

## THREE MAJOR MILESTONES FOR THE OTC MARKET

### JULY 7, 1980: INSIDE QUOTATIONS FROM NASDAQ

On July 7, the NASDAQ System began releasing the inside quotations—the highest bids and lowest asks—on NASDAQ securities to the 48,000 Level 1 terminals which receive NASDAQ information and to the wire services for transmittal to newspapers across the country. The change-over to inside quotations from the previous release of the Representative Bid and Ask

quotations is regarded by the Association as the most important development in the OTC Market since the start-up of the NASDAQ System in February 1971.

#### The Immediate Effect: Narrower Spreads

The immediate effect of the release of inside quotations was to narrow substantially the displayed and published spreads on NASDAQ securities. The impact of the change-over on the ten largest securities on NASDAQ (by market value) showed the following:

Security	RBA Close July 3, 1980	July 3 Spread	Inside Close July 7, 1980	July 7 Spread	Reduction in Spread
American International Group	67-68	1	67-67 1/4	1/4	3/4
Intel Corporation	67 3/4-68 1/4	1/2	70 1/4-70 3/4	1/2	—
Cameron Iron Works	39-40 1/2	1 1/2	39 1/2-40	1/2	1
General Reinsurance	92 1/2-94 1/2	2	93 1/2-94 1/2	1	1
Farmers Group	29-29 1/2	1/2	29 1/2-29 5/8	1/8	3/8
St. Paul Companies	36 3/8-36 7/8	1/2	36 3/8-36 3/4	1/8	3/8
SAFECO Corporation	39-39 1/2	1/2	38 7/8-39 1/8	1/4	1/4
Adolph Coors Company	13 1/2-14	1/2	13 7/8-14	1/8	3/8
Energy Reserves Group	16-16 3/8	3/8	15 3/4-15 7/8	1/8	1/4
Roadway Express	33-33 3/4	3/4	34 1/2-35	1/2	1/4

A random sampling of all NASDAQ securities on July 7 indicated that the release of inside quotations had narrowed the displayed and published spreads in 75-80% of the securities.

#### The Impact on Investors, Issuers and the Membership

In NOTICE TO MEMBERS: 80-26, sent to the NASD membership prior to the release of inside quotations, the Association said:

"It is expected that the narrower spreads will make

NASDAQ securities even more attractive to investors, particularly to those investors who have been little or not at all involved in the market for NASDAQ securities. These potential investors, who have perhaps been deterred by the wider RBA spreads, may change their perceptions of NASDAQ securities when they see the spreads narrowing.

"We also expect the release of inside quotations to be well received by the companies issuing NASDAQ securities. The great majority of NASDAQ companies

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has expressed itself strongly in favor of the change-over, as presenting their securities in a more favorable manner and as potentially broadening their shareholder lists.

"Finally, the view of the Board of Governors is that the release of inside quotations will, on balance, be advantageous to the membership of the Association. The improved perception of the market for NASDAQ securities, on the part of investors and issuers, should be beneficial to the professionals active in that market."

The NASD Board of Governors promptly supported the release of inside quotations when it was proposed by the SEC in the latter part of 1978. Re-programming of the NASDAQ computers for the change-over was begun in December, 1979. The SEC in February 1980 adopted its rule for the release of inside quotations, effective July 7.

#### **JULY 18, 1980: LIMITED OFF-BOARD MARKET MAKING**

On July 18, 1980, over-the-counter market making by exchange member firms in approximately 130 listed securities became permissible, as a result of the SEC's adoption of Rule 19c-3. The Rule stipulates that the off-board trading restrictions of the exchanges shall not apply to securities listed after April 26, 1979, the date on which the Commission proposed the Rule. The NASD is conducting the surveillance of the off-board market making in 19c-3 eligible securities.

#### **NASD Support of 19c-3**

At SEC hearings in June 1979, the NASD supported the adoption of 19c-3, as a useful experiment in competition among exchanges and over-the-counter market makers. The Association said in its testimony that "the experience gained from this experiment may serve to answer to some degree the questions and concerns which have been raised concerning the elimination of off-board trading restrictions," (As it adopted Rule 19c-3, the SEC withdrew Proposed Rule 19c-2, which would have eliminated all off-board trading restrictions.)

