

PUBLISHED BY THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., WASHINGTON, D. C.

"Free Riding"

At its meeting in May, the Board of Governors reviewed results of an inquiry made by the District Committees into the public offering, in early February, of common stock of Owens-Corning Fiberglas Corporation. The public offering price was $35\frac{3}{4}$ and on the day of the offering the stock was quoted as high as 48.

Among facts produced by the inquiry were the following:

66 firms participating as underwriters or selling group members retained part or all of their allotments for firm account;

185 firms allocated stock to officers, partners, directors, employees or families of these or beneficial accounts.

169 firms made a full public offering of their allotments.

The Board at its recent meeting discussed a letter to members dated March 13, 1950, dealing with the subject of "free-riding", which letter recalled that the Association, as far back as April, 1946, had spoken out on this subject. Said the Board of Governors at that time:

"Members have a moral obligation to make a *bona fide* public offering of securities acquired in a participation in an initial public offering. It is the consensus of the Board of Governors and Advisory Council [consisting of District Chairmen] of this Association that the sale of such securities to any officer, partner, employee or director of a member or to the immediate family of such persons, in excess of their *normal* investment practices, except as otherwise provided in a prospectus, does not, as far as that member is concerned, constitute a *bona fide* public offering consistent with high standards of commercial honor and just and equitable principles of trade."

After discussing the facts in the Owens-Corning offering in the light of the historical position of the Association, the Board voted to have the District Committees obtain specific information about sales by members where full public offering was not made. At a later meeting, the Board will review this detailed evidence.

GOVERNOR



Edward C. George

The solemn character peering quizzically from the top of the column is Eddy George of Chicago. He may become known as "Three-Minute Eddy" because when he was called upon to submit a report at the last Board meeting, the Chair stage-whispered that was how much time Eddy'd have. Characteristically, he had everybody in the room holding forth by the time he was through. It was fifteen minutes before order was restored. Eddy's firm is Harriman, Ripley.

Members Approve

On April 28, members were given an opportunity to express themselves on the two proposed new Sections to the Rules of Fair Practice. One related to the responsibility of members for the character and aptitude of their employees and the other covered members' transactions for employees of other members. Evidence that the Board of Governors was on the right track when it considered and presented these proposals is shown in the results of the balloting. Out of 2919 ballots sent to members, 1729 valid ballots were received. On the first proposal, 88% voiced approval, while 85% said o.k. to the second. The effective date will be set by the Board of Governors, after consideration by the S.E.C.

Business Fights Back

Everyone in the securities business has been well aware of the inequitable proposal of the SEC, released on January 31, 1952, to charge annual fees on all brokers and dealers, a proposal which would exact from the business between \$450,000 and \$800,000 annually.

The Association has always refused to be pushed around by the people in the business or in the Government or by groups opposed to the securities business. The action of the Association in connection with this SEC proposal is a notable instance.

At the recent Board meeting the Executive Director gave a blow-by-blow account of what had transpired in this altercation. After the Commission proposal was made public, copies of the Commission release were immediately duplicated by the Association and sent to all the Governors as well as to every member. Members were requested to furnish the Association with comments on the proposed fees. Also, because the Commission proposal was said to be based upon an alleged directive of the Congress expressed in Title V of the Independent Officers Appropriation Act of 1952, Association members were requested to provide the Executive Office with copies of all letters sent to their Congressmen and Senators, as well as responses thereto. Over 800 individual letters were received from members in opposition to the proposal, together with copies of hundreds of letters sent to Congressmen and Senators. These letters, of course, took a uniform position in opposition to the Commission proposal.

Fulton said in his report to the Board that "on no other single occasion has a project to which the Association has given its attention been brought so extensively to the notice of Congress". The Association prepared its official comment and filed it with the Commission on March 6 in opposition to the Commission's proposal. Meanwhile, Congressman Fred E. Busbey of Chicago, on February 28, introduced a bill exempting brokers and dealers from the payment of any fees under the Act in question.

Hearings were held before the Com-

mission on its fee schedule proposal on March 14 and on March 31. The Association appeared on March 31 through Chairman of the Board of Governors, Clarence A. Bickel, and John J. Sullivan of Denver and John D. McCutcheon of St. Louis. Their statements were supplemented by a careful expression and analysis of all the legal aspects of the Commission's proposal from the point of view of the business.

The Fulton report went on to state: "with due regard for the splendid contributions made by the IBA, the Stock Exchange, Association of Stock Exchange Firms and other groups, I believe the NASD stand was the most forceful placed before the Commission, evidencing as it did a wide sweep of opinion, well-organized presentations, and the personal effort made by members' spokesmen."

