( ) ( ) ( )

2. TYPE OF REPORT  LOSS  RECOVERY  UPDATE  CONFIRMATION

3. DATE OF LOSS/RECOVERY \_\_\_\_\_

4. TYPE OF SECURITY  COMMON STOCK  PREFERRED STOCK  CORPORATE BOND  
 MUNICIPAL BOND  CONVERTIBLE DEBENTURE  DEBENTURE  NOTE  WARRANT  
 RIGHT  OPTION  OTHER \_\_\_\_\_

5. NAME OF ISSUER \_\_\_\_\_

6. INTEREST RATE \_\_\_\_\_ 7. MATURITY DATE \_\_\_\_\_

8. CUSIP NUMBER

9. NAME OF REGISTERED HOLDER \_\_\_\_\_

10. CERTIFICATE/SERIAL NUMBERS 11. DENOMINATION/SHARES 12. ISSUE DATE  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

13. TOTAL CURRENT MARKET OR FACE VALUE \$ \_\_\_\_\_ 13a. ADDITIONAL PAGES ATTACHED \_\_\_\_\_

14.  CRIMINALITY INDICATED

15.  COUNTERFEIT

*If Counterfeit - Distinguishing Characteristics*

REPORTS FILED WITH: 16.  DATA BANK 17.  TRANSFER AGENT 18.  LAW ENFORCEMENT

19. \_\_\_\_\_  
AUTHORIZED SIGNATURE

20. \_\_\_\_\_  
DATE

SEC 1440 (9-77)

## INSTRUCTIONS

**NOTE.**—Section 240.17f-1 does not require reporting of coupons. Municipal or corporate securities not assigned CUSIP Numbers are not the subject of reporting and inquiry during the pilot program.

Forms for which the Commission is the appropriate instrumentality should be mailed to the Commission's designee:

Securities Information Center, Inc., Post Office Box 421, Wellesley Hills, Mass. 02181.

1. **Reporting Institution**—Enter reporting institution name, address and FINS number, with Securities Information Center-assigned suffix, if any.

2. **Type of Report**—Check whether report is a new report ("Loss"), report of recovery of previously reported loss ("Recovery"), or update or correction of report other than recovery ("Update"). Additionally, if the report is a confirmation of a loss, recovery, or update made by telex or telephone, also check the box marked "Confirmation."

3. **Date**—Enter date when loss was noticed, theft occurred, when counterfeit was discovered or suspected, or when security was found or recovered. When submitting updates, corrections or confirmations, enter date of loss or recovery.

4. **Type of Securities**—Check the box which most nearly describes the type of security. If none of the classifications adequately describes the security, check "Other" and describe the security in the space provided.

5. **Issuer**—Print or type the name of issuing company, agency or organization as set out on the security even though the security may have been lost, stolen, or missing prior to being "issued" by the appropriate authority.

6. **Interest Rate**—If interest rate was indicated, enter this information.

7. **Maturity Date**—Enter maturity date where applicable.

8. **CUSIP Number**—Enter entire CUSIP Number.

9. **Name of Registered Holder**—Clearly print or type the full name of person (individual, company, bank, brokerage house, etc.) to whom the security is registered exactly as it appears on the security. Enter the word "Bearer" when document is a bearer security.

10. **Certificate/Serail Numbers**—Enter certificate or serial number(s) including all suffixes and prefixes. If certificates have not been issued, enter the control number. Series may be indicated by the first and last numbers separated by a dash and followed by the word "Series". Certificate or serial numbers of certificates of the same CUSIP number which are not in sequential order should be listed separately on each line. If additional space is required, attach a sheet containing information in the same format as Item 10 and check Item 13a.

11. **Denomination/Shares**—Enter in numerical form the amount of money represented by bonds, debentures, notes and other securities (except stock warrants and rights) as indicated on the certificates. If amount was not indicated on the certificate, enter the word "Blank."

For stocks, enter the number of shares represented by the certificates, not the par value of the stock. If number of shares is not represented, enter the word "Blank."

For warrants and rights, enter in numerical form the number of shares which the document entitles the owner to purchase.

12. **Issue Date**—Enter issue date of security. If certificates have not yet been issued, indicate this fact.

13. **Total Current Market or Face Value**—For stocks, rights and warrants, enter the approximate total current market value. For bonds, enter the face value of the certificate.

13a. **Additional Pages Attached**—For a nonsequential series of certificates having the same CUSIP number, additional pages listing securities to be reported may be attached. (See Instruction 10). If additional pages are attached, check this Item.

14. **Criminality Indicated**—If reporting a loss, check when a substantial belief of criminality is indicated.

15. **Counterfeit**—Describe distinguishing characteristics of suspected counterfeit securities.

16. **Filed with Data Bank**—Check if filed with the Commission's Designee or a Federal Reserve Bank or Branch as appropriate.

17. **Filed with Transfer Agent**—Check to indicate that you have sent a copy of this report to a Transfer Agent for the issue.

18. **Filed with Law Enforcement**—Check if you sent a copy of this report to the appropriate law enforcement agency when required.