#### **Enhancements to OTC Trading Facilities**

In its June 1979 testimony, the Association also observed; "At the outset of the (19c-3) experiment, over-the-counter market makers will be at a competitive disadvantage with exchange market makers . . . (because) the exchange trading systems are supported by automated capabilities which do not presently exist in the over-the-counter market . . . Market makers have expressed concern that when an over-the-counter se-

curity becomes listed under (19c-3), many of the exchange members who generate order flow in these securities and who currently execute their orders with OTC market makers would utilize their automated facilities to route much of their order flow to the exchanges."

To reduce the competitive disadvantage of over-the-counter market makers, the NASD in late 1979 established a new subsidiary, NASD Market Services, Inc. This subsidiary is currently building (1) a switch linking upstairs order rooms with off-board market makers and (2) a computer-assisted execution capability for the off-board market makers.

#### **OCTOBER 1, 1980: THIRD MARKET, UPSTAIRS LINKAGE**

On October 1, 1980, a pilot linkage will begin between the upstairs order rooms of some seven firms and up to 15 Third Market Makers, for retail order flow in selected listed securities. The linkage will utilize the switch and the computer-assisted execution capability being developed by NASD Market Services, Inc. As a consequence of the SEC's adoption of Rule 19c-3, the participating market makers may include exchange member firms and the securities to be traded in the pilot may include 19c-3 issues, those listed after April 26, 1979.

The seven firms which will initially provide retail order flow are: Blunt, Ellis & Loewi; B.C. Christopher & Co.; A.G. Edwards; Elkins, Stroud, Suplee & Co.; Merrill Lynch; Piper, Jaffray & Hopwood; and Prescott, Ball & Turben. They will access the market makers either through a computer interface with their in-house order routing systems or through special terminals provided by NASD Market Services, Inc. The special terminals will be equipped with printers to receive instantaneous confirmation of all trades effected through the computer-assisted execution system.

The execution system will receive orders for execution at the market or at a specified limit price. An entering firm may send its order to a specified market maker or direct the system to route the order to the market maker with the highest bid or lowest offer.

The market makers participating in the pilot will enter, through their terminals, the quotations and size at which they are prepared to trade automatically in the selected listed securities. Their quotations and sizes will be displayed on the Consolidated Quotations Service, and identified on the screen by a special symbol. Also, the market makers will have printers installed to receive orders directed to them and instantaneous confirmations of all trades automatically executed with them.

January 1 — June 30, 1980

NASDAQ DAILY INDEX & VOLUME STATISTICS

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume	
1			H	O	L	I	D	A	Y
2	148.17	170.71	107.76	159.65	129.28	117.44	129.21	28,516,200	
3	145.97	167.72	106.95	157.93	127.75	116.77	126.82	25,989,900	
4	148.02	171.21	106.94	159.08	128.30	118.16	128.59	23,488,200	
7	148.62	172.28	107.25	158.85	128.61	118.40	128.53	22,925,600	
8	150.68	175.46	107.82	159.48	129.78	120.05	130.35	25,141,900	
9	151.60	176.45	108.59	160.67	130.58	121.32	131.29	27,149,700	
10	153.12	178.56	108.75	162.30	131.37	124.53	132.29	25,664,300	
11	153.87	179.46	108.62	163.27	132.01	125.90	132.67	28,319,200	
14	154.40	180.24	108.62	163.50	132.33	126.47	133.49	30,256,500	
15	154.96	181.35	108.78	163.42	132.45	125.82	133.47	31,799,500	
16	155.99	183.20	109.21	164.04	132.54	127.34	133.55	33,947,100	
17	155.81	183.02	109.55	163.90	132.22	127.67	133.47	32,148,000	
18	156.14	183.91	109.58	163.71	131.87	128.45	133.72	31,888,600	
21	157.35	185.60	109.97	165.12	132.45	130.96	134.48	30,145,700	
22	156.92	184.67	110.44	164.65	132.61	130.39	134.68	32,567,100	
23	158.50	186.91	111.08	165.20	133.88	131.34	135.33	30,332,600	
24	159.24	188.08	111.27	165.46	134.31	131.07	135.67	30,370,800	
25	159.70	189.23	111.15	164.72	134.23	130.32	136.32	25,590,600	
28	160.70	190.93	111.30	165.06	134.72	130.03	136.22	28,131,100	
29	160.29	190.45	111.27	164.87	134.37	127.53	135.73	32,196,200	
30	161.30	192.22	111.36	165.38	134.72	128.69	135.15	30,651,900	
31	161.75	192.94	111.54	165.18	134.99	129.80	135.70	35,163,900	