Following the hearings before the SEC, a hearing was held on the bill introduced by Congressman Busbey before the Interstate and Foreign Commerce Committee of the House of Representatives on April 30 and May 1, at which the Chairman of the Board of Governors appeared and submitted a legal memorandum in opposition to the proposals of the Commission. Since the hearings on the Busbey Bill, memoranda on behalf of the members of the Association have been submitted to the Subcommittee of the Senate Appropriations Committee with respect to the same subject.

The members will, of course, be advised of any new developments in this matter.

Abused Privilege

Several years ago the Board of Governors authorized members to advertise their membership in the Association. There are several on the Board of Governors who now doubt the wisdom of that decision.

Here and there are signs that some who employ the privilege could do so with a little better taste and discretion. Others seem to have become members of the Association for the sole purpose of getting the advertising privilege.

There's the case of one new member who, a few weeks after he got in, was circularizing members in his area ("Dear Fellow Member of the NASD") telling them about a deal the new member was developing and the implications of it were that this would make an Owens-Corning selling group participation look like a competitive bidding deal.

A committee of the Board now is to keep its eye on advertising of membership by members to make sure that the fact of membership, when publicized, complies with the spirit as well as the letter of permission.

RESEARCH CHAIRMAN



W. Yost Fulton

Yost Fulton is the kind of fellow who wants everyone to get away even. For instance, he wrote a book on his bridge game and saw to it that all his friends got a copy. They were on their own after that, of course. Yost left everybody else 'way behind on his favorite topics: securities business research, public education on investment matters. He's been chairman of NASD's Research Committee for several years and his enthusiasm for his assignment never wanes. He can give you a few thousand well-chosen words on the subject on a moment's notice. His firm's Fulton, Reid, Cleveland.

Membership

The securities business continues to attract a lot of new people.

Membership in the Association has been rising each month since the end of World War II and today stands very near the all-time high set just prior to the War.

Presently, the Association has 2,930 members, a net gain of more than 100 over the past year and within easy distance of the all-time high of 2,977.

Members of the Association have registered over 32,500 representatives. They have been coming in at the rate of over 200 a month in 1952.

NASD News

Published periodically by the Board of Governors under the supervision of the Member Relations Committee,

HARPER JOY, *Chairman*
Editor, JAMES P. CONWAY

Headache Dept.

In handling "rights", everybody's seem to be considered except a security dealer's. He does the work for "peanuts" but, more often than not, he is forced to dig into his own pocket to defray the costs of putting "rights" transactions through his books.

This is one of the problems a lot of members believe the Association should solve. At their last meeting, 20 Governors and 14 District Chairmen gave the subject a thorough going-over, with practically everyone in the room reciting one or more painful pocketbook experiences of his own firm. Efforts made in various localities to solicit the sympathy of issuers were reported. This "grass roots" approach on the part of members at the local level can be most helpful. Some issuers approached, while they did not call for a crying towel, did evidence real sympathy for the plight of the dealer who wants to serve both his customers and the issuer but, understandably, wants to get his bait back, at least.

A committee of members is going to be exploring the matter for the next few months and will submit a report at the September meeting of the Board.

Mutual Funds Plugs

Sales promotional advertising used in the investment trust field takes two forms: (1) that which plugs the virtues of a particular fund and (2) that which is institutional in character, educational and general in scope.

Problems growing out of literature and advertising used under (1) were treated under the Statement of Policy released by NASD and the SEC in 1950. Since that time, the Association, through its Investment Companies Committee, has looked at literally thousands of "ads" and booklets and the like to counsel with members so that these conform with the SOP.

Recently, the Committee has been holding meetings with the SEC staff on category (2). Harry Prankard, Committee Chairman, reported to the Board of Governors that considerable progress is being made in the approach to a practical solution of problems in this field.

Members will be advised of further developments as definite decisions take form.

Always With Us

Taxes, like the poor, are always with us. But just as intelligent planning and coordinated effort can improve the lot of the less fortunate, so can the tax problem be effectively dealt with if there is widespread knowledge of its inequities and ways and means are known, then employed, for correcting these.

Interest of the securities business is two-fold: (1) encouraging the flow of private funds into venture capital; (2) removing inequalities of tax rates and policies which impose hardships on firms and individuals engaged in the business.

It is conceded right off by all informed observers of the Washington scene that with the world military and political situation what it is, not much in the way of positive relief can be accomplished soon. Moreover, a presidential election year, particularly one such as 1952's, is not considered conducive to drastic changes in the status quo.

