

PURPOSES

- To promote the investment banking and securities business
- To standardize its principles and practices
- To promote high standards of commercial honor and to promote among members observance of Federal and State securities laws
- To provide a medium through which the membership may consult with governmental and other agencies
- To cooperate with governmental authority in the solution of problems affecting this business and investors
- To adopt and enforce rules of fair practice in the securities business
- To promote just and equitable principles of trade for the protection of investors
- To promote self-discipline among members
- To investigate and adjust grievances between members and between the public and members

ANNALS
1971
REPORT TO
MEMBERS

005296



CHAIRMAN'S REPORT

As one who has spent the last year as the NASD's Board Chairman, having the privilege and possibly the prejudice of an inside observer, it would be difficult for me not to enthusiastically recognize and comment upon the progress that this organization has made during the past twelve months in sharpening its regulatory involvement for the protection of the public, expanding its services to the membership and thus, acquiring increased stature and respect for itself and the over-the-counter market. The key, of course, to all of these general accomplishments lies with the more than 200 Committeemen and Governors who have put aside provincial attitudes, firm affiliated policy and any other possible conflicts in motivation to concentrate their considerable knowledge and talent upon developing and implementing the particularly unique type of successful self-policing and leadership that has grown in recent years to be associated with the NASD.

Most notably, 1971 saw the start-up of NASDAQ, the Association's highly regarded automated quotations system which now provides instant price information, stock indices and volume statistics on more than 3,000 OTC stocks. As a nationwide communications system, NASDAQ has transformed the OTC market with a single stroke into a cohesive, highly visible marketplace. More than any other single event, NASDAQ has provided new strength, new integrity, new dimensions for the over-the-counter securities market and the Association.

The National Clearing Corporation, established by the Association in 1969 to develop a system of expediting the delivery of OTC securities, began a pilot clearing program in New York City early in November of 1971. Using the continuous net clearing system, where all clearing members settle transactions directly with the clearing center, the pilot program has been handling approximately 800 trades a day. This initial step, which is the culmination of several years of work, has been so successful that it is now being expanded into full operation and it is anticipated that 250 firms in New York will be using the system by mid-1972. When implemented nationwide, the NCC's continuous net system is expected to reduce deliveries by 60 percent, saving the industry \$50 million annually at the same time that investors in the over-the-counter markets will be more efficiently served.

Moving to prevent financial problems within NASD member firms, the Association has expanded its staff at considerable cost in 1971 to allow for more frequent inspections of books and records and to carry out its increased responsibilities under the SIPC law, the Congressional amendments to the Investment Company Act and new rules in effect or proposed by the SEC and the NASD, designed to solve important questions of investor protection. Concurrently, the Association has instituted a system of financial reporting which provides the NASD with advance warning of impending financial or back office problems in member firms.

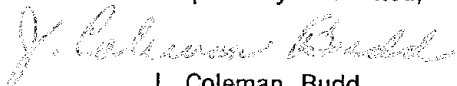
Most importantly, the Association is developing new capital rules which are designed to improve the liquidity and quality of capital of NASD members. In early December of 1971, the NASD forwarded copies of the proposed capital rules to members and other interested parties, asking for their comments and views.

In late 1971, the NASD, acting on the results of a study conducted earlier in the year, launched a program to improve the Association's system of qualification of industry personnel. It is based on two major innovations. The first is the creation of different classes of registration that match job functions existing in the securities business. The second innovation is the development of an enforceable system of standards for member training programs. Ultimately, the new qualifications and training standards program will mean that to become registered, an individual will not only be required to pass the appropriate qualifications examination, but will be required in addition to have successfully completed an approved training program within his firm.

Towards the end of 1971, a battery of hearings, focusing on problems in the securities industry, were conducted by the Securities and Exchange Commission and by panels in both the U. S. Senate and House of Representatives. Gordon Macklin, NASD President, along with other Association representatives, appeared before these groups, testifying to the action the NASD has already taken and will continue to take to combat these problems.

Through the major innovations instituted in the past year, I believe that the NASD has proved that the concept of self-regulation, with appropriate assistance and cooperation from the SEC, is working—is vital and responsive to the changing needs of the industry and the public. In the years to come, I feel secure in the knowledge that the Association will continue to review and improve its position as a self-regulator and to anticipate future needs of the public and investment community.

Respectfully submitted,



J. Coleman Budd
1971 Chairman



PRESIDENT'S REPORT

1971 IN REVIEW

Two major technological innovations, introduced in 1971, will allow the Association to augment its traditional methods of regulation and service to the industry with new programs. NASDAQ, the Association's automated quotations system which became operational in February of 1971, provides the industry with up-to-the-minute bid and asked quotations on OTC securities and provides the NASD with a surveillance tool on OTC trading activity. In late 1971 the NASD's National Clearing Corporation became operational by launching a pilot program of its continuous net clearing system, clearing trades between eleven firms in New York City. When fully implemented on a nationwide basis, the National Clearing Corporation will reduce industry costs and paperwork problems and speed the delivery of securities to their new owners or securities depositories. In addition, the Association is planning a major tie-in between NASDAQ and NCC to implement a trade reporting system, which will allow NASDAQ subscribers to report details of each securities trade

to the NASDAQ central computers for clearance purposes.

The establishment of NASDAQ and the National Clearing Corporation provides the Association with two new regulatory arms to better carry out its responsibility for supervision of the over-the-counter market. At the same time the Association has continued to strengthen its traditional regulatory machinery.

At the end of December, 1971, membership in the NASD consisted of 4,320 firms, a drop of 150 from the previous year. A decrease was also seen in the number of branch offices which ended the year at 6,756, down 234 from last year. The tremendous increase in the number of registered representatives that had taken place over the past six years leveled off in 1971 to 197,853—an increase of only 283 over 1970.

EXAMINATION OF MEMBER FIRMS

The number of examinations of member firms and and complaint actions reached record levels in 1971.

During the year the Association conducted 4,297 examinations, including 3,033 regular and special examinations of main offices.

Last year 518 formal complaints were filed, compared to 440 in 1970 and 264 in 1969. In addition, 346 summary complaints, the procedure for handling minor or technical infractions, were initiated, up from 95 in 1970.

During the year, the District Committees or the Board closed 447 formal complaints—almost triple the number of two years ago. The closing of these complaints resulted in the expulsion of 43 members and revocation of 115 representatives. By the end of the year, 24 members and 47 registered representatives were suspended for various periods; 453 members and 432 representatives were censured; and 413 members and 362 representatives were fined with total fines and costs collected by the end of the year amounting to \$672,229. As of year-end there were 408 formal complaints open at the District level, 251 (62%) of which were less than six months old, while only 33 (8%) were more than a year old. There were 132 formal complaint open at the Board level.

The increased activity reflects the continued strengthening of District staffs where at the end of 1971 there were 135 examiners in the field. The Association is building toward the recently authorized total of 171.

INCREASED REGULATORY RESPONSIBILITIES

During 1971, several new rules were instituted or proposed by either the NASD or the Securities and Exchange Commission, adding substantially to the regulatory work load of the Association.

Rule 17a-11 (Broker/Dealer Reports)

Rule 17a-11 which was adopted by the SEC in September of 1971 with NASD support, placed certain reporting responsibilities on the Association and its members. The provisions of the rule include the requirement that a broker/dealer report to the SEC and the appropriate self-regulatory bodies upon discovery of violations of the capital rule to which it is subject or when its records are not current. By the end of the year, the NASD had received forty capital violation notices and twelve reports from members whose records were not current.

Rule 15c2-11 (Unseasoned Issues)

In mid-December 1971, a new SEC rule went into effect with Association support requiring a broker/dealer to maintain certain financial information on unseasoned issues before issuing a quotation in an interdealer quotations system or a publication. A recent registration or recent trading activity in an issue would exempt a broker/dealer from the labori-

ous task of assembling the required information. The thrust of the rule is to assure that meaningful financial information is publicly available on a little known or inactive issue and to place the burden of maintaining this information on the broker/dealer making a market in these issues.

New Capital Requirements

The Association has had under consideration this past year proposed rules to increase the capital requirement for NASD members. Designed to improve the quality of member's capital, thereby reinforcing financial responsibility, the new rules include the following provisions: (1) increase the minimum net capital requirements; (2) establish a separate minimum net capital requirement for market makers, (this provision would require that these firms maintain a specified amount of net capital for each security in which the firm makes a market); (3) require that the minimum net capital for a prospective member be at least 120% of the regular requirement; (4) require a member to maintain at least 25% of his total capital in the form of equity; (5) effect changes in the regulations regarding subordinated capital to insure that subordinated debt will not be vulnerable to market fluctuations; and (6) expand the categories of issues subject to net worth deductions (haircuts) and provide additional haircuts for undue concentration of capital in single issues.

Best Efforts Underwriting

The Board of Governors of the Association has recently proposed a Rule of Fair Practice which would establish a system of regulation and procedures for the distribution of offerings made to the public on a best efforts basis. The proposed rule results from a study made by the Association because of what appeared to be improper activity in connection with the distribution and after market trading in certain issues.

The proposed rule would prohibit trading in the secondary market or the publication of quotations for a security which is the subject of a best efforts offering until a formal notice of release of the issue for trading has been filed with the District Committee of the Association in the District where the underwriter's main office is located. The rule also requires that this notice shall specify the date and time of release, the total number of shares, units or other appropriate designation of certificates representing the completed offering and a copy of the prospectus relating to the offering. It also specifies that regardless of the number of shares registered as part of the offering, the size of the distribution shall be limited to the number of shares specified in the notification filed with the Association's District Office. This restriction on the number of shares

would thus fix the size of the offering at the number of shares sold by the date the formal notice is filed with the District Committee. Also, the rule requires that within seven days of the date of filing of the notice of release, settlement shall be effected by the underwriter with the issuer and certificates shall be placed in the mails or otherwise delivered in negotiable form to all of the purchasers.

Broker/Dealer Self-Underwriting

Another major area of study by the Association over the past year has been the development of new rules regarding NASD members' underwriting their own and affiliates' securities. These proposals also establish rules concerning independently underwritten offerings of members' securities. In the past the Association had not permitted any form of self-underwriting by member firms. However, in recognition of the needs of the industry and modern day approaches to public financing, the Association had altered its former policy and implemented the recommendations of a special committee established by the Board of Governors.

Tax-Shelter Programs

During the past two years, there has been a substantial increase in interest from both the membership and the public in tax-shelter-type securities such as oil and gas programs and real estate syndications. Because of the popularity of these programs, the Association is formulating rules relating to investor suitability and other phases of the distribution process. In the early part of the year, the Board of Governors appointed two special committees, one to study oil and gas programs and the other real estate syndications and other types of tax-shelter and limited partnership investments. Both committees are developing rules and regulations covering such areas as: underwriting terms and arrangements, conflicts of interest, investor reporting, suitability standards and guides for the review of sales literature.

Rules 15c3-3 and 15c3-4 (Customer Funds and Securities)

In November of 1971, the Securities and Exchange Commission announced a proposal to adopt Rules 15c3-3 and 15c3-4. As stated by the Commission, "the purpose of the proposed rules is to afford as complete protection as possible to customers by the establishment of reserve requirements and otherwise with respect to their funds and securities in accordance with the intent of Congress (as mandated by Section 7(d) of the SIPC Act), without depriving the industry of necessary and legitimate means to carry on customer oriented business."

An industry committee, including a representative from NASD, was formed at the request of SEC Commissioner James Needham to develop an acceptable

alternative to the Commission's proposals, which would meet the customer protection goal without requiring unrealistic or unnecessary dislocations in broker/dealer operations procedures. The Committee, consequently, has developed an all-inclusive formula which would result in an effective prohibition against the financing of firm-related activities with customer funds, without causing severe operational difficulties within most broker/dealer firms. This alternative proposal has been sent to members for comment.

QUALIFICATIONS PROGRAM

To insure that industry personnel have a fundamental knowledge of the securities business as well as the rules and regulations which control their activities, the NASD administers qualification examinations as a prerequisite for registration with the Association as a principal or registered representative. In addition, the NASD administers qualification examinations for other organizations, such as the stock exchanges and the various states.

Last year, the NASD administered 28,994 of its own examinations to applicants for registration as registered representative and 3,372 NASD examinations were given to applicants for registration as principal—for a total of 32,366. The Association also administered 21,696 exams for others.