January 1980  
22 Trade Days

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume	
1	162.30	193.98	111.42	164.88	135.01	131.78	137.22	31,147,800	
4	162.02	193.55	111.77	164.32	134.99	131.07	136.98	31,409,100	
5	162.20	193.92	111.79	164.08	135.00	132.50	136.94	28,958,400	
6	162.99	195.19	111.93	164.44	135.24	133.99	138.34	34,505,100	
7	163.77	197.01	111.81	163.12	135.41	133.48	138.57	35,955,700	
8	165.25	200.03	111.92	162.39	135.73	133.08	138.87	36,100,600	
11	164.46	199.01	111.58	160.98	135.28	132.48	139.02	34,613,300	
12	164.57	199.26	111.55	161.23	135.13	134.39	138.45	32,255,200	
13	164.98	199.90	111.37	161.34	135.40	134.52	138.79	33,758,000	
14	163.54	197.12	111.21	160.87	135.35	135.51	137.70	28,839,500	
15	162.56	195.85	111.86	159.43	134.85	134.15	136.62	23,598,900	
18			H	O	L	I	D	A	Y
19	161.06	193.97	110.24	158.08	133.69	132.15	134.99	21,560,600	
20	162.10	196.00	110.16	158.27	133.84	132.08	135.12	21,792,700	
21	161.31	195.31	109.46	156.88	133.11	131.01	133.68	25,133,500	
22	160.08	194.30	108.79	154.89	131.73	127.58	132.55	22,780,300	
25	157.97	191.96	108.00	152.64	129.42	126.38	132.07	20,181,100	
26	158.50	193.05	107.46	152.94	129.45	126.55	131.93	19,232,100	
27	157.73	192.23	107.10	151.24	128.76	127.21	132.17	24,055,200	
28	157.46	192.47	106.93	150.52	127.82	127.70	131.47	20,182,000	
29	158.03	193.36	106.62	150.53	128.26	128.90	131.62	20,215,800	

February 1980  
19 Trade Days

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume
3	156.87	191.43	106.35	150.23	127.80	128.14	130.52	20,620,000
4	155.39	189.78	105.30	148.57	126.48	127.79	128.38	20,441,600
5	152.94	186.57	104.19	146.05	124.69	126.39	127.09	21,146,800
6	148.64	180.85	103.09	142.13	121.49	123.78	124.48	23,303,500
7	146.19	177.49	101.48	139.94	120.07	121.26	122.31	19,886,400
10	143.75	173.86	100.57	138.42	118.80	118.52	119.87	19,743,700
11	144.56	175.02	100.56	139.26	119.25	117.85	121.09	17,755,300
12	144.63	175.16	100.63	139.91	118.99	118.37	121.10	17,014,400
13	144.97	175.50	100.50	141.28	119.06	119.64	121.01	16,519,900
14	144.44	174.55	100.22	141.77	118.75	119.54	120.51	15,419,000
17	139.70	168.06	98.98	137.84	115.41	115.49	117.88	17,947,700
18	138.92	166.79	98.08	138.35	115.01	113.27	116.81	19,291,100
19	139.97	168.50	98.09	138.92	115.30	114.66	118.47	15,147,500
20	139.64	168.09	97.63	138.71	115.07	113.57	118.29	14,184,500
21	138.80	166.95	97.11	138.70	114.25	112.67	118.12	13,735,900
24	134.61	160.92	95.65	135.75	111.66	109.00	115.18	16,979,600
25	132.52	158.30	94.50	134.24	109.79	108.60	113.38	17,351,900
26	132.22	157.40	94.48	134.79	110.06	107.73	113.35	15,438,400
27	124.09	145.03	91.99	128.74	106.35	100.55	106.01	22,903,000
28	129.25	153.20	92.71	132.66	108.45	104.00	109.78	21,362,200
31	131.00	155.70	93.29	133.26	109.84	105.28	110.74	15,470,600