Men like Senator George of the Senate Finance Committee believe that taxes should be reduced and more, that Congress should "reconsider the whole tax structure next year, rather than make a piecemeal reduction in rates."

Some folks with an eye to the future and the opportunities inherent in the situation that are promising to those who speak up, are going to fight for an individual maximum combined normal and surtax of not to exceed 50%. That rate would not seriously undermine tax revenues, it is argued. Based on 1949 calendar year experience, a 50% limit on individual tax-takes would have cost the government \$420,000,000 which, in terms of a \$40 billion "normal" budget (it's a lot more with military, foreign assistance, etc.) would be a revenue loss of 1%. Actually, there is good reason to believe that offsetting revenues would accrue which might make this mathematical loss a "no show".

The member of the tax family for whom the business has the least love is capital gains. Some there are who think this tax ought to be abolished, period. More realistic viewers of the scene figure to use a rifle and to have as the target a reduction in the rate to 10%, a cut in the holding period to three months and at the same time get an increase to \$5,000 in the amount of capital loss which may be deducted each year by the individual taxpayer. Back in 1942, it is argued, capital gains provisions were softened considerably, along the lines just mentioned, and for several years thereafter revenues mounted greatly—about twelve times between 1941 and 1946.

A tougher nut is the idea of getting relief from so-called "double taxation" of corporate income. The argument goes that corporations pay an income tax, normal and surtax and excess profits, and then the owners of the business get hooked on dividends paid them by the corporation. This is a highly charged issue with lots of conviction sparking both sides of the argument.

One of the NASD's tasks is to represent its members' views on tax matters at the national level and at the State-level, too, when the questions are of general importance to the industry. Through its special tax and legislative committees, the Association is keeping abreast of developments on the tax front.

Cradle to Grave

A second annual dividend of 16%, equal to approximately two months' premiums, has been mailed to participating members in NASD's Group Life Insurance plan.

The Association doesn't intend to become a "cradle to the grave" society, but it does keep figuring how members can be served better if they act as a group in matters of mutual interest.

Latest project sponsored by the Association for members and employees is a plan for group hospitalization and surgical benefit insurance. It was introduced in April and the immediate response was a welcome demonstration of interest on the part of hundreds of members.

In this day and age there is no need to whip up enthusiasm by a lot of yakkety-yak about the benefits of insurance of this kind. Nobody that has any would be without it; those who haven't it certainly envy those who do.

Perhaps the most important things that can be said for the NASD hospitalization and surgical plan are:

1. it's as good a plan as could be developed and better than most;
2. cost is at least competitive with any other comparable coverage;
3. coverage is more complete and pay-offs bigger;
4. it's backed by a sound policy and sound company.

Even partners and officers get a break in this deal. For purposes of this insurance, they're thought of as employees. What could be more just?

If your copy of the proposals got lost, the Executive Office of the NASD will supply new copies.

"Ladies and Gentlemen . . ."

On the theory that if the job is made easier more members would be willing to rise to their feet and speak out for the investment business, the Public and Member Relations Committee has prepared an outline of a speech which is available upon request at the Executive Office.

The outline is just that; in other words, it is not a "canned" speech full of platitudes and generalities. It is not a ghost writer's brain child. The outline is drawn from material used successfully by several members of the Board of Governors in the last two years. Each of these men wrote his own speech or spoke from an outline of the kind the Association has drawn up.

To forestall eager-beaving, it should be said that this outline will not be useful at sales meetings of members or similar internal activities. Its sole purpose is to identify subject matter and develop topical material which an investment man can have recourse to in developing his own remarks.

You don't have to be an orator to make public speeches — as your radio and television sets prove.

"D. J."

The California-Nevada area—District No. 2—acquired a new Secretary when, on June 1, D. J. Conway succeeded veteran George Stephens. The latter is retiring with thanks for a job well done and with the good wishes of the membership in that area and all his associates in NASD work.

"D. J." has been an employee of the Association since 1941, serving as Secretary of District No. 1—the Pacific Northwest. He will, for the immediate future, continue also to serve that District along with his new assignment.

Confirmations

A new section (9) of the Uniform Practice Code is now in effect and reads as follows:

Each party to a transaction, other than a cash transaction, shall send written confirmation of same on or before the first full business day following the date of the transaction. Confirmation of cash transactions shall be exchanged on the day of the trade. Confirmations shall be compared upon receipt and any discrepancies shall be checked immediately; and a corrected confirmation shall be sent by the party in error.