To assure that the managerial staff of a prospective NASD member contains at least one individual adequately trained to supervise the firm's general financial condition, the Association is considering adding a requirement to its current qualification program for principals, which would require that applicants for membership in the NASD must designate one person as "financial principal" to exercise surveillance over the member's general financial condition. That person must not only pass the qualification examination for principals, but must, in addition, pass the portion of the examination concerning the computation of net capital.

In line with its continuing efforts to raise the level of competence of individuals entering the securities business, the Association has embarked on a two-part program to improve the NASD's qualification system. The first part of the program involves the creation of different classes of registration which correspond with actual job functions that exist in the securities business—initially, operations principals, OTC traders, general securities salesmen and mutual fund-variable annuity salesmen. Secondly, the Association plans to develop an enforceable system of standards for member training programs. In this connection, the Association will not only assume the right to review and evaluate the training programs and procedures of members, but will also assume the responsibility of providing members with a set of objective standards for use in creating their own programs. Ultimately, under this program

an individual will not only be required to pass the appropriate examination, but he will also be required to have successfully completed an approved training program within his firm.

UNIFORM PRACTICE

In the past year, the Uniform Practice Committee revised the Uniform Practice Code in several areas, governing members' dealings with other members. Larger denominations are now acceptable for bond deliveries. Members must now initiate the issuance of due bills to each party with whom they have a transaction, rather than passing along a third party's due-bill. Reclamations made because of an irregular delivery, refused transfers or lost or stolen securities must now take place within a uniform time limit of thirty months. The buy-in rule also has been amended to allow members to execute from their own or customers' long positions, without having physical possession of the securities involved. Further, the dividend portion of the Code has been significantly bolstered by the institution of SEC rule 10b-17 which requires issuers of OTC securities to report dividend information to the NASD on a timely basis. This will insure that brokers will receive record date information far enough in advance for them to submit securities to transfer on time and reduce the need for claims. The Committee has sent a letter to issuers of publicly traded securities reminding them of their obligations under 10b-17.

The development and implementation of the CUSIP number, identifying publicly traded issues, is an industry project with which the Uniform Practice Committee has continued to involve itself. This number will be mandatory on certain documents in transactions between members by December 31, 1972.

Another area the Committee is studying is the feasibility of including a universal protection rule in the Code. Such a rule would insulate a member against certain losses which might occur as a result of another member's failure to complete a transaction as specified. The Committee is particularly concerned with transactions where the securities contracted for are needed in order to tender them for exchange prior to an expiration date for an offer.

ARBITRATION

Approximately three years ago the Association inaugurated a program, which has provided a forum to both the public and members alike, for the voluntary submission of securities transaction disputes to arbitration. During the past year, a significant transformation to the program was enacted which would permit the submission of securities disputes to arbitration on a required basis. The mandatory aspects of the program will apply to those disputes which occur on or after the effective date of these

amendments, while disputes occurring prior to this date will continue to arbitrate on a voluntary basis.

The recent amendments to the Code include a provision which calls for representation from the public at large on the National Arbitration Committee. In this connection, Donald M. Elliman, Executive Vice President of Marine Midland Bank, New York, will serve as a member of this Committee.

CORPORATE FINANCING

Since 1962, the NASD, through its Committee on Corporate Financing and the staff of the Corporate Financing Department, has reviewed public offerings of securities through member firms to determine the fairness of the underwriting and distribution terms. The scope of the reviews not only encompasses the distribution of federally registered securities, but also intra-state offerings which entertain the use of the Association's members either through underwriting or by direct or indirect participations. These reviews are made to determine if the arrangements entered into with member firms are fair and reasonable in light of the NASD Rules of Fair Practice. During 1971, the Corporate Financing Department received 2,594 new registrations for review. This figure shows a substantial increase over last year's review of 2,127 issues, representing a 21 percent rise in volume. Out of the offerings reviewed, 621 received some form of unfavorable comment and a request for changes in the terms of the offerings were made.

In previous years the majority of the reviews were conducted by the Committee on Corporate Financing. During this period the Committee remained anonymous because of the nature of its work. However, in review of the growth in number of reviews and expansion into new areas, such as tax-shelter programs, the old procedures proved to be to burdensome and time consuming to the members of the Committee who were forced to meet on a weekly basis. Under the new procedures now being developed, all offerings will be initially passed upon by the staff of the department. Underwriters will have the opportunity, subject to certain procedures, to appeal staff determinations to the Committee and to have a hearing before other members of the industry knowledgeable in the particular area under consideration.

It is felt that the new procedures, when fully adopted, will provide improved service to the industry, including such features as preliminary reviews and conferences with the staff prior to filing. The duties of the Committee on Corporate Financing will be directed more to the establishment of policy matters and the review and study of some of the present industry procedures regarding offerings. One of its projects will be to re-examine and rewrite its present rules and regulations for the Review of Corporate Financing.

FINANCIAL REPORTING

Throughout 1971 the NASD has been working with other regulatory bodies to develop a plan for simplifying financial reporting procedures, eliminating duplicate requirements and reducing the burden on reporting members.

The NASD Annual Assessment Report has been eliminated by integrating the information required into the Introduction portion of the Annual Financial Report—NASD Form 17A-10. The merging of these two reports will benefit most members by easing the paperwork burden.

In a related area, NASD members who are also members of the New York Stock Exchange will no longer be required to file Part III of the NASD Annual Financial Report. The required information will be supplied to the Association by the Exchange. Such cooperative planning will help to achieve economies in handling and processing costs for the organizations involved.

In addition, the quarterly financial report (Form Q) has been eliminated for New York and American Stock Exchange members, who instead must submit to the NASD a copy of the new Joint Regulatory Report, required by their exchanges.

The filing of Form Q will continue to be required of NASD members who are not members of either the New York or American Stock Exchanges. This form, which is used primarily to give the Association warning of impending financial or back office problems, has been revised to obtain additional information. The new form was effective for reports due on February 20, 1972, and thereafter.

VARIABLE CONTRACTS

The great influx of insurance companies into the membership of the NASD has slowed somewhat. There are now approximately 215 NASD members affiliated with insurance companies; however, only 9 of these became members in 1971. Nevertheless, insurance company members or their subsidiaries continue to register additional personnel with the result that 10,000 were registered with the Association in 1971, bringing the total number of registrants in this classification to 70,000.

Reflecting increased insurance company membership in the NASD, there is increasing representation of the insurance industry on the Board of Governors and Association Committees. The Business Conduct, Qualification, Finance, Real Estate and Long Range Planning Committees all include members with insurance backgrounds as do several of the District Committees. The 1972 Chairman of District Committee No. 3, David E. Vollemer, is Assistant Secretary of the Financial Security Program Office of The Prudential Insurance Company of America. Of course, the Variable Contracts Committee is composed entirely of representatives of the insurance industry. In

August of 1971, Ralph L. Gustin, Jr., Senior Vice President and General Counsel for John Hancock Mutual Life Insurance Company, was elected to a three-year term as Governor-at-Large.

DISTRICT ORGANIZATION & REPRESENTATION

To assure that the Association's administrative framework is geared to adequately carry out its duties, the Board of Governors altered the composition of five of its Districts. This change, effective in January of 1972, removes Connecticut, upstate New York and certain New Jersey counties from the jurisdiction of District 12, leaving New York City and the surrounding counties within District 12. Connecticut and upstate New York are assigned to District 13. All of New Jersey except the counties adjacent to New York City become part of District 11. North and South Dakota are transferred from District 1 to District 8. The number of Governors representing District 8 is reduced from three to two, and District 13 receives a second Governor.

Another shift in the composition of the Board of Governors, was made possible under a proposal approved by the membership in 1971. By deleting the By-Law requirement that the three at-large governors on the Board be selected "from the membership generally", the Association members paved the way for the appointment of a representative of the public to the NASD Board.

INVESTMENT COMPANIES

The Investment Companies and Advertising Department is responsible for reviewing sales literature both for general brokerage firms and investment companies. Late in 1971 the Securities and Exchange Commission released a proposal which would amend the advertising rules under the Securities Act of 1933. In general, the proposed amendments would permit "tombstone" advertisements to include offers, descriptions, explanations of any product or services not constituting securities, and descriptions of corporations (including investment advisors) and their activities. However, these offers, descriptions or explanations must not directly relate to the desirability of owning or purchasing a security. Further, the proposals would allow generic advertisements which do not specifically refer by name to the security of a particular investment company, provided such an advertisement is limited to explanatory material relating to investment companies or offers of various products and services not constituting a security. In general, the NASD supports loosening restrictions on "tombstone" advertisements. The Association has supplied the SEC with comments on the specific provisions of the Commission's proposal.

The Investment Companies Committee has been considering restructuring of the advertising and

sales literature standards of the NASD, including the establishment of uniform filing requirements, and the establishment of an Advertising and Sales Literature Committee.

In 1971, the Investment Companies Department reviewed nearly 14,000 pieces of literature filed for review or comment. This reflects a substantial increase in the proportion of the literature related to tax shelter programs, which has resulted in nearly 5,000 letters of comment.

In accordance with the direction given the NASD under the Investment Company Act Amendments signed into law in December of 1970, the Association has been conducting an intensive study throughout 1971 of the distribution of investment company shares and variable annuities. Originally, the study was only to have covered sales charges for open-end investment company shares. However, at the suggestion of the SEC, the study was expanded to include contractual plans, variable annuities, and alternative distribution systems.

The 1970 law directs the NASD to make and enforce rules preventing "excessive" sales charges, yet allowing "reasonable compensation" on the distribution of investment company shares. According to the provisions of this law, the NASD has eighteen months from the date of enactment to develop these rules—placing the deadline in mid-June 1972. After this date the Commission may make the rules.

To carry out the provisions of the law on an impartial basis, the Association retained the consulting firm of Booz, Allen & Hamilton, Inc. to design the appropriate questionnaires, conduct a survey and subsequently make an in-depth economic study.

A tentative date for completion of the study was set for January of 1972. However, the expansion of the scope of the study, to include contractual plans, variable annuities, and alternative distribution systems, and other factors has caused the completion date to be postponed to March of 1972. Upon completion of the study, which has involved the tabulation, analysis and interpretation of information collected from various questionnaires and field interviews, the Association will formulate rules and regulations.

NASDAQ

February 8, 1972, marked the first anniversary of NASDAQ, which, in the words of Senator Harrison Williams (D-N.J.), "has changed the communication system in the over-the-counter market from a cumbersome, obsolete collection of multi-colored 'sheets' into a sophisticated real-time system capable of providing instantaneous market information."

The instant availability of all market maker quotations in a NASDAQ security has served to sharpen competition, which has been reflected in a narrowing of spreads between bid and asked quotations. The entire market is now visible and some broker/

dealers have found themselves trading with firms they had not dealt with prior to NASDAQ. Before NASDAQ, traders frequently could not check the quotations of all market makers in a security. Increased market efficiency has been established reflecting better execution prices.

Several months after NASDAQ became operational, the NASD began releasing stock price indices to the public on major industry groups of the OTC market. These indices, which include domestic common stocks listed in the system, are divided into seven categories: Composite, Industrials, Banks, Insurance, Other Finance, Transportation and Utilities. Together they provide, for the first time, a comprehensive and accurate gauge of OTC stock price performance.