19. **Authorized Signature**—Form X-17F-1A must have an authorized signature to be accepted by the System. With respect to those reports filed with the Commission's designee, such signatures must be on file with the designee. Copies of reports sent to a transfer agent and the appropriate law enforcement agency should contain an original signature.

20. **Date**—Enter date when form is signed.

## APPENDIX III

REPORTS AND INQUIRIES REGARDING LOST OR STOLEN UNITED STATES GOVERNMENT AND AGENCY SECURITIES FOR WHICH THE FEDERAL RESERVE BANKS ARE THE APPROPRIATE INSTRUMENTALITY

On December 16, 1976, the Securities and Exchange Commission adopted 17 CFR 240.17f-1, which requires all financial institutions covered by the section to report to the appropriate instrumentality any instance of loss or theft of certain securities and, with certain exceptions, to make inquiry prior to the completion of any transaction involving these securities. The section will be implemented in two phases. The first part to be implemented will be the reporting requirement, which will go into effect on October 3, 1977. The second part, the inquiry requirement, will go into effect on January 2, 1978.

The Federal Reserve Banks have been designated as the "appropriate instrumentality" for receiving reports of and inquiries as to lost, missing, counterfeit or stolen United States Government and Agency securities. As used in this circular, the term "Government and Agency securities" includes securities issued by the:

United States Treasury  
Banks for Cooperatives  
District of Columbia Armory  
Export-Import Bank of the United States  
Farm Credit Administration  
Farmers Home Administration  
Federal Financing Bank  
Federal Home Loan Banks  
Federal Home Loan Mortgage Corporation  
Federal Housing Administration  
Federal Intermediate Credit Banks  
Federal Land Banks  
Federal National Mortgage Association  
Government National Mortgage Association (does not include Pass-Through Securities)  
Small Business Administration  
Student Loan Marketing Association  
Tennessee Valley Authority  
United States Postal Service  
Washington Metropolitan Area Transit Authority  
Asian Development Bank  
Inter-American Development Bank  
International Bank for Reconstruction and Development

Since late 1970, the Federal Reserve Banks have been operating a checklist procedure designed to assist in the identification of lost and stolen Government and Agency securities. The development of the checklist procedure had been spurred in late 1969 by a marked increase in the incidence and magnitude of thefts of United States Government and Agency securities from banks and other financial institutions.

The reporting and inquiry phases of § 240.17f-1 will be operated on a one-year pilot basis beginning January 2, 1978, when the inquiry requirement becomes effective. The section covers every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System, and bank whose deposits are insured by the Federal Deposit Insurance Corporation. While the section requires reports and inquiries on Government and Agency securities from those financial institutions, the Federal Reserve Banks will also accept reports from and respond to inquiries from any other financial institution.

It should be noted that the Federal Reserve Banks undertake no responsibility with regard to any party in maintaining the list of lost or stolen securities or responding to inquiries pertaining thereto and will not be liable for any act or failure to act with respect to any procedures set forth in § 240.17f-1. Furthermore, the list maintained by the Federal Reserve Banks pursuant to such section is not a "caveat" or "stop payment" list.

## REPORTS (BEGINNING OCTOBER 3, 1977)

Reports of lost, missing, counterfeit or stolen securities should be made in writing, using SEC Form X-17F-1A. A copy of the form is included in SEC Release No. 34 to which this material is appended. Copies of the form will be available at all SEC Regional Offices after September 1, 1977. All recoveries must also be promptly reported in writing, using the same form, by the institution that reported the loss. A list of mailing addresses to which reports may be sent follows this description of reporting and inquiry procedures. A map of the twelve Federal Reserve Districts is also included to assist reporting institutions in locating the nearest Federal Reserve Bank.

## INQUIRIES (BEGINNING JANUARY 2, 1978)

All financial institutions covered by § 240.17f-1 will also be required to make inquiry with respect to every bearer Government or Agency security (including registered securities assigned in blank), which comes into its possession or keeping, whether by pledge, transfer or otherwise, to ascertain whether that security has been reported as lost, missing, counterfeit or stolen unless:

(1) The security is received directly from the issuer or issuing agent at issuance, or

(2) The security is received from another reporting institution or from a Federal Reserve Bank in its capacity as fiscal agent. (All securities received from a Federal Reserve Bank are exempt from the § 240.17f-1 inquiry requirement except securities received on a withdrawal from a safekeeping or other custodial account where the securities were not held in book-entry form.)

Inquiries, as well as requests for general information regarding the use of the Federal Reserve Bank checklist procedure, may be made by telephone as indicated in the list which follows. Response by the Federal Reserve Office will be in the form of a return call, which will be promptly confirmed in writing.

Reports of and inquiries as to registered Government and Agency securities (unless assigned in blank) are not covered by § 240.177-1 but may be made to the appropriate transfer agent (either the U.S. Treasury Department for Treasury and Federal Land Bank issues, or the Federal Reserve Bank of New York for other Agency issues, including securities issued by international organizations). Any reports of or inquiries as to counterfeit securities should be directed to the appropriate law enforcement agencies.