March 1980  
21 Trade Days

April 1980 21 Trade Days

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume
1	133.14	157.87	94.13	136.57	112.02	106.51	111.98	14,109,800
2	135.80	160.66	95.12	140.70	114.48	108.51	114.06	15,181,600
3	136.01	160.65	95.67	141.41	114.90	107.79	114.05	11,558,600
4			H O L I D A Y					
7	133.40	156.69	94.63	138.73	113.86	105.43	112.72	13,619,100
8	134.47	158.03	94.77	140.59	114.48	106.47	113.53	12,403,700
9	136.04	159.74	95.21	143.76	115.67	106.84	114.55	12,442,200
10	137.28	161.66	95.66	144.40	116.25	108.59	115.64	13,173,800
11	137.75	162.19	96.05	144.42	116.72	109.81	116.83	12,466,500
14	136.67	160.61	95.88	143.44	116.10	109.19	116.17	10,669,100
15	136.39	160.20	96.24	143.39	115.86	108.04	116.09	12,528,900
16	135.76	158.41	96.57	143.85	116.31	107.71	116.93	14,149,300
17	134.55	156.84	96.39	142.09	115.53	106.59	116.54	12,121,800
18	134.66	156.78	97.05	142.19	115.79	106.53	117.08	11,872,000
21	133.08	154.31	96.81	140.79	115.08	105.56	116.44	11,370,500
22	135.71	158.50	97.32	142.53	116.26	107.53	117.97	16,941,700
23	136.92	159.72	98.07	144.28	117.43	107.95	119.47	16,047,100
24	138.69	162.35	98.89	145.61	118.35	110.02	120.41	13,379,000
25	137.92	161.42	98.37	144.34	117.85	109.91	120.17	14,928,400
28	138.54	162.20	98.57	143.93	118.56	111.61	121.32	11,842,300
29	139.35	163.34	98.99	144.15	119.18	112.57	122.01	13,669,400
30	139.99	164.34	99.12	144.11	119.68	112.62	122.37	14,662,300

May 1980 21 Trade Days

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume
1	139.68	163.71	99.47	143.59	119.78	112.19	122.57	15,675,300
2	140.25	164.71	99.34	143.76	120.04	111.66	122.86	12,442,600
5	141.04	165.14	99.89	144.79	121.41	113.64	123.27	14,560,100
6	142.23	165.63	101.53	146.79	123.49	114.23	123.79	16,914,800
7	143.58	166.76	102.62	148.31	125.21	115.83	125.48	16,806,800
8	143.26	166.32	102.61	147.83	125.02	115.25	125.62	15,770,000
9	143.06	166.03	102.74	147.78	124.84	114.71	125.59	13,618,900
12	142.96	165.94	102.46	147.66	124.60	116.87	125.92	14,437,100
13	144.10	167.46	103.10	149.10	125.25	118.03	126.68	15,912,200
14	145.66	169.31	104.01	151.25	126.54	118.46	127.15	17,103,300
15	146.62	170.70	103.94	152.01	127.25	118.12	127.56	15,401,000
16	147.24	171.94	103.91	151.87	127.39	117.28	128.21	14,344,800
19	147.24	172.17	104.13	151.30	127.25	115.98	128.31	14,779,600
20	146.93	172.09	104.13	150.48	126.67	115.13	128.36	15,748,000
21	146.75	172.17	103.69	149.94	126.26	115.20	127.98	17,399,200
22	147.96	173.83	104.11	150.73	127.07	118.14	128.78	19,053,300
23	149.48	175.78	104.83	151.95	128.34	119.32	129.87	15,941,100
26			H O L I D A Y					
27	150.10	176.56	104.75	152.53	128.91	119.62	130.15	14,897,000
28	150.70	177.52	104.73	152.37	129.26	123.09	130.22	17,135,500
29	150.09	176.54	104.56	152.46	128.85	122.72	129.79	18,512,000
30	150.45	177.23	104.31	152.27	128.95	123.91	130.30	15,953,700