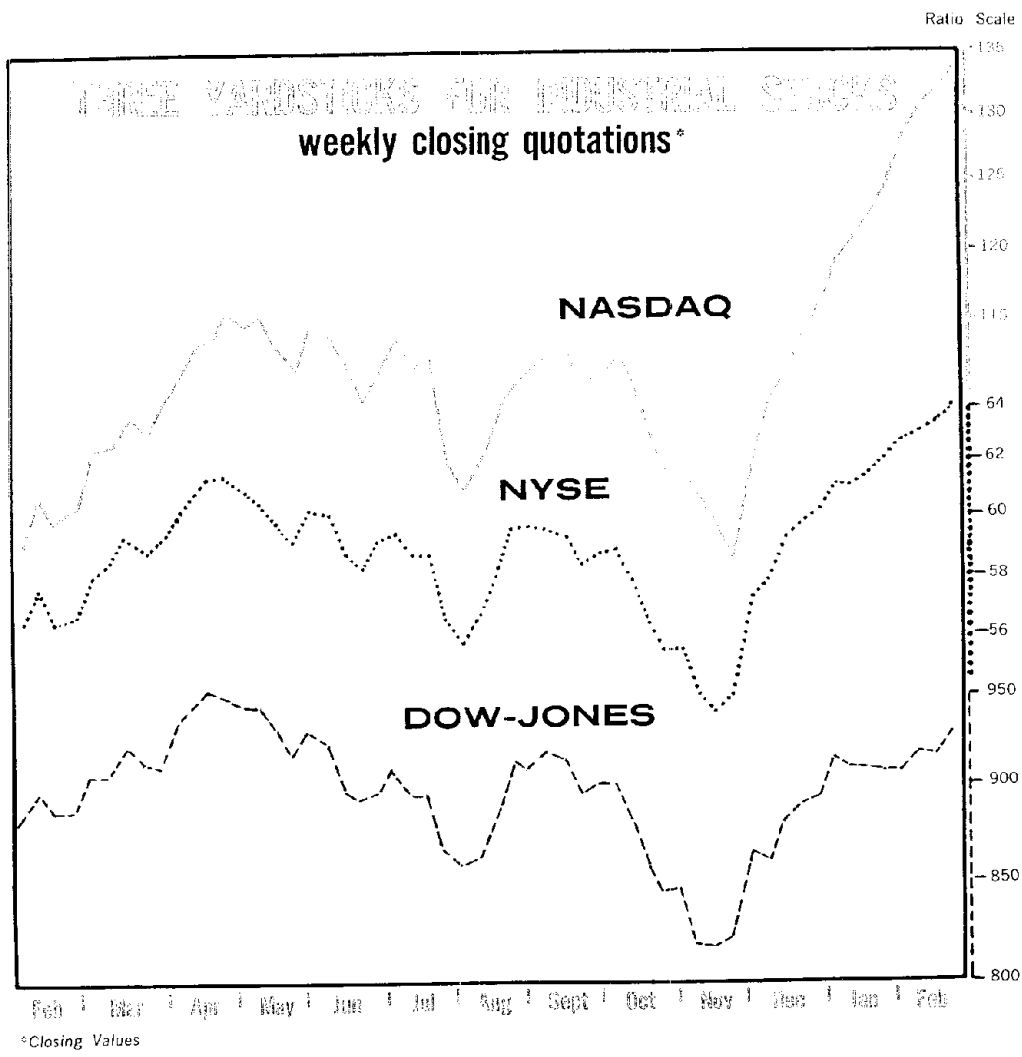
After one full year of NASDAQ operation, the Industrial Index registered at 128.50, up significantly from the base of 100 assigned when the system started. Also showing increases were Insurance at 124.63, Other Finance at 121.71 and Transportation at 126.56. The index for Banks closed at 100.95 and Utilities were off slightly at 97.87. The Composite Index, composed of the six sub-groups, ended the first year of NASDAQ operation higher at 121.02.

The NASDAQ-OTC Price Indices are available over the terminal screens where they are updated every five minutes. They are also distributed three times a day to the wire services—at 11:00 a.m., 12:30 p.m. and at 3:30 p.m.

Another function of the NASDAQ system will be to assist the NASD in regulation of the over-the-counter market. Serving as a window on OTC activity, the system enables the Association to observe what's happening and where. Now underway, on a pilot basis, is a Market Surveillance Program. When fully implemented in 1972 this program will note wide price and volume fluctuations and examine the reasons for these fluctuations.

In late summer, the Association instituted a rule requiring market makers to execute transactions for at least a normal unit of trading (usually 100 shares) at their prevailing quotations in the NASDAQ system upon the request of other member firms. Initially the Association had asked market makers to stand behind their quotes; and for the most part they complied. However, there were a few instances where a market maker, when contacted by a competing trader, gave bid and asked quotations different from those showing on the NASDAQ terminals. To maintain the integrity of the system, the Association introduced the policy of requiring market makers to honor their quotations.

Most recently NASDAQ has provided volume statistics on OTC activity. Never before was there such a yardstick for measuring activity in the over-the-counter market. The release of volume information has brought to light some interesting and, perhaps,



In the first 55 weeks of NASDAQ operations, the industrial index rose over 30%. In the same time period the New York Stock Exchange's industrial index moved up close to 12% and the Dow-Jones index of 30 industrials rose only 5%.

unsuspected data on the magnitude of OTC activity as compared to the exchanges. It has shown that daily volume of shares traded over-the-counter on NASDAQ is greater than the total volume on all the exchanges combined with the exception of the New York Stock Exchange. NASDAQ volume consistently totals about half the Big Board's volume.

NASDAQ volume amounted to 138,129,000 shares during November, the first month in which volume became available, for an average of 6,577,624 shares daily; and expanded during December to 188,247,200 shares, averaging 8,556,691 shares daily. It has been projected, based on the aggregate NASDAQ volume reported for November and December 1971, that more than two billion shares of NASDAQ securities may change ownership in 1972.

NASDAQ information, which is released directly from the NASDAQ central computers to the wire services every day, contains: volume figures for

each NASDAQ security; a list of the ten most actively traded NASDAQ stocks; and closing representative bid and ask quotations for each NASDAQ issue, compiled from individual market maker quotations in the system. Also transmitted are weekly, monthly and yearly market summaries, providing a base for more comprehensive analysis of OTC activity.

Over the past year, the Association has improved the system by adding new technical services. Market makers wishing to train personnel without disrupting the normal course of business have access to a demonstration security which has all the characteristics of a real NASDAQ security. A second enhancement is a news flash character used to gain the attention of system subscribers to an important news item. Upon observing this character—an "N" which appears on the screen whenever a quotations request is made—subscribers are alerted to check NASDAQ news frames.

A third enhancement to the system is the "close" symbol which is displayed next to all the quotations of a market maker whose terminals are out of order. It announces to all subscribers that the market maker is experiencing technical difficulty and that the quotation on the screen may not be current. When service is restored, the symbol is deleted from the screen as soon as the firm notifies the NASDAQ staff.

Market makers wishing to determine those securities in which they have not yet reported volume are able to obtain this information through a Management Volume Call. After interrogating the computer, these firms will find flashed on the terminal a list of securities requiring their volume report. When volume has been entered for all securities in which a market maker is registered, as is required, the message "VOL. ENTERED ALL SECURITIES" will appear on the screen in response to a Management Volume Call.

NASDAQ has been increasingly accepted as a vehicle for trading and disseminating information in the OTC market. A majority of the OTC quotations supplied to newspapers nationwide by the wire services on a daily and weekly basis are NASDAQ quotations. NASDAQ indices and volume statistics are cited in the press as representing the OTC market.

The industry's acceptance of NASDAQ's role in OTC operations is demonstrated by the system's growth—in many directions. At the outset 2,318 securities were included in NASDAQ. On March 28, 1971, the Association began adding issues to the original NASDAQ list. Now there are more than 3,000 securities in NASDAQ and the number continues to grow. Four hundred seventy-six firms were registered as market makers in NASDAQ when it became operational. In one year that figure has increased to 589. Approximately 400 new Level II and Level III terminals have been installed, bringing the total Level II and III's to nearly 1,500.

By far the most spectacular increase is in the number of calls—quote requests, market updates, volume entries, etc.—handled by the system in a day. At start up the system was processing about 350,000 inquiries per day. That number has more than tripled. Over one million calls now speed through the NASDAQ communications network each day, and the number is still growing.

This traffic far exceeds estimates made of terminal usage prior to the start up of the system on February 8th. The average terminal use was anticipated to be approximately 200 calls per day. The maximum was pegged at 660. However, now on an average working day more than 200 terminals carry over 1,000 inquiries each; over 2,000 calls a day are made through 30 terminals; and one terminal manages to log in over 5,000 calls a day.

ANALYSIS OF THE EFFECTS OF INCLUDING

Since April of 1971, the Association has been studying the effects of including exchange-listed securities on NASDAQ. Initially a control group of 33 listed issues in which two or more firms had applied to become NASDAQ market makers were included in the system on a test basis. In September, the Board decided to expand the scope of the study to include all listed securities which met NASDAQ qualifications. As a result there are now between 80 and 90 listed securities in the system.

The scope of the expanded study included: (1) the size and significance of over-the-counter trading of listed securities; (2) an analysis of changes in spreads and volume which may have occurred as a result of including listed issues in NASDAQ; (3) a comparison of prices and volume on the exchange and on NASDAQ; and (4) an examination of short sale activities of third market makers, block purchases and sales activities within the third market; and (5) purchases or sales affected on primary exchanges by third market firms for the purpose of adjusting their positions. This information is being obtained through reports obtained from third market firms and from the exchanges.

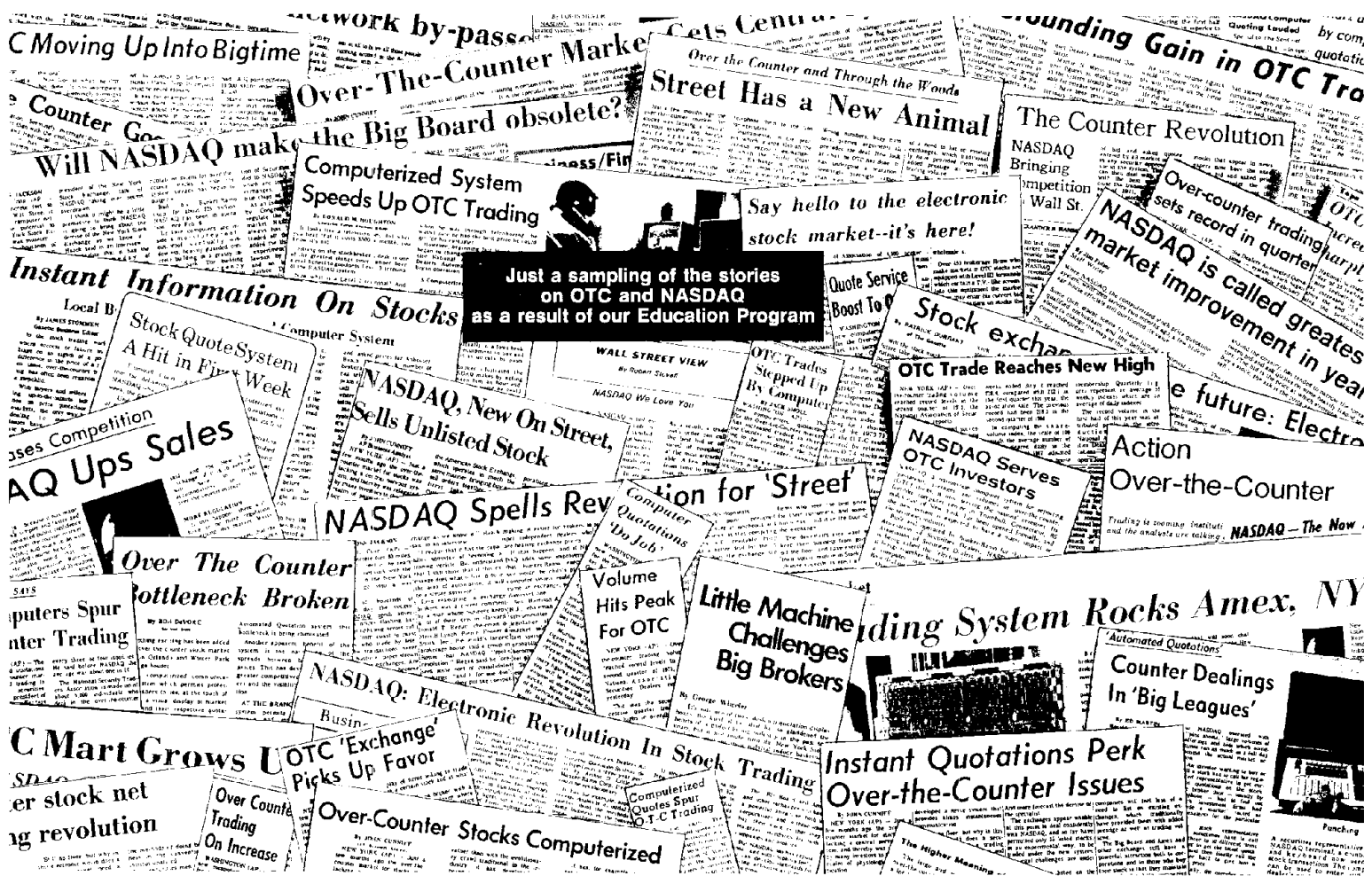
Preliminary analysis of the data shows that the third market (or exchange listed) issues account for approximately 5% of the total NASDAQ share volume. These data also indicate that institutions play a dominate role in third market transactions.

Further tabulating of information is necessary to complete the study. The NASD Board is expected to make the final decision on the inclusion of exchange listed issues in NASDAQ on a permanent basis in April or May of 1972.