The checklist procedure is designed to help recover lost or stolen securities and to prevent their use in normal commerce. Of even greater importance are measures designed to minimize the risk of loss or theft of securities. In this respect, the book-entry procedure for Government and Federal Agency securities affords the optimal solution to the problem of securities thefts. Currently more than 87 percent of the eligible marketable Government and Federal Agency issues are held in book-entry form. However, about \$63 billion still remains outstanding in definitive form—much of it in the custody of banks. Both the Federal Reserve System and the Treasury have been working to extend the use of the book-entry procedure, and banks are urged to utilize the procedure to the maximum extent possible.

REPORTS AND INQUIRIES REGARDING LOST OR STOLEN UNITED STATES GOVERNMENT AND AGENCY SECURITIES

FEDERAL RESERVE BANK AND BRANCH ADDRESSES AND TELEPHONE NUMBERS

*First Federal Reserve District*

Securities Department, Federal Reserve Bank of Boston, 30 Pearl Street, Boston, Mass. 02106, 617-426-7100 Ext. 351.

*Second Federal Reserve District*

Government Bond Division, Federal Reserve Bank of New York, New York, N.Y. 10045, 212-791-5359.

Buffalo Branch (inquiries only), Collection Loans, and Fiscal Agency Division, 716-849-5043 or 716-849-5130.

*Third Federal Reserve District*

James B. Duffy, Manager, Government Bond Division, Federal Reserve Bank of Philadelphia, P.O. Box 90, Philadelphia, Pa. 19105, 215-574-6190, Robert Carey 215-574-6191.

*Fourth Federal Reserve District*

Securities Department, Federal Reserve Bank of Cleveland, P.O. Box 6387, Cleveland, Ohio 44101, 216-241-2800.

Securities Department, Cincinnati Branch, P.O. Box 999, Cincinnati, Ohio 45201, 513-721-4787.

Securities Department, Pittsburgh Branch, Federal Reserve Bank, P.O. Box 867, Pittsburgh, Pa. 15230, 412-261-7912.

*Fifth Federal Reserve District*

Federal Reserve Bank of Richmond, P.O. Box 27622, Richmond, Va. 23261, 804-649-3611 Ext. 290.

Baltimore Branch, Federal Reserve Bank, P.O. Box 1378, Baltimore, Md. 21203, 301-539-6552 Ext. 275.

Charlotte Branch, Federal Reserve Bank, P.O. Box 300, Charlotte, N.C. 28230, 704-373-0200 Ext. 266.

*Sixth Federal Reserve District*

Federal Reserve Bank of Atlanta, 104 Marietta Street NW., Atlanta, Ga. 30303, 404-586-8647.

Birmingham Branch, Federal Reserve Bank, P.O. Box 10447, Birmingham, Ala. 35202, 205-252-3141 Ext. 215.

Jacksonville Branch, Federal Reserve Bank, 515 Julia Street, Jacksonville, Fla. 32231, 904-632-4243.

Miami Branch, Federal Reserve Bank, P.O. Box 520847, Miami, Fla. 33152, 305-445-6281 Ext. 192.

Nashville Branch, Federal Reserve Bank, 301 Eighth Avenue North, Nashville, Tenn. 37203, 615-259-4006 Ext. 281.

New Orleans Branch, Federal Reserve Bank, P.O. Box 61630, New Orleans, La. 70161, 504-586-1505 Ext. 240.

*Seventh Federal Reserve District*

Government Securities Division, Federal Reserve Bank of Chicago, 230 South LaSalle Street, Chicago, Ill. 60690, 312-322-5941 or 312-322-5947.

Government Securities Division, Detroit Branch, Federal Reserve Bank, 160 West Fort Street, Detroit, Mich. 48226, 313-961-6880 Ext. 292 or 293.

*Eighth Federal Reserve District*

Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Mo. 63116, Att: Treasury Issues Division, 314-421-1700 Ext. 203.

Little Rock Branch, Federal Reserve Bank, P.O. Box 1261, Little Rock Ark. 72203, Att: Securities Department, 501-372-5451.

Louisville Branch, Federal Reserve Bank, P.O. Box 899, Louisville, Ky. 40201, Att: Securities Department, 502-7351.

Memphis Branch, Federal Reserve Bank, P.O. Box 407, Memphis, Tenn. 38101, Att: Securities Department, 901-523-7171.

*Ninth Federal Reserve District*

Gerald J. Mallen, Manager, Securities Custody Division, Securities Department, Federal Reserve Bank of Minn., Minneapolis, Minn. 55480.

*Tenth Federal Reserve District*

Fiscal Agency Department, Federal Reserve Bank of Kansas City, Federal Reserve Station, Kansas City, Mo. 64198, Delores Forman 816-881-2783.

Denver Branch, Federal Reserve Bank, 1020 16th Street, P.O. Box 5228, T. A., Denver, Colo. 80217, Bob Lundgren 303-292-4020 Ext. 253.

Oklahoma City Branch, Federal Reserve Bank, P.O. Box 25129, Oklahoma City, Okla. 73125, Sherman Huff 405-235-1721 Ext. 181.