German Dollar Bonds

Most members are by now familiar with the Committee for German Corporate Dollar Bonds which was organized in March of this year at the request of the State Department to represent the interests of United States holders of German Corporate Dollar Bonds at the International Conference being held in London. The Association's interest in this Committee was evidenced by its assistance during the organization period and the contributions which the Association and several of its members have made toward the support of the Committee. The members of the Committee are Herbert F. Boynton, a former Chairman of the Board of Governors of the Association; Ganson Purcell, former Chairman of the Securities and Exchange Commission; and Beardsley Ruml, formerly Chairman of the Federal Reserve Bank of New York. Mr. Purcell has been designated as the Committee's General Counsel. Herbert Boynton is now in London for the second session of the Conference.

For the purpose of its representation of U. S. holders of German dollar bonds at the International Conference, the Committee does not stand in any fiduciary relationship to any particular bondholder or group of bondholders. At the present time, the Committee's immediate aim is to aid in the negotiation and drafting of overall international agreements covering the disposition of German indebtedness. The Committee is therefore not undertaking to negotiate direct agreements between American holders of corporate dollar bonds and their respective German debtors, nor to bind particular bondholders concerning the specific terms of settlement with their respective debtors.

Nevertheless, the Committee welcomes comments and suggestions from holders of these bonds or from other interested persons. Furthermore, communications from bondholders are invited with respect to (1) their names and addresses, (2) the principal amount of their holdings, (3) the names of the German issuer-debtors and (4) the description of the particular issues of bonds, including maturity dates and rates of interest. This information will enable the Committee to make a preliminary compilation of such data, which is expected to prove helpful in the later stages of the Committee's work. In view of its present function, however, the Committee will not accept deposits of bonds or proxies from bondholders at this time.

It would be helpful to the Committee if members and their employees brought

GOVERNOR



Claude T. Crockett

Your eyes were upon a handsome, wavy-haired gentleman serving his first year on the Board of Governors. Claude Crockett may have a little more to say than his predecessor, Jesse Sanders, but neither one is the flamboyant son of the Lone Star State so dear to the portrayers of the "true" Texan. We unfortunate folk from the backward parts of the country are perfectly happy with Claude as a favorite son of Texas NASDers.

to the attention of their customers and others in their localities the desire and need for this type of information. It is also suggested that members enlist the assistance of their local newspapers in bringing the Committee's existence and activities to the attention of the community. Care should be exercised, however, not to seek the deposit of bonds with the Committee or with the members themselves. In this connection, it should be remembered that, at the request of the interested Government agencies, trading in these bonds is not being permitted pending validation through procedures to be set up by the German Government.

The Committee will make public announcements from time to time as significant developments occur so that brokers, dealers, banks and the bondholders will be advised of their rights and any steps necessary to protect them.

In the meantime, the information which the Committee has requested from bondholders should be addressed to the Committee's headquarters which are being maintained in the offices of the law firm of Purcell and Nelson, Barr Building, 910 17th Street, N. W., Washington 6, D. C.

Capital Gains

There still are some firms that are dragging their feet on compliance with the Statement of Policy covering investment company sales literature and the proper handling of capital gains distributions. Here is a "for instance":

One of the leading firms in the sale of investment company shares recently published a sales letter for mailing to customers which was reproduced in a national trade magazine. The sales letter was never filed with the Executive Office as is required and it violated the Statement of Policy in several respects. It was necessary to write the member, in part, as follows:

"In addition to failure to comply with the filing requirements, the letter departs from the Policy in material respects, notably the discussion of continuous investment in such shares without complying with section (n) (2), unqualified comparisons with bonds and savings accounts, and the seriously departing statement that 'dividends include tax-sheltered capital gains as well as ordinary income.' This latter is particularly disturbing because it fails wholly to comply with one of the principal aims of both the investment company industry and the S.E.C.—to avoid the inclusion of capital gains in discussions of income.

"In view of what we consider to be quite serious departures from the SOP in this material, we feel it necessary that you immediately advise us of your undertaking to withdraw this piece from all those who received it, with an explanation that it fails to comply with the SOP, that it must not be used further in any contact with customers, and that all copies outstanding must be destroyed. A copy of the letter of withdrawal must be filed with this office."

In addition to the Statement of Policy and related items, the Executive Office reminds members of the letter dated October 26, 1951, which warned against improper sale of investment company shares in advance of distributions.

"Understanding the . . ."

With the cooperation of the Association, a booklet on the over-the-counter market was published earlier this year — "Understanding the Over-the-Counter Securities Market." The publishers are Commodity Research Bureau, Inc., New York City, specialists in booklets on securities and commodities.

Write the Executive Office for information on supplies of the booklet.