NASDAQ-OTC EDUCATION PROGRAM

Another new area of involvement for the Association is consumer information. Throughout the past year, the NASD has been working on the development of a comprehensive consumer education program designed to inform the public about the over-the-counter market in general and about NASDAQ in particular. When the Board of Governors unanimously approved the concept of this program, they stressed the importance of closing the communications gap between the industry and investors by removing the mystery and misconceptions surrounding the OTC market, using the story of NASDAQ as a key element in this educational effort.

The total program, which is under the supervision of the Association's Information Committee, in cooperation with the National Securities Traders Association, has been developed by Doremus & Company in New York City, a specialist in financial advertising and public relations. Parts of this many faceted project have already been implemented, still others were being put into effect in February 1972,



Results of public information campaign to introduce NASDAQ are shown above. Advertising announcements used in nationwide effort and the cover of a new booklet on the OTC market are shown on right.

while some are still in the final stages of completion. The entire educational effort is being financially supported by voluntary contributions from broker/dealer firms and OTC companies quoted on NASDAQ.

A nationwide advertising campaign is underway with full page advertisements in such nationally known publications as Time, Life, the Wall Street Journal, U.S. News and World Report, Barron's, Institutional Investor, and Investment Dealers' Digest. Highlighting NASDAQ, the ads briefly explain this remarkable communications system, and encourage the reader to order a booklet describing NASDAQ and the OTC market. The advertisements are scheduled to run for 39 weeks to insure maximum coverage.

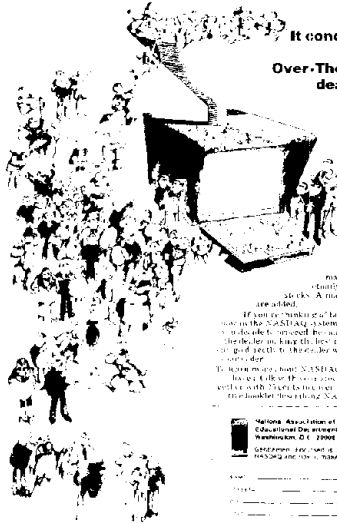
While the national advertising campaign is in progress, the program will provide companion or tie-in messages in mat form for local use by broker/dealers. These announcements will reflect the theme of the national campaign and provide for local identification. In addition, a variety of radio announcements will also be offered for local use

along with the sales office counter displays, mailing pieces, reprints and identifying labels and decals for the use of NASDAQ broker/dealers.

A 32-page booklet has been prepared for distribution to those writing for information about NASDAQ and the over-the-counter market. Broker/dealers will have an opportunity to order copies of this literature, imprinted with their own identification, to distribute to their customers; and companies listed on NASDAQ may order the booklet for their shareholders. The brochure, which is aimed at a general audience, presents NASDAQ and the OTC market in an interesting and informative format. Another similar, but more sophisticated booklet for corporate development officers and institutional money managers is also being prepared. Supplementary pamphlets on trading, markups and commissions, clearing, and regulations in the OTC market are also being prepared for public distribution.

Other aspects of the information program due in the spring are a packaged seminar program for registered representatives and a 15 minute motion pic-

NASDAQ: The Electronic Stock Market.



It concentrates quotations from hundreds of Over-The-Counter securities dealers into one, highly visible, electronic "trading floor."

NASDAQ is the revolutionary new information system created by The Bankers Trust Corporation for the National Association of Securities Dealers, the self-regulatory body for the OTC securities markets. NASDAQ's unique system collects quotations from over 3,000 OTC stocks. This industry-wide computerized system provides the daily trading volume for over 3,000 OTC stocks.

NASDAQ's huge computer system automatically feeds the latest bid and asked prices from member-making dealers across the country. It's constantly updating stock market for OTC stocks. A market that can grow as new securities are added.

If you're thinking of trading with one of the 3,000 OTC stocks in the NASDAQ system, you'll enjoy a quick, accurate, 12 1/2-minute "quote" from the dealer, over the "trading floor" made up of four-thirty-five market. Now you can see the "bid" and "ask" prices for the best quote in the nation at any time.

To know more about NASDAQ and the potential of the OTC market, call or write for a copy of the book, "How to Buy and Sell OTC Stocks." It's available for \$1.95. To receive your free information, fill out the coupon below. It will be mailed to you by the National Association of Securities Dealers, The Electronic Stock Market.

National Association of Securities Dealers, Inc.
 Educational Department, 1735 K Street, N.W.
 Washington, D.C. 20006

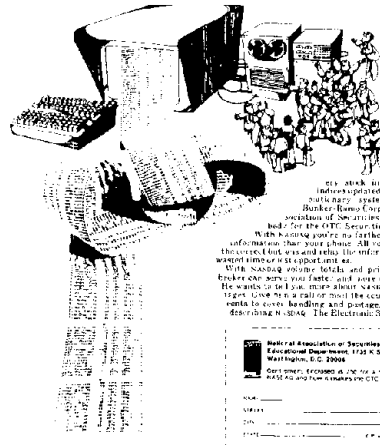
Customer's Encl. used in 20¢ for a copy of your manual describing NASDAQ and its role in the OTC market.

NAME _____
 STREET _____
 CITY _____
 STATE _____
 ZIP _____

This announcement is prepared as a public service by a group of NASD members and NASDAQ/OTC companies.

NASDAQ: The Electronic Stock Market.

The revolutionary information network that delivers accurate daily volume totals on thousands of over-the-counter stocks.



NASDAQ gives you the kind you've needed for a long time. Volume figures, a day-to-day snapshot of the depth and liquidity of most actively traded OTC securities. Figures that let you gauge the momentum of each stock. How many shares were traded every day, published in your daily newspaper.

NASDAQ carries quotes on more than 3,000 OTC and other securities and has a bulletin board for many more. Bid and asked prices are instantly available for every stock in the system. Plus industry information every five minutes. This revolutionary system was developed by The Bankers Trust Corporation for the National Association of Securities Dealers, the self-regulatory body for the OTC Securities Markets.

With NASDAQ you're no farther away from the latest OTC information than your phone. All you, the broker, does is press the keys that send you the information you need. So valuable, you'll want it at any time.

With NASDAQ volume totals and price information, your stock broker can serve you faster and more completely than ever before. He can let you know more about NASDAQ and its operating system. Let us give you a call or mail the coupon below, together with 25 cents to cover handling and postage, for an informative booklet describing NASDAQ, The Electronic Stock Market.

National Association of Securities Dealers, Inc.
 Educational Department, 1735 K Street, N.W.
 Washington, D.C. 20006

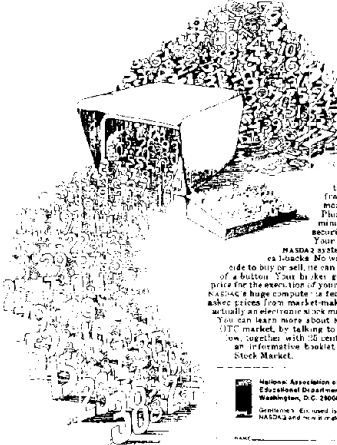
Customer's Encl. used in 20¢ for a copy of your manual describing NASDAQ and its role in the OTC market.

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This announcement is prepared as a public service by a group of NASD members and NASDAQ/OTC companies.

NASDAQ: The Electronic Stock Market.

It brings you accurate, split-second bid and asked prices on more than 3000 over-the-counter stocks.



NASDAQ brings high visibility and easy access to the OTC market. It's the revolutionary information tool developed by The Bankers Trust Corporation for the National Association of Securities Dealers, the self-regulatory body for the OTC securities markets.

With NASDAQ you have decision-making information, current to less than five seconds, based on quotations from all over the nation. That includes more than 3000 OTC and other stocks. Plus industry indices updated every five minutes. Plus daily volume figures on each security.

Your broker can quote any stock in the NASDAQ system while you're still on the phone. No callbacks. No wasted time or opportunities. If you decide to buy or sell, he can discover the best market at the touch of a button. You'll be sure you're getting the best price for the securities of your order.

NASDAQ's huge computer is fed continuously with the latest bid and asked prices from market-making dealers all over the country. It's actually an electronic stock market for OTC stocks.

You can learn more about NASDAQ and the vast potential of the OTC market by talking to your broker. Or mail the coupon below, together with 25 cents to cover handling and postage, for an informative booklet describing NASDAQ, The Electronic Stock Market.

National Association of Securities Dealers, Inc.
 Educational Department, 1735 K Street, N.W.
 Washington, D.C. 20006

Customer's Encl. used in 20¢ for a copy of your manual describing NASDAQ and its role in the OTC market.

NAME _____
 STREET _____
 CITY _____
 STATE _____
 ZIP _____

This announcement is prepared as a public service by a group of NASD members and NASDAQ/OTC companies.

How the NASDAQ system creates an Electronic Stock Market in Over-The-Counter securities

ture film on NASDAQ entitled, "The Electronic Stock Market."

The public information segment of the consumer education program, which the NASD has been operating in cooperation with the National Security Traders Association, has been in constant contact with the public and the press since the February start-up of NASDAQ. It has been successful in taking the first steps of familiarizing investors with NASDAQ and the changes this system has brought to the OTC market, thus laying the groundwork for continued educational efforts in the future. Literally hundreds of articles have been generated in newspapers and magazines about the system and its many services.

Acceptance and awareness of NASDAQ, and the revitalization of the OTC market it has fostered, has come quickly among most brokerage firms and individuals in the financial community; but in many cases, has yet to completely reach the more than 30 million investors and other segments of the general public. Although much has been written about NASDAQ by the press, many newspapers still do not publish the NASDAQ quotations list, the NASDAQ-OTC Stock Price Indices, or the volume figures which were first released last November. Several of the major financial publications have begun to include this type of information, as well as analyzing OTC market trends and publicizing the most active NASDAQ issues.

In the future it is expected that all major newspapers will follow the lead of these aggressive financial publications. In order to speed this natural evolution, a major part of the public information program has been directed to personally acquainting financial editors with the importance and availability of NASDAQ information, which for the first time is readily accessible to the public.

NATIONAL CLEARING CORPORATION

The National Clearing Corporation in 1971 moved ahead with its objective of establishing a nationwide system for clearing over-the-counter securities transactions. By the end of 1971, the NCC, a subsidiary of the NASD founded in 1969, had successfully completed:

- The initial experiment of clearing and settling trades of 11 volunteer member firms in New York through the continuous net settlement method.
- Assuming the operations performed by the American Stock Exchange for the former National OTC Clearing Corporation.
- Consolidating all clearing operations under NCC management in its New York area clearing center which now has permanent offices at 2 Broadway, its own computers and a staff of over 100 professional and clerical workers. The old NOTC, in the peak period during 1969, cleared over 10,000 transactions daily for approximately 250 firms. One

chief objective in 1972 will be to convert New York broker dealers, which still use the "balance order" method of clearance, to the continuous net method adopted by NCC.

The pilot project, after more than a year of planning, was started on November 8 when the 11 firms, both market makers and retail firms, began reporting trades for clearance and settlement under the continuous net method. Approximately 800 trades daily, or a little over 5% of the 15,000 trades in New York between NCC members, were cleared in this manner. The initial group of volunteer firms were: Doyle, O'Connor & Co.; Eastman Dillon, Union Securities & Co.; Greene & Co.; W. E. Hutton & Co.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; Mitchum, Jones & Templeton, Inc.; New York Hanseatic Corp.; Reynolds Securities Inc.; G. A. Saxton & Co.; Shields & Co.; and Singer & Mackie, Inc.

By the end of January another group of 12 volunteer firms joined in the test bringing trades to 1,500 or more daily and volume up to approximately 10% of the total trades cleared by NCC. Approximately twenty other firms were scheduled to be converted in February, at which point 40% of the volume will have been covered. Starting in March up to 50 firms will be converted each month to complete the changeover. By mid-1972 the conversion to this method of the 250 members, presently clearing their New York trades through NCC, is expected to be completed—far ahead of earlier timetables.

The accelerated conversion schedule is a result of the faster pace at which the training of clearing firm as well as staff personnel has proceeded. The day-to-day experience of the pilot project in educating the brokerage staffs who are actually doing the work has also been helpful.

The continuous net settlement method provides for the reporting, clearance and settlement of transactions on a daily basis. It differs from other methods in that it merges open position balances and carries them forward on a daily basis, consolidating and reporting this information through advanced computer systems. All settlements, receipts and deliveries of securities, the core area of operational breakdown in 1968-69, are made directly with the clearing center, eliminating the need for brokers to settle with each other.

The New York operations, which ultimately will cover 40 to 50% of all OTC trading, is also being utilized as the base from which to extend and build a network of regional clearing centers. The clearance problem is complicated by the heavy inter-regional trading of the OTC market. Approximately 42% of the trades involved firms or individuals in different regions of the nation.