Omaha Branch, Federal Reserve Bank, 102 South 17th, Omaha, Nebr. 68102, Ivar Andreasen 402-341-3610 Ext. 241.

*Eleventh Federal Reserve District*

Federal Reserve Bank of Dallas, Securities Department, Marketable Issues Division, Station K, Dallas, Tex. 75222, Mary M. Rosas 214-651-6384, Donald E. Curtis 214-651-6360.

Houston Branch, Federal Reserve Bank, Fiscal Agency Department, P.O. Box 2578, Houston, Tex. 77001, K. S. Savage 713-659-4433 Ext. 74, J. W. Lockhart 713-659-4433 Ext. 75.

San Antonio Branch, Federal Reserve Bank, Cash-Fiscal Agency Department, P.O. Box 1471, San Antonio, Tex. 78295, A. G. Valencia, Jr. 512-224-2141 Ext. 60, M. E. Stehling 512-224-2141 Ext. 62.

El Paso Branch, Federal Reserve Bank, Cash-Fiscal Agency Department, P.O. Box 100, El Paso, Tex. 7999.

*Twelfth Federal Reserve District*

Federal Reserve Bank of San Francisco, Fiscal Department, P.O. Box 7702, San Francisco, Calif. 94120, 415-544-2330 or 2331.

Los Angeles Branch, Federal Reserve Bank, Fiscal Department, P.O. Box 2077, Los Angeles, Calif. 90051, 213-683-8377.

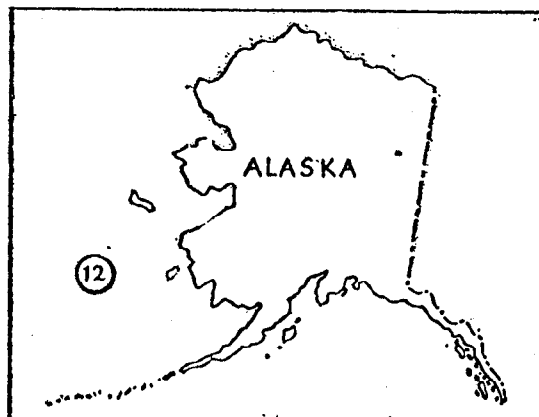
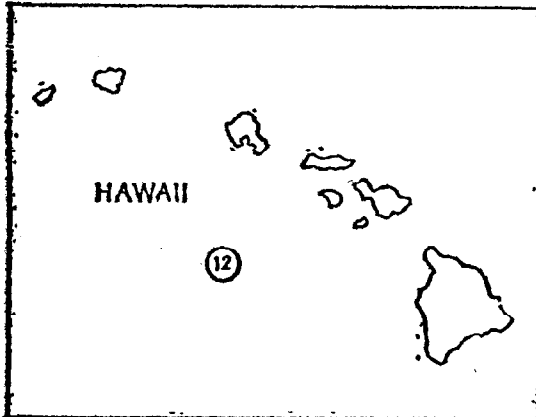
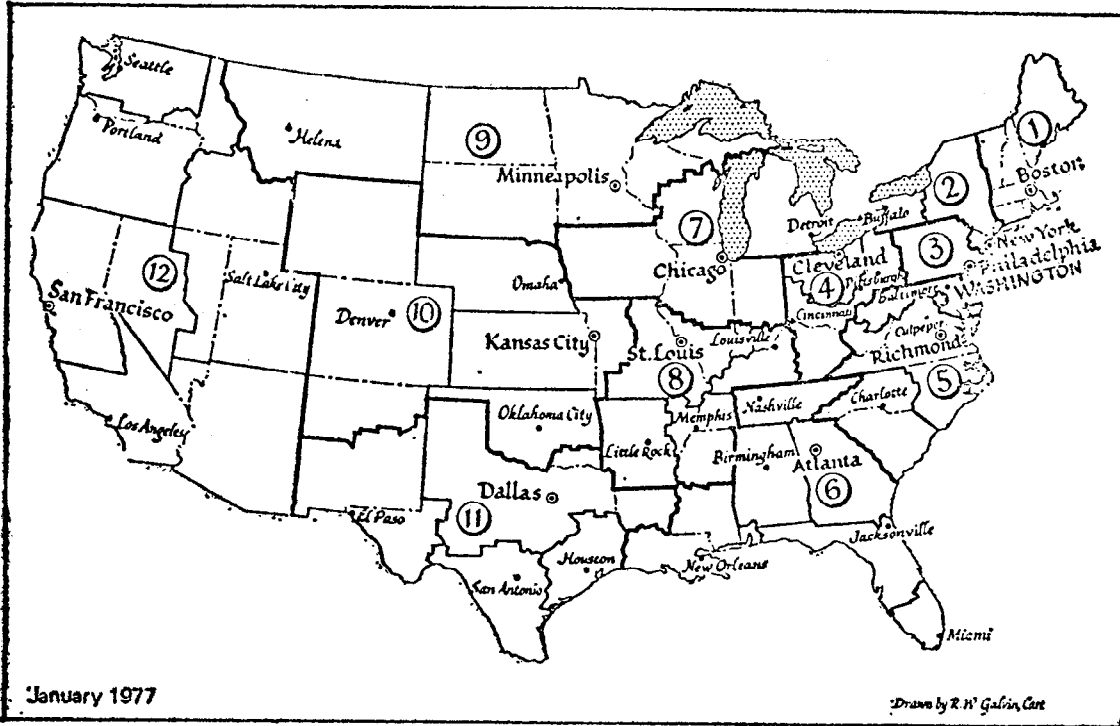
Portland Branch, Federal Reserve Bank, Fiscal Department, P.O. Box 3436, Portland, Ore. 97208, 503-228-7584.