June 1980 21 Trade Days

	Composite	Ind	Bk	Ins	Ofin	Tran	Util	Volume
2	150.17	177.04	104.24	152.06	128.38	124.15	130.36	15,738,900
3	149.92	176.64	104.17	151.77	128.34	123.55	130.15	15,399,800
4	151.21	178.29	104.55	152.37	129.65	124.01	130.66	18,801,000
5	152.21	179.33	104.69	154.46	130.59	123.70	131.08	20,062,900
6	152.68	179.91	105.23	154.50	131.03	125.07	131.26	17,506,200
9	153.00	180.10	105.29	155.54	131.38	125.12	131.51	17,363,300
10	154.15	181.44	105.72	156.50	132.55	125.49	132.49	18,822,800
11	155.22	182.62	106.05	158.34	133.54	125.99	132.58	20,541,800
12	155.31	182.55	106.01	158.37	133.83	126.43	133.22	19,988,800
13	156.59	184.13	106.60	158.97	135.07	127.45	134.41	17,715,800
16	156.79	184.56	107.00	158.19	135.14	127.34	135.72	17,850,000
17	156.98	184.88	107.38	158.36	135.07	127.79	135.91	20,018,400
18	157.19	185.01	107.48	159.23	135.29	128.04	135.74	19,361,000
19	156.73	184.07	107.32	159.35	135.27	127.16	135.67	19,905,900
20	156.51	183.71	107.22	159.77	135.03	126.80	135.50	17,757,500
23	156.99	184.43	107.36	159.93	135.41	126.91	135.50	15,504,600
24	157.66	185.68	107.95	160.04	135.47	127.94	135.58	17,733,900
25	158.74	187.29	108.41	160.82	136.04	128.07	136.53	21,191,700
26	159.00	187.30	108.55	160.93	136.91	127.03	135.98	23,420,200
27	159.18	187.75	108.56	160.58	137.03	126.51	135.24	18,635,400
30	157.78	185.74	108.34	158.94	136.35	125.10	134.37	17,595,200

## OTHER PRODUCT DEVELOPMENTS

### HIGHER NASDAQ SECURITIES QUALIFICATIONS PROPOSED

The NASD Board of Governors is circulating for comment to the Association's membership and to NASDAQ-quoted companies a proposal to raise the qualifications standards for securities in the NASDAQ System. NASDAQ qualifications requirements relating to assets and capital and surplus, have remained unchanged since their adoption in 1971, and the requirements should be increased, in the light of inflation, so that their stringency becomes more comparable to that of 1971.

Accordingly, the Board proposes (1) to increase the initial qualification requirements by 100%, so that the issuer company of a security would have to have \$2 million in total assets and \$1 million in capital and surplus, instead of the \$1 million and \$500,000, respectively, which are now required (2) to increase the continuing qualification requirements by 50%, to \$750,000 in total assets and \$375,000 in capital and surplus, instead of \$500,000 and \$250,000, respectively.

Companies currently quoted in the NASDAQ System would become subject to the higher continuing qualifications requirements six months after their effective date, if the Board proposal is adopted.

### YIELD QUOTATIONS ON MONEY MARKET FUNDS

In June, the NASD began, as a public service, to collect yield quotations for money market mutual funds, and to transmit them weekly to the press wire services for dissemination to newspapers.

A number of investors have asked brokers how to read the yield tables. To help answer such questions, here are excerpts from the NASD's instructions to the money market funds which are providing their yield quotations:

#### Qualified Funds

Any company registered under the Investment Company Act of 1940, which has at least 1,000 shareholders, and which meets the description of "money market funds" as contained in SEC Release 33-6183 dated January 28, 1980, may submit yield quotations to the Association. The SEC's description includes "any open-end investment company holding itself out to be a money market fund or having an investment policy calling for investment of at least 80 percent of its assets in debt securities maturing in thirteen months or less."

#### Data to be Submitted

The yield quotation submitted must represent the average of the daily yields for the last seven calendar days. A figure representing the average (in days) of the

dollar weighted portfolio maturities for the same seven day period must also be submitted. At or prior to the time the yield quotation and average portfolio maturity figures are submitted, the NASD should be notified if any of the footnotes in the standard format are applicable to the fund or its yield (see below).