The NCC approach has been to organize a center in New York and then in other cities with concentra-



COURTESY OTC SECURITIES REVIEW

Operator (left) is at main console with central processor at right. IBM System 360 Model 40 equipment is presently used to process orders under the continuous net system.



COURTESY OTC SECURITIES REVIEW

Executives of National Clearing Corporation examine a computer print-out at NCC headquarters in New York. Pictured (from left to right) are: Stimson Lee; Allen Karron; David Morgan, NCC President; and Robert Wickersham.



COURTESY OTC SECURITIES REVIEW

Under the daily balance order system of clearing—which is being phased out by conversion to the continuous net settlement system—the clearing house acts as a conduit for passing securities and cash. Here, messengers from NCC members deliver and receive securities.

tions of OTC trading activity. These centers would then be linked together to form a national hookup. NCC has engaged in preliminary discussions with the Boston, Philadelphia-Baltimore-Washington and Midwest exchanges. A linkup between the NCC center in New York and the clearing corporations of the Boston and P-B-W exchanges is contemplated by mid-year. Both exchanges have shown great interest in joining the NCC system to clear over-the-counter trades for firms in their geographic areas.

In a related area, the Association is working closely with BASIC, the Banking and Securities Industry Committee. One of the objectives of this group, as well as the SEC and Congress, is the immobilization of the stock certificate. NCC is furthering this objective through plans to design and implement a safe keeping service or depository for its clearing members. The NCC contemplates "interfacing" its clearance and settlement operations in New York with the Central Certificate Service provided by the New York Stock Exchange as the first linkup with a securities depository.

Another major project in 1972 is the implementation of trade reporting via the NASDAQ terminals, which would flash the information to the central NASDAQ computers for validation. Every evening the cumulative trade reports would be transmitted from the NASDAQ computers to NCC computers for matching. Comparisons and delivery orders would be available for distribution the following morning, eliminating a day from the trade reporting cycle. Ultimately, trades could be confirmed electronically within minutes.

GOVERNMENT RELATIONS

In 1971 and continuing into 1972 the Securities and Exchange Commission, as well as panels in both the U.S. Senate and House of Representatives conducted extensive hearings, delving into the problems of the securities industry and possible solutions. This careful scrutiny began in August when the House Subcommittee on Commerce and Finance, chaired by Congressman John Moss (D-Calif.), began taking testimony on the industry's operational problems. On the other side of the Capitol, a subcommittee on securities of the Senate Committee on Banking, Housing and Urban Affairs, chaired by Harrison Williams (D-N.J.), began exploring related areas in the securities business in the fall of 1971. Concluded in December were hearings on the industry before the SEC. The Commission sought industry response to such questions as: How should the securities markets of the future be structured? What is the best way to regulate these markets? What role should competition play in the market place? The question of disclosure of prices, volume and quotations in all markets was also under study. Responding to the requests of Con-

gress and the Commission, the NASD testified before both the Senate and the House Subcommittees, as well as before the Commission.

The NASD informed the Commission and Congressional units of the steps it has taken to correct



Chairman William J. Casey of the SEC (seated second from right), SEC Commissioner Hugh F. Owens (seated third from right), and former SEC Commissioner Richard B. Smith (seated second from left) observe a demonstration of NASDAQ supervisory facilities along with staff personnel of the NASD.

operational problems among NASD members, including the development of a nationwide OTC clearing system—the National Clearing Corporation—which is expected to significantly reduce the number of fails to deliver and receive stock certificates and save the industry millions of dollars. On the subject of financial stability of broker/dealers, the Association noted that it had increased its staff to provide more frequent inspection of members' books and records, instituted an early warning system as part of financial reporting, imposed restrictions of firms with financial problems, and developed proposed new capital rules for NASD members. Regarding NASDAQ, the Association stated that fuller use of the NASDAQ facilities for reporting of the quotations of the various markets could stimulate competition which is in the public interest.

During the hearings the industry became aware of the deep interest of Congress in securities depositories and the immobilization of the stock certificate. Congress was aware of the Banking and Securities Industry Committee's work in this area in New York and urged the formation of a national program. As

a result BASIC formed a seven-member National Coordinating Committee, with representatives from the midwestern and western financial communities and the NASD, to further the development of a network of regional depositories.

SIPC

The Securities Investor Protection Corporation became a fact with a Presidential signature in December 1970. Patterned after the Federal Deposit Insurance Corporation, which insures bank deposits, SIPC is designed to protect investors against losses in the event a brokerage firm is forced to liquidate. SIPC will advance funds to pay the claims of each customer up to \$50,000, except that in the case of claims for cash, as distinct from securities, not more than \$20,000 may be paid with funds advanced by SIPC.

Under the law, all registered broker/dealers and members of national securities exchanges as of December 30, 1970, and thereafter, must be members of SIPC unless exempt under the Act. Exempted are broker/dealers who deal exclusively with the sale of mutual funds, the sale of variable annuities or insurance, or those firms which advise investment companies.

To fund SIPC, an insurance fund of approximately \$150 million must be raised within five years by assessments on SIPC members. The NASD is responsible for the collection of funds from firms not paying through one of the exchanges. SIPC received approximately \$33 million from all sources in 1971.

A close working relationship has developed between the NASD and the SIPC staff. The Association has coordinated its inspection procedures to conform to the needs of SIPC, which is supplied with detailed information on firms in financial trouble.

Those brokerage firms wishing to identify themselves as members of SIPC can now order a symbol, designed by SIPC as the acceptable instrument of identification. This symbol may be used on stationery, literature, windows and other areas of business advertising.

FINANCING THE NASD

During the past year and a half, the Board of Governors grew increasingly concerned with the Association's ability to adequately finance its expanding list of regulatory responsibilities. This concern, which is shared by the SEC, certain members of Congress, and thoughtful members of the industry, was reiterated early in 1971 at meetings of the Board. Much time was spent during the year exam-

ining and discussing the critical need to increase income received from the membership in order to meet the regulatory surveillance program demanded of the Association. The question before the Board was how to develop more consistent resources to finance these responsibilities—responsibilities expanded by SEC and Congressional action, by the influx of new types of products into the securities industry, and by the development of innovative technology to better serve the industry and investors.

The Board began a detailed analysis of current sources of income. It was determined that the gross income factor was one of the most accurate measures of a member's involvement in the over-the-counter market and therefore one of the most reliable means for assuring fair and equitable assessments. The gross income assessment rate had not changed since 1967 and in the 1970-71 fiscal year this assessment produced less than 12% of the Association's total budget. Therefore, the Board directed its attention primarily to this income area.

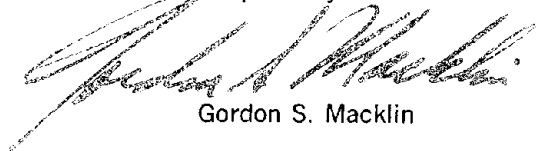
As revenue from application and examination fees had grown proportionately in importance, revenue from assessments on OTC business had become a smaller percentage of total income. As a result, the NASD Board of Governors voted to increase the gross income assessment rate from .075% to .2% and to remove the maximum assessment limit. The new assessment rates have been instituted for fiscal 1972 with approval from the SEC and the government's price control agency.

* * *

Developing techniques to streamline OTC market operations, such as NASDAQ and NCC, enables the Association to better perform its job as self-regulator, provides the investing public with an orderly market place, and provides members with more effective operational systems.

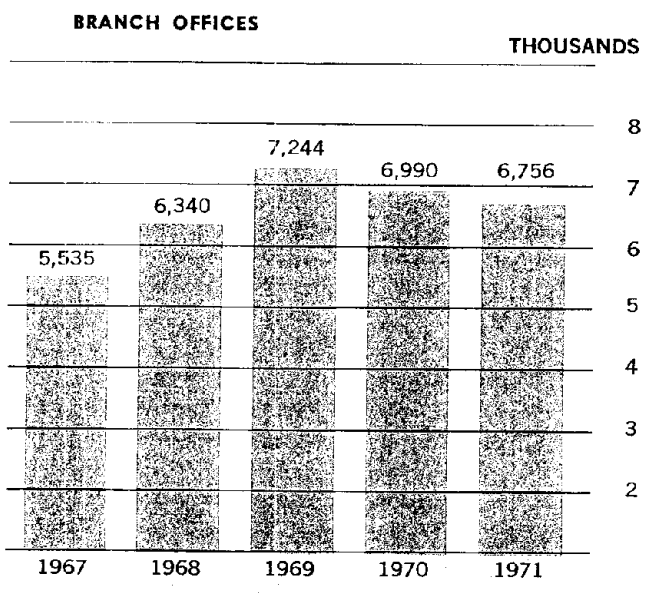
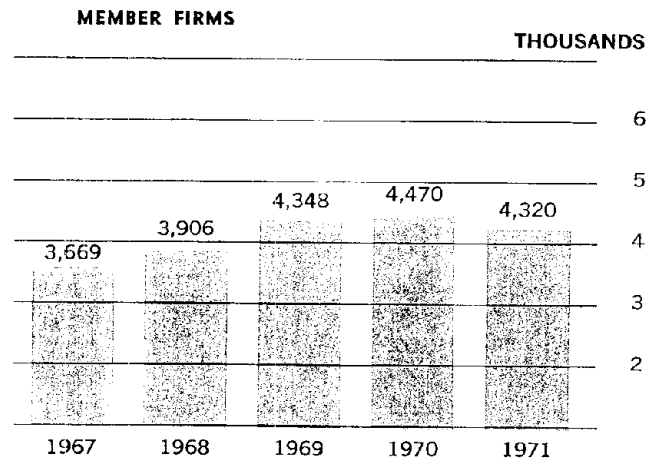
As was brought out by the testimony before the SEC and Congressional units, the future presents a challenge for the securities industry—change is in the wind. The Association, having functioned in the past as an instrument for change, will endeavor to continue to anticipate the needs of the industry and investors and cooperate with the SEC and other regulatory bodies to strengthen the industry and to protect the interests of the public.

Respectfully submitted



Gordon S. Macklin

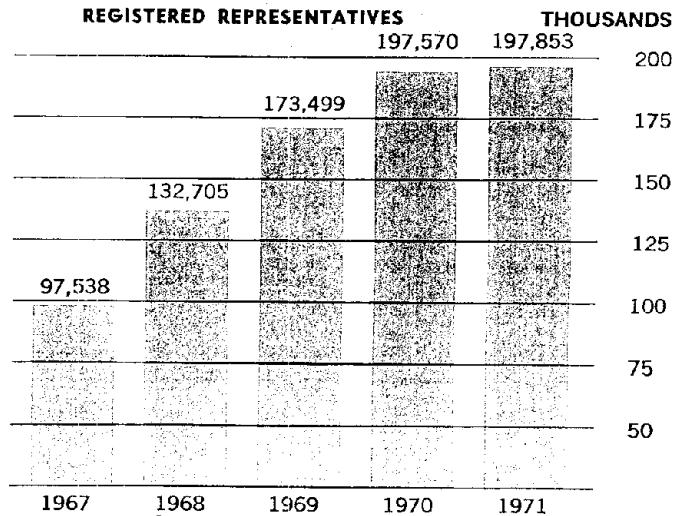
MEMBERSHIP STATISTICS—1971		
New Members		405
Mergers or Consolidations		22
Terminations		533
Normal Resignation	347	
Death Sole Proprietor	13	
Retirement or Death of Principal	34	
Absorbed by another Member	26	
Capital Rule	3	
Not doing OTC Business	14	
Other	5	
For Cause		91
SEC	24	
NASD action	35	
Non-Payment Fines & Costs	11	
Failure to file Assessment Report	1	
Non-Payment of Assessment	20	
Total Out		555
Net Loss		150
Membership 12/31/70		4,470
Membership 12/31/71		4,320
Re: Total Out		
Type of Organization		
Corporations	342	
Partnerships	67	
Sole Proprietors	146	



EXAMINATIONS ADMINISTERED BY THE NASD FOR THE FIVE YEAR PERIOD BEGINNING

January 1, 1967 and ending December 31, 1971

YEARS	QUALIFICATION EXAMS FOR NASD	EXAMS ADMINISTERED FOR OTHER INSTITUTIONS	TOTAL
1967	25,544	20,289	45,833
1968	58,561	31,342	89,903
1969	66,748	35,288	102,036
1970	63,653	26,862	90,515
1971	32,366	21,696	54,062