Salt Lake City Branch, Federal Reserve Bank, Fiscal Department, P.O. Box 780, Salt Lake City, Utah 84110, 801-355-3131.

Seattle Branch, Federal Reserve Bank, Fiscal Department, P.O. Box 3567, Seattle, Wash., 206-442-7269.

# The Federal Reserve System

Boundaries of Federal Reserve Districts and Their Branch Territories.



## LEGEND

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- ⊙ Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facility
- ★ Board of Governors of the Federal Reserve System

APPENDIX IV

THE LOST, MISSING, STOLEN AND COUNTERFEIT SECURITIES INFORMATION SYSTEM

Description of the System

The Securities and Exchange Commission designated the Securities Information Center, Inc. (the "Designee"), a subsidiary of ITEL AutEx, Inc., to operate the Lost, Stolen, Missing and Counterfeit Securities Information System (the "system") to receive and process reports and inquiries for which the Commission is the appropriate instrumentality under 17 CFR 240.17f-1. The system is to operate as a pilot program with Reports to the system beginning on October 3, 1977, and inquiries to the system commencing on January 2, 1978. The pilot program will end on December 31, 1978.

It is the intention of the Commission and the designee to operate a system which will, with sufficient flexibility and at the lowest possible cost, meet the needs of the industry and fulfill the intent of Congress. It is estimated that during the pilot year the system will on the average process 10,000 reports and inquiries a day. In the early months of the pilot, users should anticipate minor problems which usually accompany the start-up of a new system. As experience is gained with the operation of the system, user requirements will be better defined and procedures will be modified to improve the operation of the system and insure the ultimate success of the program.

This material briefly describes how the system will operate, defines terms and service options, and provides a schedule of fees which will be charged in connection with the service.

REPORTING REQUIREMENTS

Securities and Exchange Commission Release Nos. 34-13053, 34-13280, and 13831 define the organizations (reporting institutions) which are required to report to and make inquiries of the system. The releases also specify when reports and inquiries are required. The rule provisions and important explanatory information has been republished in SEC Release No. 34-13832, to which this Description of the system is an appendix.

REPORTS

A report is a notice to the system and to a transfer agent for the issue of (1) securities lost, stolen, missing, or discovered to be counterfeit; (2) recovery of securities previously reported lost, stolen, or missing; or (3) a correction or update of a previous report other than recovery.

All reporting institutions are required to make reports enumerated in paragraph (b) of rule 17f-1 directly to the appropriate instrumentality. All reports must be made on Form X-17F-1A and signed by an authorized individual whose signature is on file with the designee. Reports for which the Commission is the appropriate instrumentality should be mailed to P.O. Box 421, Wellesley Hills, Mass. 02181.

Reports can be made voluntarily for situations in which reporting institutions are exempt from reporting requirements. However, all reports must relate to securities which have a CUSIP number and must show that number to be accepted by the system.

Preliminary reports may also be made by telephone or telex. Preliminary reports should include the reporting institution's

FINS number,<sup>1</sup> the CUSIP number and certificate numbers (including all prefixes and suffixes) of the securities, and indication of whether or not criminality is suspected. Preliminary reports must be followed by a written report on Form X-17F-1A signed by an authorized individual and mailed to P.O. Box 421, Wellesley Hills, Mass. 02181.

The designee will send a written report confirmation to the reporting institution on a weekly basis.

On October 3, 1977, the system will be in operation to receive reports and institutions required to report must begin doing so on that date.

INQUIRIES

Inquiries are made of the system to determine if securities coming into the possession or control of a reporting institution have been previously reported as lost, stolen, missing, or counterfeit.

Reporting institutions must either be direct inquirers or indirect inquirers of the system. Direct inquirers make inquiries of the system by using telephone, telex, mail, or magnetic tape sent to the designee. Alternatively, a reporting institution can participate as an indirect inquirer by arranging with a direct inquirer to act on its behalf in making inquiries of the system.

Upon registering with the system as a direct inquirer, the reporting institution will be assigned appropriate access codes. Each time the reporting institution makes an inquiry of the system, whether on its own behalf or on behalf of another institution, the code will be used to insure that only authorized direct inquirers have access to the system.

In addition to the reporting institution's access code, the inquiry must include the institution's FINS number and the securities' CUSIP and certificate numbers (including all suffixes and prefixes). Multiple inquiries can be made in a single mailing, telephone call, or telex transmission.