THE NATIONAL ASSOCIATION OF BROKERS AND DEALERS, INC.
 CONSOLIDATED BALANCE SHEET

	September 30	
	1971	1970*
Current Assets		
Cash	\$ 268,383	\$ 240,404
Investment securities, principally U.S. Government obligations at cost (approximate market value \$3,533,000 and \$4,766,000, respectively)	3,476,372	4,754,997
Other current assets	107,119	138,306
Total current assets	3,851,874	5,133,707
Less: Current Liabilities		
Accounts payable and accrued expense	786,189	709,346
Assessments collected in advance	7,404	4,941
Current portion of mortgage and note payable (Note 3)	125,426	
Total current liabilities	919,019	714,287
Working capital	2,932,855	4,419,420
Land, building and improvements		
at cost less accumulated depreciation of \$48,975 in 1971 (Note 3)	3,231,741	98,854
Investment in wholly-owned subsidiary, National Clearing Corporation, at equity in net assets (Note 1)	1,491,386	1,513,450
Special investment account (marketable securities at cost, cash, and accrued interest) (Note 2)	149,472	133,248
Other assets	58,380	113,980
	7,863,834	6,278,952
Less: Long-term Liabilities		
Reserve for deferred compensation	149,472	133,248
Mortgage payable	1,488,684	
	1,638,156	133,248
Association equity	\$6,225,678	\$6,145,704

* Restated for comparative purposes

Note 1—Investment in National Clearing Corporation

On September 30, 1971, pursuant to a plan of merger, the former National Clearing Corporation (NCC) merged into its wholly-owned subsidiary, National OTC Clearing Corporation (NOTC), with the surviving corporation assuming the name of National Clearing Corporation (NCC). Prior to this merger which had no effect on accumulated deficit or the equity of NCC, the Association donated its direct interest in NOTC which was represented by 100 shares (\$10,000 cost) of limited participation voting stock to the former NCC. Accordingly, NASD's investment in NCC (including \$154,522 of preoperating cost invested in 1969) which is recorded on the equity basis has been increased by the value of the donated stock during 1971 and decreased by operating losses for the periods ended September 30, 1971 and 1970.

The opinion of independent accountants on the September 30, 1971 and 1970 financial statements of NCC (see pages 22, 23, 24) is subject to the effect, if

any, of NCC's ability to recover deferred software cost of \$749,381 and \$135,252 at September 30, 1971 and 1970, respectively, and the collectability of a claim receivable of \$31,143 outstanding at September 30, 1971 and 1970. The uncertainty pertaining to \$18,000 of prepaid taxes as of September 30, 1970 was resolved during fiscal 1971.

Note 2—Retirement Plan

The Association maintains a non-contributory trustee pension plan for the benefit of all eligible employees. It is the Association's policy to fund accrued pension costs annually. The Special Investment Account represents amounts set aside to fund the reserve for deferred compensation which relates to four former or current employees. Pension and deferred compensation costs were \$107,341 and \$136,595 for the years ended September 30, 1971 and 1970, respectively.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
STATEMENTS OF INCOME, EXPENSE AND ASSOCIATION EQUITY

	Year ended September 30	
	1971	1970*
Income		
Member assessments and branch office fees	\$2,609,523	\$3,098,519
Registered representatives fees		
Applications	2,242,845	2,439,213
Examinations	1,439,380	1,789,712
Corporate finance fees	1,921,722	301,550
Fines and costs	591,597	536,487
Interest and other income	273,933	402,797
	9,079,000	8,568,278
Expenses		
Salaries, wages and employee benefits (Note 2)	5,196,934	4,490,460
Travel and meetings	528,019	465,325
Staff investigation expense	276,845	260,174
Publications, stationery, and postage, net of publications sales of \$89,006 in 1971 and \$109,863 in 1970	584,163	390,869
Professional and other services	922,958	991,915
Occupancy expense, net (Note 3)	751,198	466,547
Office, insurance and miscellaneous	510,168	454,532
Furniture and equipment	196,677	193,452
	8,966,962	7,713,274
Excess of income over expense before National Clearing Corporation (Note 1)	112,038	855,004
Operating loss of National Clearing Corporation	(32,064)	(486,550)
Excess of income over expenses	79,974	368,454
Association equity, beginning of year	6,145,704	5,777,250
Association equity, end of year	\$6,225,678	\$6,145,704

* Restated for comparative purposes

Note 3—Land, Building and Improvements

Pursuant to the purchase of the 1735 K Street office building for \$3,015,000 during fiscal 1971 the Association assumed a 5½% fifteen year mortgage of approximately \$1,625,000 and issued a 4% note payable for \$50,000 due October 15, 1971.

The building is being depreciated on a straight-line basis over its useful life of 38 years. Improvements (\$72,000) made to the space being occupied by the Association are being amortized on a straight-line basis over their estimated useful lives of ten years. Depreciation and amortization for fiscal 1971 amounted to \$48,975.

Occupancy expense has been reduced in 1971 by \$239,695 relating to rentals received from tenants leasing space from the Association.

Note 4—Commitments and Contingencies

On February 8, 1971 the NASD approved the commencement of service for the NASDAQ quotation system. Pursuant to the Agreement establishing Bunker Ramo Corp. as the Operator of the NASDAQ System, the NASD is committed to reimburse the Operator for its undepreciated investment in the NASDAQ System, as defined in such Agreement, in the event of termination of the Agreement. Aside from expenses incurred in administration, the accompanying financial statements do not include any amounts relating to the construction or operation of the system.

The Association is a defendant in a number of legal actions. In the opinion of the Association's counsel, the dispositions of these actions will not result in a material liability to the Association.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended September 30	
	1971	1970
Financial resources were provided by		
Excess of income over expenses	\$ 79,974	\$ 368,454
Add expenses not affecting working capital in the period		
Operating loss of National Clearing Corporation	32,064	486,550
Depreciation	48,975	
Working capital provided by operations for the period	161,013	855,004
Mortgage and note payable for purchase of office building	1,674,153	
Decrease in other assets	55,600	
	<u>1,890,766</u>	<u>855,004</u>
Financial resources were used for		
Purchase of land, building and improvements	3,181,862	98,854
Decrease in long term mortgage and note payable		
Curtailments	60,043	
Classified as current liability	125,426	
Investment in National Clearing Corporation	10,000	1,845,478
Increase in other assets		109,217
	<u>3,377,331</u>	<u>2,053,549</u>
Decrease in working capital	<u>\$1,486,565</u>	<u>\$1,198,545</u>
Analysis of Changes in Working Capital		
Increase (decrease) in current assets		
Cash	\$ 27,979	\$ (657)
Investment securities	(1,278,625)	(842,566)
Other current assets	(31,187)	18,816
Total	<u>(1,281,833)</u>	<u>(824,407)</u>
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	76,843	375,550
Assessments collected in advance	2,463	(1,412)
Current portion of mortgage and note payable	125,426	
Total	<u>204,732</u>	<u>374,138</u>
Decrease in working capital	<u>\$1,486,565</u>	<u>\$1,198,545</u>

**To the Board of Governors of the
National Association of Securities
Dealers, Inc.**

We have examined the accompanying statements of financial position of the National Association of Securities Dealers, Inc. at September 30, 1971 and 1970 and the related statements of income, expenses and Association equity and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including at September 30, 1971 and 1970 confirmation of cash and securities owned by correspondence with the depositories.

We did not examine the financial statements of National Clearing Corporation, a wholly-owned subsidiary, for the periods ending September 30, 1971 and 1970. The Association's investment therein is included in the accompanying financial statements at September 30, 1971 and 1970 at its equity in the net assets of the subsidiary, which was adjusted at those dates, based upon financial statements examined by other independent accountants whose reports have been furnished to us. Our opinion expressed herein insofar as it relates to the amounts included for National Clearing Corporation at September 30, 1971 and 1970 is based solely upon such reports, which are qualified as to the matters described in Note 1 to the financial statements.

In our opinion, based upon our examinations and the reports of other independent accountants, subject to the uncertainties described in their reports, the accompanying financial statements present fairly the financial position of the National Association of Securities Dealers, Inc. at September 30, 1971 and 1970 and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.

Washington, D. C.
December 10, 1971

September 30, 1971 and 1970

Assets	1971	1970
Current assets:		
Cash	\$ 65,707	\$ 152,824
Investments—U. S. Government guaranteed obligations, at amortized cost (market value, \$1,290,161 in 1971 and \$1,825,457 in 1970)	1,297,674	1,827,351
Accounts receivable	202,845	108,361
Accrued interest receivable	125,012	137,873
Prepaid income taxes		42,184
Other prepaid expenses	48,081	36,854
Total current assets	1,739,319	2,305,447
Claim receivable from clearing member in receivership, less provision for possible loss (note 2)	31,143	31,143
Furniture, equipment and leasehold improvements less accumulated depreciation and amortization (note 3)	211,518	78,028
	33,971	3,897
	177,547	74,131
Deferred costs and other assets:		
Computer software costs (note 4)	749,381	135,252
Assets held in clearing fund (note 5)	9,430,000	6,135,000
	10,179,381	6,270,252
	\$12,127,390	\$8,680,973
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 361,382	\$ 175,851
Accounts payable—NASD (note 1)		18,895
Taxes withheld and accrued payroll taxes	20,729	5,095
State and local income taxes payable	1,211	
Total current liabilities	383,322	199,841
8-½% subordinated promissory notes due 1975	822,682	822,682
Clearing fund (note 5)	9,430,000	6,135,000
Total liabilities	10,636,004	7,157,523
Minority interest (note 1)		10,000
Stockholder's equity (note 1):		
Common stock, par value \$1; 100 shares authorized and issued (10,000 shares authorized; 2,000 shares issued in 1970)	100	2,000
Additional paid-in capital	2,009,900	1,998,000
Deficit	(518,614)	(486,550)
Total stockholder's equity	1,491,386	1,513,450
Commitments and contingent liability (note 7)		
	\$12,127,390	\$8,680,973

Notes to Financial Statements

(1) Basis of Presentation

National Clearing Corporation is a wholly-owned not-for-profit subsidiary of the National Association of Securities Dealers, Inc. (NASD) formed for the purpose of establishing a nationwide clearing system for over-the-counter securities transactions. During the year, the NASD billed to the Corporation \$108,699 (397,000 in 1970) for expenses incurred on behalf of the Corporation. Effective September 30, 1971, the former National Clearing Corporation merged into its wholly-owned subsidiary, National OTC Clearing Corporation (NOTC), and the surviving Corporation changed its name to National Clearing Corporation. Pursuant to the terms of the merger agree-

ment all issued and outstanding stock of the former National Clearing Corporation and NOTC were cancelled and 100 shares of \$1 par value common stock of the new Corporation were issued. The difference of \$1,900 between the aggregate par value of the former National Clearing Corporation cancelled shares and the par value of the newly issued shares is included in additional paid-in capital at September 30, 1971.

Prior to the merger, the NASD donated to National Clearing Corporation its minority interest in NOTC represented by 100 shares of limited participation voting stock with an aggregate par value of \$10,000. The amount is included in additional paid-in capital at September 30, 1971.

Year ended September 30, 1971 and
period from November 20, 1969
(date of incorporation) to September 30, 1970 (note 1)

	<u>1971</u>	<u>1970</u>
Income:		
Stock clearing charges	\$2,063,033	\$177,449
Investment income	349,438	146,386
Total income	<u>2,412,471</u>	<u>323,835</u>
Expenses:		
Clearance and service charges	1,131,778	110,058
Forms and stationery used in clearance	97,472	17,563
Employee compensation, benefits, and related expenses	525,027	202,446
Travel and expenses incurred by employees	114,703	60,213
Professional services	277,972	340,858
Occupancy	59,638	10,580
Communication	35,834	10,327
Stationery, printing and supplies	62,524	5,511
Insurance, taxes and licenses	9,627	861
Depreciation and amortization (note 3)	18,051	3,737
Interest expense	69,928	11,655
Total expenses	<u>2,402,554</u>	<u>773,809</u>
Income (loss) before taxes on income	9,917	(449,974)
Provision for taxes on income (note 6)	<u>41,981</u>	<u>36,576</u>
Net loss	32,064	486,550
Deficit at beginning of period	486,550	
Deficit at end of period	<u>\$ 518,614</u>	<u>\$486,550</u>

Notes to Financial Statements, Continued

Transactions during the year between the former NCC and NOTC have been eliminated. Amounts shown for 1970 represent the former NCC and its wholly-owned subsidiary, NOTC, and include the results of operations of NOTC from date of acquisition (August 1, 1970) to September 30, 1970.

(2) Claim Receivable

The Corporation has a \$61,143 claim against a former clearing member now in receivership for which a provision of \$30,000 for possible loss has been made. The clearing fund includes \$10,000, presently subject to a restraining order, which may become available to reduce the Corporation's claim. Ultimate realization of the claim is not presently determinable.

(3) Depreciation and Amortization

Furniture and equipment are depreciated for financial statement purposes on the straight-line basis, generally over 10 years. Leasehold improvements are amortized from the dates the improvements are completed through the remaining terms of the related leases, or shorter periods of time if lesser useful lives are indicated. The Corporation's policy is to record one-half of one year's depreciation in the year of acquisition.

(4) Computer Software Costs

Deferred costs of purchasing and developing software for NCC's continuous net settlement system will be amortized over the useful life thereof, or five years, whichever is less, once the completed system is utilized in operations, which is expected to commence in 1972.

(5) Clearing Fund

The Corporation requires from each member a deposit to a clearing fund before participation in clearing is allowed. Assets held in the clearing fund at September 30, 1971 and 1970 were as follows:

	<u>1971</u>	<u>1970</u>
Cash	\$ 35,000	\$ 197,362
U. S. Government guaranteed obligations, at cost (market value, \$3,919,000 in 1971 and \$3,527,000 in 1970)	3,925,950	3,515,291

	<u>1971</u>	<u>1970</u>
Amounts receivable on demand, secured by U. S. Government, state and municipal obligations	5,104,000	2,404,000
Due from clearing members	752,737	18,347
Drafts payable	(387,687)	
Total assets in clearing fund	<u>\$ 9,430,000</u>	<u>\$ 6,135,000</u>

(6) Income Taxes

The Corporation intends to file its Federal income tax return on a consolidated basis for the year ended September 30, 1971. The provision for taxes on income consists of state and local income taxes of \$41,981 in 1971 and Federal, state and local taxes of \$36,576 in 1970 on the former subsidiary's (NOTC) taxable income for the year.

At September 30, 1971, the Corporation had approximately \$532,000 of loss carryforwards available to offset taxable income in future periods for Federal income tax purposes. These loss carryforwards expire as to \$500,000 and \$32,000 in the years 1975 and 1976, respectively.

(7) Commitments and Contingent Liability

The Corporation is committed under long-term lease agreements expiring on various dates to 1979 for various office space requiring annual rentals ranging from approximately \$329,000 in 1972 to \$539,000 in 1975 and beyond.

The Corporation is a defendant, together with the New York Stock Exchange, Stock Clearing Corporation, the American Stock Exchange and American Stock Exchange Clearing Corporation, in two legal actions initiated in 1966 and 1967 by a former clearing member. The first action seeks judgment of \$3,000,000 against all defendants for allegedly destroying the plaintiff's business by reason of suspensions and other actions and the second is an anti-trust suit for treble damages of \$9,000,000 against all defendants. Counsel advises that the Corporation has meritorious defenses in both actions.

NATIONAL CLEARING CORPORATION
STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended September 30, 1971 and
period from November 20, 1969
(date of incorporation) to September 30, 1970 (note 1)

	1971	1970
Source of funds:		
Donated capital by minority stockholder of NOTC (note 1)	\$ 10,000	
Issuance of common stock for cash and securities		\$2,000,000
Issuance of subordinated notes in the acquisition of National OTC Clearing Corporation (NOTC)		822,682
Working capital acquired in the acquisition of NOTC		1,232,632
Total source of funds	10,000	4,055,314
Use of funds:		
Net loss	32,064	486,550
Less expenses not requiring outlay of funds—depreciation and amortization (note 3)	18,051	3,737
Working capital used in operations for the period	14,013	482,813
Acquisition of all the outstanding common stock of NOTC for cash and notes which resulted in the acquisition of fixed assets of \$38,385, claim receivable of \$31,143 and minority interest of \$10,000 in addition to \$1,232,632 of working capital		1,292,160
Purchase of furniture, equipment and leasehold improvements	133,490	39,643
Additions to computer software costs (note 4)	614,129	135,252
Less expense not requiring outlay of funds—depreciation and amortization	12,023	160
Additions to computer software costs requiring funds	602,106	135,092
Liquidation of minority interest in NOTC (note 1)	10,000	
Total use of funds	759,609	1,949,708
Net increase (decrease) in working capital	\$ (749,609)	\$2,105,606
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	\$ (87,117)	\$ 152,824
Investments	(529,677)	1,827,351
Accounts receivable	94,484	108,361
Accrued interest receivable	(12,861)	137,873
Prepaid expenses	(30,957)	79,038
Net increase (decrease) in current assets	(566,128)	2,305,447
Increase in current liabilities:		
Accounts payable and accrued expenses	166,636	194,746
Taxes withheld and accrued payroll taxes	15,634	5,095
Accrued income taxes	1,211	
Net increase in current liabilities	183,481	199,841
Net increase (decrease) in working capital	\$ (749,609)	\$2,105,606
See accompanying notes to financial statements.		

**The Board of Directors
National Clearing Corporation:**

We have examined the balance sheets of National Clearing Corporation (A wholly-owned subsidiary of the National Association of Securities Dealers, Inc.) as of September 30, 1971 and 1970 and the related statements of loss and deficit and changes in financial position for the periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the recovery of deferred computer software costs and the favorable settlement of the claim receivable as described in notes 4 and 2 respectively, the accompanying financial statements present fairly the financial position of National Clearing Corporation at September 30, 1971 and 1970 and the results of its operations and the changes in its financial position for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Washington, D.C.
November 30, 1971

Peat, Marwick, Mitchell & Co.

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San Francisco,
California
Vice Chairman 1971



Francis J. Cunningham
Kidder, Peabody & Co.,
Incorporated
New York, New York
Vice Chairman 1971

TO SERVE



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H. O. Peet & Co., Inc.
Kansas City, Missouri
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Doyle, O'Connor &
Co., Inc.
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Vice Chairman 1972



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Gordon S. Macklin
President and member
of the Board

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Board of Governors**

1971-1972



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UNTIL JANUARY 1972



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Committee 1971



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Westerlund, Inc.
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Pennsylvania



Louis A. Lanford
Hill, Crawford and
Lanford, Inc.
Little Rock, Arkansas



J. Raymond Smith
Weeden & Co.
New York, New York

UNTIL JANUARY 1973



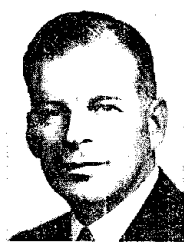
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CG Equity Sales
Company
Bloomfield, Connecticut
Chairman, Finance
Committee 1972



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Rotan, Mosie-Dallas
Union, Inc.
San Antonio, Texas



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Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Washington, D. C.



Robert S. Driscoll
Lord, Abbot & Co.
New York, New York

NOTE: Brent D. Baird
Trubee, Collins and Co.
Buffalo, New York was
elected to a one year
term as an additional
Governor from District 13,
effective January 25, 1972

*Governor-at-Large

UNTIL JANUARY 1974



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E. F. Hutton &
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New York, New York



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John Hancock Mutual
Life Insurance
Company
Boston, Massachusetts



J. Jerry Inskeep, Jr.
Ripsey, Inskeep, Hess
& McFaul, Inc.
Portland, Oregon



Franklin R. Johnson*
The Keystone Company
of Boston
Boston, Massachusetts



Fred F. Leustig
Murch & Co., Inc.
Cleveland, Ohio



G. Willard Miller, Jr.
Dean Witter & Co.
Incorporated
San Francisco,
California

*Governors-at-Large

UNTIL JANUARY 1975



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Hornblower & Weeks-
Hemphill, Noyes
Los Angeles, California



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The Pierce, Wulbern,
Murphey Corporation
Tampa, Florida



Junius W. Peake
Shields & Co.
New York, New York



Joseph P. Short
Arthur, Lestrangle &
Short
Pittsburgh, Pennsylvania

DISTRICT COMMITTEES 1971



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MONTANA
NORTH DAKOTA
OREGON
SOUTH DAKOTA
WASHINGTON**



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Seattle, Washington

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Vice-Chairman
Atkinson and Company
Portland, Oregon

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Duane Berentson
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Gordon Childs
First California Company
Portland, Oregon

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Merrill Lynch, Pierce,
Fenner & Smith, Inc.
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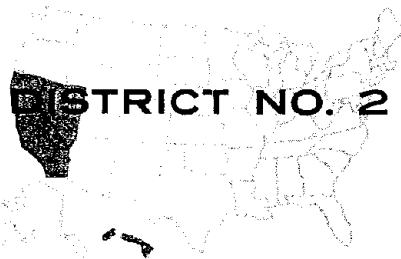
Melvin D. Lindley
Harris, Upham & Co., Inc.
Eugene, Oregon

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Reid, McDowell & Frazier
Spokane, Washington

Theodore F. Schmidt
Director
354 White-Henry-Stuart
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Seattle, Washington

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**Effective January 15, 1972, North Dakota and South Dakota were transferred to District 8.*



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NEVADA
HAWAII**



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& Curtis, Inc.
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Los Angeles, California

G. Tilton Gardner
Morgan, Olmstead,
Kennedy & Gardner, Inc.
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Eastman Dillon, Union
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606 S. Olive Street
Los Angeles, California

• 470 MEMBERS • 1116 BRANCH OFFICES • 26133 REGISTERED REPRESENTATIVES

DISTRICT NO. 3



**ARIZONA
COLORADO
NEW MEXICO
UTAH
WYOMING**

Arnold L. Greenberg
Chairman
John Stephens & Co., Inc.
Denver, Colorado

Richard F. Beck, Jr.
Vice Chairman
A. G. Edwards & Sons,
Inc.
Salt Lake City, Utah

Kenneth P. Burbidge
Blyth & Co., Inc.
Salt Lake City, Utah

Ralph L. Gosselin
Coughlin and Company,
Inc.
Denver, Colorado

R. Ron Long
Investment Securities,
Incorporated
Cheyenne, Wyoming

George P. Phillip
Quinn & Co., Inc.
Albuquerque, New Mexico

Bradford Richardson
Kelly & Morey, Inc.
Denver, Colorado

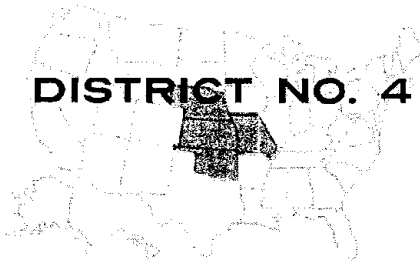
John D. Schannep
Dean Witter & Co.,
Incorporated
Tucson, Arizona

David Vollmer
The Prudential Insurance
Company of America
Phoenix, Arizona

Kenneth W. Cole
Director
909 - 17th Street,
Room 608
Denver, Colorado

• 171 MEMBERS • 314 BRANCH OFFICES • 7398 REGISTERED REPRESENTATIVES

DISTRICT NO. 4



**KANSAS
MISSOURI
NEBRASKA
OKLAHOMA**



Bill T. Wall
Chairman
Stern Brothers & Co.
Kansas City, Missouri

L. C. Petersen
Vice Chairman
Kirkpatrick, Pettis, Smith,
Polian, Inc.
Omaha, Nebraska

Frederic A. Arnstein, Jr.
Stix & Co., Inc.
St. Louis, Missouri

Eugene Dreyer
George K. Baum &
Company
Kansas City, Missouri

Arthur R. Hanni
Seltsam, Hanni &
Company, Inc.
Topeka, Kansas

David W. Mesker
A. G. Edwards & Sons,
Inc.
St. Louis, Missouri

Henry C. Miller
Harris, Upham & Co., Inc.
Oklahoma City, Oklahoma

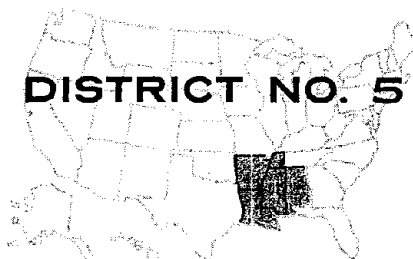
James D. Veron
Smith, Moore & Co.
St. Louis, Missouri

Gary Whittaker
B. C. Christopher & Co.
Kansas City, Missouri

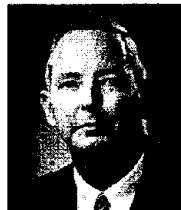
Richard M. Coster
Director
911 Main St.
Kansas City, Missouri