Institutions that anticipate a large volume of inquiries or reports on a regular basis may elect to input to the system via magnetic tape. Such reporting institutions should contact the designee for specifications and procedures.

A direct inquirer can access the system from various stations within its organization. A station is a department or branch location that will have its own access code and telephone contact.

Direct inquiries making inquiries from more than one station can register the additional stations as either primary or secondary access stations. A secondary station makes inquiries of the system directly but has its written confirmations directed by the designee to a primary access station of the institution. A primary access station receives confirmations for its own use of the system and for use by its secondary access stations, if any. At least one location of each direct inquirer must be registered as a primary access station. No other stations are required. Every secondary station must be associated with one and only one primary station.

PROCESSING OF INQUIRIES

After authorized access for purposes of making an inquiry has been established, the system will assign the inquiry a validation number which confirms for the direct inquirer that the inquiry was made.

<sup>1</sup> Information on where your FINS number can be located is contained in SEC Release No. 34-13832, to which this material is appended.

The system will then search the data base to determine if the CUSIP and certificate numbers in the inquiry match those in a report previously submitted. If so, the inquiring institution will be notified immediately of the match. This positive confirmation will include instructions on how to contact the reporting institution which submitted the matching report and notice, if any, of suspected criminality.

Written confirmations of inquiries that did not result in a match (negative confirmation) will be mailed to the direct inquirer monthly along with report confirmations. Confirmations will be mailed to the primary access station.

An optional prompt written confirmation service will be available to direct inquirers at additional cost. With this service, the primary access station will receive prompt confirmation by mail of all inquiries (and whether positive or negative) and of all reports received by the system from that station or its secondary access stations. There will be one such mailing for each day on which reports and/or inquiries were received from the station or its secondary access stations.

On January 2, 1978, the system will be in operation to receive inquiries, and institutions required to make inquiries must begin doing so on that date.

SCHEDULE OF CHARGES

Under a pricing structure and schedule of fees approved by the Commission, organizations that are direct inquirers will be charged (1) an annual registration fee, (2) a one-time assessment to cover system development, and (3) usage fees. An indirect inquirer must make separate arrangements with the institution that makes inquiries on its behalf to compensate that direct inquirer for its costs and services.

Fees do not cover participant's use of the mails, telephone, or telex for making reports or inquiries, nor any training or education of employees of direct or indirect inquirers in connection with the use of the system.

**Registration.**—This annual fee for direct inquirers covers the cost of maintaining registration data, assignment of access codes, and billing of all charges.

For the pilot year

For each primary access station..... \$18.00  
For each secondary access station... 9.00

**System development.**—There will be a one-time assessment to cover the costs of development of software and hardware to operate the system. The costs of development will be divided evenly among all direct inquirers and the per user charge will depend on the number of direct inquirers.

Estimated one-time assessment (based on anticipated 5,000 direct users) ..... \$30.00

**Usage.**—These fees will cover the costs of verification of authorized system access, matching of reports and inquiries, notification of matches, and confirmation of inquiries.

Usage charges will be billed quarterly in advance to a single primary access station. The charges outlined below are based on estimates of the number of direct inquirers in each size classification (5,000 total) and of the aggregate number of inquiries (10,000 per day). The first quarterly billing will be adjusted to reflect the actual number of direct inquirers in each size classification. Subsequent quarterly billings will be adjusted to reflect actual aggregate volume of inquiries.

RULES AND REGULATIONS

Type	Size	Estimated Usage Charges	
		Annual	Quarterly
Banks	Amount of Deposits		
	Over \$1 Billion	\$2,400.00	\$600.00
	\$500 Million to \$1 Billion	1,200.00	300.00
	Less than \$500 Million	50.00	12.50
Securities Organizations	Annual Revenue (Most recent fiscal year)	Annual	Quarterly
	Over \$25 Million	\$2,400.00	\$600.00
	\$5 Million to \$25 Million	1,650.00	412.50
	\$500,000 to \$5 Million	360.00	90.00
	Less than \$500,000	100.00	25.00
Non-Bank Transfer Agents	Number of Shares Issued Last Year	Annual	Quarterly
	100,000 shares or more	\$90.00	\$22.50
	Less than 100,000 shares	50.00	12.50

Securities organization:  With over \$25 million in annual revenue;  with more than \$5 million but less than \$25 million in annual revenue;  with \$500,000 to \$5 million in annual revenue;  with less than \$500,000 in annual revenue.

Non-bank transfer agents (those who check only classification 11 above):  That issue 100,000 shares or more per year;  that issue less than 100,000 shares per year.

*Method of inquiry.*—Initial one of the two statements below to indicate whether you will make inquiries of the system as a "direct inquirer" or "indirect inquirer." Direct inquirers should also indicate whether they will use multiple access stations and/or the prompt confirmation service. These usage options and the charges related to each are outlined in the "description of the system."

*Direct inquirer:* Beginning January 2, 1978, we will make inquiries of the system directly. We agree to pay to the designee the annual registration fees of \$18 for each primary access station and \$9 for each secondary access station. We also agree to pay the advance quarterly usage charges and the one-time assessment for system development costs approved by the Commission and outlined in the "Description of the System," which is appended to SEC Release No. 34.

Direct inquirers should use the boxes below to indicate the number of stations they will use to make inquiries to the system. If these boxes are not filled, it will be presumed that there will be 1 primary and no secondary access stations, the mandatory minimum.

- Number of primary access stations.
- Number of secondary access stations.

Direct inquirers that wish to have the prompt written confirmation service should check the block below:

We wish to have the prompt written confirmation service as outlined in the "Description of the System." We agree to pay \$16 per quarter for this service.

We agree to pay amounts equal to all sales, use and excise taxes, or other taxes which may be levied upon or in connection with the furnishing of the facilities or service of the system.

Terms: All fees are due and payable within ten days of date of invoicing.

*Indirect inquirer:* We have made arrangements with \_\_\_\_\_

(Name of direct inquirer)

who will make inquiries of the system on our behalf. We are aware that we will receive no direct confirmations from the designee and that the institution that makes inquiries for us may pass through to us the costs of using the system on our behalf as well as additional service charges.

We understand that the Lost, Stolen, Missing, and Counterfeit Securities Information System will operate as a one-year pilot program. In addition to making reports and inquiries to the designee, we will take all other steps necessary for reporting to the appropriate instrumentality and law enforcement agencies information relating to lost, stolen, missing, and counterfeit securities.

The designee will perform its work in a businesslike manner and in accordance with reasonable standards of care. The designee does not, however, guarantee the accuracy of any information contained in the records of the system or of the responses to inquiries concerning lost, stolen, missing, or counterfeit securities furnished by it. The designee shall not be liable for any unintentional delays, inaccuracies, errors, or omissions in said responses or for any damages arising therefrom or occasioned thereby. The designee shall not be liable for non-performance or interruption of services due to fire, storms,

PROMPT WRITTEN CONFIRMATION SERVICE (OPTIONAL)

For mailing of prompt written confirmations of all inquiries and reports received from a direct inquirer each day via mail, telephone or telex:

Each primary access station using the service (per quarter)----- \$16.00

Additional information, including procedural instructions and telephone and telex numbers, will be mailed to direct inquirers after registration forms have been received and processed.

APPENDIX V

LOST, STOLEN, MISSING, AND COUNTERFEIT SECURITIES INFORMATION SYSTEM

Registration Form

Organizations required by Securities and Exchange Commission Rule 17f-1 (under section 17(f) of the Securities and Exchange Act of 1934, as amended by Pub. L. 94-29 (June 4, 1975)); to make reports to and inquiries of the lost, stolen, missing, and counterfeit securities information system are shown by categories below. All such organizations must complete and return this form to the Securities Information Center, Inc. ("designee") by September 23, 1977, in order to be able to fulfill their responsibilities under the law.

Fill out and return this form to: Securities Information Center, Inc., Post Office Box 421, Wellesley Hills, Mass. 02181.

Entities ("reporting institutions") required to make reports of and inquiries to the system (check each classification appropriate to you):

- ( ) 1. Federal Reserve System member.

- ( ) 2. Bank whose deposits are insured by the Federal Deposit Insurance Corporation.
- ( ) 3. National Securities Exchange.
- ( ) 4. National Securities Exchange member.
- ( ) 5. National Securities Exchange member firm.
- ( ) 6. Registered Securities Association.
- ( ) 7. Registered Securities Association member.
- ( ) 8. Securities broker.
- ( ) 9. Securities dealer.
- ( ) 10. Municipal securities dealer.
- ( ) 11. Registered transfer agent.
- ( ) 12. Registered clearing agency.
- ( ) 13. Participant in a registered clearing agency.

Name of reporting institution:-----

Address:-----

Attention:-----

FINS Identification No.<sup>1</sup>

Telephone No. ( ) -----

SIZE OF INSTITUTION

Check one of the following that describes the size of your organization.

Bank (all those who have checked either classification 1 or 2 above).  More than \$1 billion in deposits;  with \$500 million to \$1 billion in deposits;  less than \$500 million in deposits.

<sup>1</sup> Information on where your FINS number can be located is contained in SEC Release No. 34- , to which this material is appended.

**RULES AND REGULATIONS**

41033

strikes, labor disputes, or any cause beyond its control or due to the act or omission of any other person, firm, or corporation.

Authorized signature(s) :

(Signed) -----  
(Typed) -----  
-----  
(Title)

Dated: -----

(Signed) -----  
(Typed) -----  
-----  
(Title)

Dated: -----

Please sign and return this registration form to the Securities Information Center, Inc., the Commission's designee, at P.O. Box 421, Wellesley Hills, Mass. 02181, by September 23, 1977. The Securities Information Center will send to all direct inquirers by October 3, 1977, further information on how to access the system.

[FR Doc.77-23188 Filed 8-11-77;8:45 am]



# NASD

NOTICE TO MEMBERS: 77-27  
Notices to Members should be  
retained for future reference.