• 160 MEMBERS • 327 BRANCH OFFICES • 9979 REGISTERED REPRESENTATIVES

DISTRICT NO. 5



**ALABAMA
ARKANSAS
LOUISIANA
MISSISSIPPI
WESTERN TENNESSEE**



Phillip A. Sellers
Chairman
Philip A. Sellers
& Co., Inc.
Montgomery, Alabama

Godfrey R. Parkerson
Vice Chairman
Waters, Parkerson &
Company
New Orleans, Louisiana

Winfield Baird
J. C. Bradford & Co.
Birmingham, Alabama

Ernest Butler, Jr.
Stephens, Inc.
Little Rock, Arkansas

Joseph A. Crisler, 3rd
Leftwich, Ross & Crisler
Memphis, Tennessee

Donald S. McLellan
John Hancock
Distributors, Inc.
New Orleans, Louisiana

William H. Mounger
Leland Speed,
Mounger & Co., Inc.
Jackson, Mississippi

J. Herbert Williams
E. F. Hutton & Company,
Inc.
New Orleans, Louisiana

Kenneth W. Wills
Wills and Company
Jackson, Mississippi

Edward J. Newton
Director
1004 Richards Building
New Orleans, Louisiana

• 125 MEMBERS • 231 BRANCH OFFICES • 3391 REGISTERED REPRESENTATIVES

DISTRICT NO. 6



TEXAS



David J. Powell
Chairman
Eppler, Guerin & Turner,
Inc.
Dallas, Texas

George R. Bristol
Hornblower & Weeks—
Hemphill, Noyes
San Antonio, Texas

Edward L. McClennahan, Jr.
McClennahan & Co., Inc.
Dallas, Texas

Fred W. Middleton
Funk, Hobbs & Hart, Inc.
San Antonio, Texas

Richard W. Neff, Jr.
Underwood, Neuhaus &
Co., Inc.
Houston, Texas

D. Gordon Rupe, III
Gerald H. Wright
& Company
Dallas, Texas

Wayne G. Skaggs
Channing Company, Inc.
Houston, Texas

Robert B. Truelson
Bache & Co.,
Incorporated
Fort Worth, Texas

Peter M. Walker
Director
1610 Metropolitan
Federal Savings Bldg
Dallas, Texas

• 167 MEMBERS • 352 BRANCH OFFICES • 7468 REGISTERED REPRESENTATIVES

DISTRICT NO. 7



**FLORIDA
GEORGIA
SOUTH CAROLINA
EASTERN TENNESSEE
PUERTO RICO
CANAL ZONE
VIRGIN ISLANDS**



William K. Stephenson
Chairman
V. M. Manning &
Co., Inc.
Greenville, South Carolina

David D. Bush
Vice Chairman
Vance, Sanders &
Company, Inc.
Fort Lauderdale, Florida

James C. Bradford, Jr.
J. C. Bradford & Co.
Nashville, Tennessee

Richard R. Felker
Financial Service
Corporation of America
Atlanta, Georgia

David K. Gunby, III
Reynolds Securities, Inc.
Orlando, Florida

W. Cabell Hopkins
First Southeastern
Company
Columbus, Georgia

W. Frank O'Rourke
T. Nelson O'Rourke, Inc.
Daytona Beach, Florida

William G. Roe
Varnedoe, Chisholm,
Skinner & Co., Inc.
Atlanta, Georgia

Bennett Whipple
Director
1240 First National Bank
Tower
2 Peachtree Street, N.W.
Atlanta, Georgia

• 201 MEMBERS • 595 BRANCH OFFICES • 10235 REGISTERED REPRESENTATIVES

DISTRICT NO. 8

**ILLINOIS
INDIANA
IOWA
MICHIGAN
MINNESOTA
WISCONSIN**



Fred T. Rahn
Chairman
The Illinois Company, Inc.
Chicago, Illinois

William E. Chambers
Vice Chairman
Fulton, Reid &
Staples, Inc.
Indianapolis, Indiana

Walter A. Bayer
Manley, Bennett,
McDonald & Co.
Detroit, Michigan

James G. Brophy
The Chicago Corporation
Chicago, Illinois

John F. Detmer
Hornblower & Weeks—
Hemphill, Noyes
Chicago, Illinois

Russell F. Knapp
Securities Corporation
of Iowa
Cedar Rapids, Iowa

Howard V. O'Connell
John G. Kinnard and
Company, Inc.
Minneapolis, Minnesota

Julius Pochelon
Kenower, MacArthur &
Co.
Detroit, Michigan

Robert M. Powell
CNA Investor Services,
Inc.
Chicago, Illinois

Harry L. Sebel
Security Supervisors, Inc.
Chicago, Illinois

Russell T. Stern, Jr.
Merrill Lynch, Pierce,
Fenner & Smith, Inc.
Chicago, Illinois

Richard D. Vermillion
Smith, Barney & Co., Inc.
Milwaukee, Wisconsin

Burton J. Vincent
Burton J. Vincent & Co.
Chicago, Illinois

John R. Winsor
Piper, Jaffray & Hopwood
Incorporated
Minneapolis, Minnesota

William M. Mahany
Director
Connecticut Mutual Life
Building
33 N. Dearborn Street
Chicago, Illinois

• 445 MEMBERS • 988 BRANCH OFFICES • 32958 REGISTERED REPRESENTATIVES

DISTRICT NO. 9



**KENTUCKY
OHIO**

George H. Rinker, Jr.
Chairman
The Ohio Company
Columbus, Ohio

A. Edgar Aub, Jr.
Vice-Chairman
A. E. Aub & Co.
Cincinnati, Ohio

Powhatan M. Conway
J. J. B. Hilliard,
W. L. Lyons & Co.
Louisville, Kentucky

Preston R. Crabill
Cowen & Company
Dayton, Ohio

William W. Crawford
J. J. B. Hilliard,
W. L. Lyons & Co.
Louisville, Kentucky

John R. Donahue
Joseph, Mellen & Miller,
Inc.
Cleveland, Ohio

Martin F. Duffy
J. N. Russell, Inc.
Cleveland, Ohio

Robert L. Pollard
Bache & Co. Incorporated
Lexington, Kentucky

Norman E. Reed, Jr.
Prescott, Merrill, Turben &
Co.
Cleveland, Ohio

Wallace E. Sarran, Jr.
Hill & Co.
Cincinnati, Ohio

P. William Hotchkiss
Director
1823 Superior Building
815 Superior Avenue
Cleveland, Ohio

• 112 MEMBERS • 322 BRANCH OFFICES • 6722 REGISTERED REPRESENTATIVES

DISTRICT NO. 10



**DISTRICT OF COLUMBIA
MARYLAND
VIRGINIA
NORTH CAROLINA**

Patteson Branch
Chairman
Branch & Company
Richmond, Virginia

George W. Anderson
Anderson & Strudwick
Richmond, Virginia

Edward K. Crawford
First Securities
Corporation of North
Carolina
Durham, North Carolina

Parks H. Dalton, Jr.
Interstate Securities
Corporation
Charlotte, North Carolina

Lee M. Folger
Folger Nolan Fleming
Douglas, Incorporated
Washington, D. C.

E. Phillips Hathaway
Middendorf, Colgate & Co.
Baltimore, Maryland

Jack A. Kolscher
Robert Garrett &
Sons, Inc.
Baltimore, Maryland

Sidney B. Wachtel
Wachtel & Co., Inc.
Washington, D. C.

John T. Christensen
Director
888 - 17th Street, N.W.
Ste. 902
Washington, D. C.

• 175 MEMBERS • 403 BRANCH OFFICES • 10078 REGISTERED REPRESENTATIVES

DISTRICT NO. 11



Eugene Arnold, Jr.
Co-Chairman
Hopper, Soliday, Brooke
Sheridan Inc.
Philadelphia, Pennsylvania



Joseph P. Short
Co-Chairman
Arthurs, Lestrangle & Short
Pittsburgh, Pennsylvania

W. Lawrence Griffiths
DeHaven & Townsend,
Crouter & Bodine
Philadelphia, Pennsylvania

Charles E. Jacobs
C. S. McKee & Company,
Incorporated
Pittsburgh, Pennsylvania

Henry L. McKay
Laird, Bissell & Meeds, Inc.
Philadelphia, Pennsylvania

Wallace H. Runyan
Hornblower & Weeks—
Hemphill, Noyes
Bala-Cynwyd, Pennsylvania

Edward F. Ryan
Merrill Lynch, Pierce
Fenner & Smith, Inc.
Philadelphia, Pennsylvania

Dale E. Smith
Singer, Deane & Scribner
Pittsburgh, Pennsylvania

William Z. Suplee, III
Suplee-Mosley Inc.
Philadelphia, Pennsylvania

Willard J. Tillotson, Jr.
Arthur R. Hefren & Co., Inc.
Pittsburgh, Pennsylvania

Marshall Waddell
Babbitt, Meyers & Waddell
Pittsburgh, Pennsylvania


E. Coit Williamson
Schmidt, Roberts &
Parke, Inc.
Philadelphia, Pennsylvania

E. Craig Dearborn
Director
1932 Philadelphia National
Bank Building
Broad and Chestnut
Streets
Philadelphia, Pennsylvania

**DELAWARE
PENNSYLVANIA
WEST VIRGINIA
SOUTHERN NEW JERSEY**

• 247 MEMBERS • 440 BRANCH OFFICES • 14300 REGISTERED REPRESENTATIVES

DISTRICT NO. 12



**NEW YORK
CONNECTICUT
NORTHERN NEW JERSEY**



Edward B. deSelding
Chairman
Spencer Trask & Co., Inc.
New York, New York

William N. Bannard, III
Vice-Chairman
American Securities
Corporation
New York, New York

George H. Angelos
F. S. Moseley & Co.
New York, New York

Brent D. Balrd
Trubee, Collins and Co.
Buffalo, New York

Peter T. Buchanan
The First Boston
Corporation
New York, New York

Philip D. Davidson
Kidder, Peabody & Co.,
Incorporated
New York, New York

Michael J. DeMarco
Josephthal & Co.
New York, New York

Frank Dunne, Jr.
White, Weld & Co.
New York, New York

William J. Lippman
William Jennings & Co.,
Inc.
Fort Lee, New Jersey

Junius W. Peake
Shields & Co.
New York, New York

Alfred J. Rauschman
F. I. duPont, Glore,
Forgan & Co.
New York, New York

Louis P. Singer
Troster, Singer & Co.
New York, New York

Philip C. Smith
National Securities &
Research Corporation
New York, New York

Robert W. Swinarton
Dean Witter & Co.,
Incorporated
New York, New York

Thomas I. Unterberg
C. E. Unterberg, Towbin Co.
New York, New York

Bernard Weissman
Gold, Weissman & Frankel,
Inc.
New York, New York

Lewis M. Weston
Goldman, Sachs & Co.
New York, New York

Frederick B. Whittemore
Morgan Stanley & Co.
New York, New York

George J. Bergen
Vice President
Director
77 Water Street
New York, New York

• 1681 MEMBERS • 1002 BRANCH OFFICES • 46469 REGISTERED REPRESENTATIVES

**Effective January 15, 1972, Connecticut and New York State, except for New York City and the New York counties contiguous to New York City were transferred to District 13. Northern New Jersey, except for those counties contiguous to New York City will be in District 11.*

DISTRICT NO. 13



**MAINE
MASSACHUSETTS
NEW HAMPSHIRE
RHODE ISLAND
VERMONT**



Wesley E. Horton
Chairman
Colonial Distributors, Inc.
Boston, Massachusetts

James P. Elder
Vice-Chairman
Miller & George
Providence, Rhode Island

Nelson S. Burbank
Burbank & Company, Inc.
Boston, Massachusetts

Raymond Cocchi
Baystate Securities
Company
Springfield, Massachusetts

Dana C. Djerf
Kidder, Peabody & Co.,
Incorporated
Boston, Massachusetts

Clive B. Fazioli
White, Weld & Co.
Boston, Massachusetts

Marland L. Garth
John Hancock
Distributors, Inc.
Boston, Massachusetts

David G. Means
Sole Proprietor
Bangor, Maine

Alexander W. Moore
New York Hanseatic
Corporation
Boston, Massachusetts

Reginald M. Whitcomb
Spencer Trask & Co., Inc.
Boston, Massachusetts

William S. Clendenin
Director
75 Federal Street
Boston, Massachusetts

• 244 MEMBERS • 328 BRANCH OFFICES • 15077 REGISTERED REPRESENTATIVES

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS INC.
1735 K STREET N.W., WASHINGTON, D.C. 20006

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