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

August 30, 1977

## MEMORANDUM

TO: All NASD Members

RE: Amendments to the Securities Investor Protection Act of 1970

On August 1, 1977, the Association appeared before the Subcommittee on Consumer Protection and Finance of the House Committee on Interstate and Foreign Commerce concerning H.R. 8331 - the Securities Investor Protection Act Amendments of 1977. That bill would amend the Securities Investor Protection Act of 1970 (SIPC Act). H.R. 8331 was first introduced in the last Congress but it did not pass. It is designed to expedite procedures for handling SIPC trusteeships, and to eliminate certain exclusions in the Act for members effecting transactions in mutual funds and variable annuities and providing investment advisory services. Other portions of the bill would modify the maximum amounts SIPC may advance to satisfy claims, provide SIPC with the authority to require display of the SIPC logo, and redefine certain terms so as to change the basis of assessment of SIPC members. The amendments are the result of recommendations by a Special Task Force formed by Chairman Owens of SIPC in late 1973 to consider amendments to the original SIPC Act. Overall, the bill is designed to, and will, enable SIPC to expedite settling customers' claims for their funds and securities in the event of the business failure of a broker/dealer. In this respect, the bill is most helpful and appears to have the support of virtually the entire industry.

At the hearings, the Association supported the bill, as it did previously, with several major exceptions which are described herein. The Association's most fundamental objection concerned the proposed elimination of the present exclusions for mutual funds, variable annuities and investment advisory services from the coverage of the SIPC Act. We objected most strongly to the proposed elimination of the

present exclusion from SIPC membership for those broker/dealers engaged exclusively in the distribution of mutual funds and variable annuities, as well as those engaged in the business of rendering investment advisory services in respect to variable annuities and mutual funds, and to the elimination of the exclusion from assessable gross income of SIPC members of revenues derived from those sources. Since the inception of the SIPC Act in 1970, we have been informed that only .41% of all SIPC disbursements were paid to customers for losses relating to mutual fund transactions. These small losses must be compared to the huge additional assessment on the industry which would result if these exclusions are eliminated. We noted that as of the end of 1974, losses resulting from the sale of mutual funds amounted to \$170,000, while additional assessments would have amounted to \$5,395,209. As of now, these losses amount to only \$190,000 and additional assessments, if mutual fund distributors had been subject to the Act, would have been another approximately three million dollars.

The Association also objected to a portion of the bill which would give SIPC the power to provide for the mandatory display of the official SIPC symbol in members' offices and in certain advertising because we believe that the determination to do so should be discretionary with the member. Finally, the NASD objected to a proposed modification from last year's bill of the maximum amount SIPC may advance to satisfy cash claims as distinct from a claim for securities. Last year's version of the bill, with which the NASD agreed, would have raised the amount to \$40,000; however, the present version of the bill would leave the current amount of \$20,000 unchanged. Since the maximum amount of advances in liquidation proceedings is to be doubled from \$50,000 to \$100,000, we believe that allowing only \$20,000 for cash claims is unfairly disproportionate to those public customers who may lose cash instead of securities. We, therefore, urge that this amount be raised to \$40,000. Such would also make SIPC coverage consistent with that of the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation.

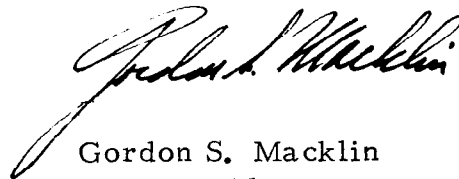
Besides these specific objections, the NASD also questioned certain proposed modifications of definitions presently contained in the Act. These proposals include a redefinition of the term "Consolidated Group" which would require that gross revenues from the securities business of a parent of a broker/dealer or an entity under common control with a broker/dealer, be subject to the same assessments as the broker/dealer, and a proposed redefinition of the term "security" which would eliminate the exclusion of money market instruments from the gross revenue assessment. We stated that based upon the information available to us, the reasons for these changes were unclear.

We believe that these amendments will have a serious effect on the Association's membership and hereby encourage all members to express their views to the members of the Subcommittee on Consumer Protection and Finance which will be acting upon this bill in the near future. The Subcommittee's address is Room 3161, House Office Building No. 2, Washington, D. C. 20515, and their Direct Dial number is 202-225-7790.

Bob Eckhardt (Texas), Chairman	Room 1741, Longworth House Office Building Phone: 202-225-4901
Robert Krueger (Texas)	Room 127, Cannon House Office Building Phone 202-225-4236
Charles J. Carney (Ohio)	Room 2236, Rayburn House Office Building Phone: 202-225-5261
James H. Scheuer (New York)	Room 2402, Rayburn House Office Building Phone: 202-225-5471
Thomas A. Luken (Ohio)	Room 1131, Longworth House Office Building Phone: 202-225-2216
James T. Broyhill (North Carolina)	Room 2227, Longworth House Office Building Phone: 202-225-2576
Matthew J. Rinaldo (New York)	Room 314, Cannon House Office Building Phone: 202-225-5361



Eugene Arnold, Jr.  
Chairman



Gordon S. Macklin  
President