#### Method of Calculation of Yield

The yield must be calculated in accordance with the method currently specified by the SEC.

#### Explanations of Footnotes

*Footnote (a)* is to be used during periods when management fees are waived by the fund manager or investment adviser or when other temporary subsidies of fund expenses (other than normal expense limitations resulting from state blue sky laws) are being made which materially increase an investor's income return from the fund.

*Footnote (b)* should be used if the fund normally takes into account net realized and/or unrealized gains and losses in computing its dividend and such gains or losses were included in any dividend declared during the period.

*Footnote (c)* should be used if the fund levies charges directly against a shareholder's account, e.g., monthly or quarterly account maintenance fees, initial account establishment fees, redemption fees, etc. Fees not charged to all shareholders but which are charged only for special services need not be included.

*Footnote (d)* should be used if the fund's per share net asset value changed during the seven day period.

*Footnote (e)* should be used by funds investing primarily in securities which generate interest exempt from federal income taxes.

### NOTICE TO PRIVATE OFFERINGS OF SECURITIES PARTICIPATION PROGRAMS

The NASD in April released a research study, entitled "Private Offerings of Direct Participation Programs." On the basis of the study, the Association determined not to require members to file private offerings for review at this time, since the costs to members and issuers resulting from a filing requirement would outweigh any regulatory benefit which might be derived.

However, on the basis of the study findings, the Association did believe it necessary, by NOTICE TO MEMBERS: 80-17, to issue two cautions with respect to private offerings, as follows:

#### To Unregistered Broker/Dealers

"The study emphasizes the apparent widespread participation of unregistered broker/dealers in private offerings. This is a continuing concern to the Association. The report states (that) the fact that a person is effecting transactions exclusively in privately offered

## CAUTIONS ON PRIVATE OFFERINGS *continued*

securities does not provide an exemption from the requirement to register as a broker/dealer under the (Securities Exchange Act of 1934)."

### To Personnel of NASD Member Firms

"The study found that some registered representatives and principals of member firms apparently distribute private offerings in their individual capacities, in some instances without informing their member employer. The report notes the serious implications of such activity for both the individual registered person and the member firm. Among the dangers cited are potential violations of the Securities Exchange Act of 1934 and the Securities Act of 1933 as well as Association rules, and civil liability for some such violations . . . The

report also cautions members against possible liability under agency law for their employees' activities, including activities of which the firm has no knowledge."

### To Insurance Company Representatives

In addition, the NASD Variable Contracts Committee reported to the Association's Board of Governors in May: "The Committee discussed the various problems which . . . have caused certain registered representatives of insurance company members or their subsidiaries to engage in the sale of private placements in violation of NASD rules and securities regulations. The Committee felt that the Association should notify insurance company members or their subsidiaries of the existence of these problems."

## 1980 PUBLIC DIRECT PARTICIPATION PROGRAMS

Public offerings of direct participation programs ran high during the first six months of 1980. They totaled over \$1.84 billion, compared to \$1.07 billion for the first half of 1979. Oil and gas programs had a registered value of \$850 million, compared to \$624 in 1979, and

real estate programs had a registered value of \$791 million, compared to \$313 million in 1979 and other programs were \$100 million higher in the first half of 1980 than in the same period in 1979.

MONTH	OIL & GAS		REAL ESTATE		CATTLE		OTHER	
	# Deals	\$ Registered	# Deals	\$ Registered	# Deals	\$ Registered	# Deals	\$ Registered
January	8	\$152,243,500	6	\$246,432,000	0	0	3	\$11,600,000
February	10	292,650,000	5	43,500,000	0	0	3	80,355,000
March	22	80,248,500	10	74,162,525	0	0	2	708,000
April	14	200,475,000	10	91,689,760	0	0	6	79,000,000
May	5	41,000,000	7	122,675,000	1	6,000,000	0	0
June	8	83,925,000	11	213,342,000	0	0	5	23,070,000

## 1980 CORPORATE FINANCING: OFFERINGS

Corporate financing offerings have also been high during January-June 1980. They totaled nearly \$10.2

billion, compared to \$4.5 billion in the first half of 1979 and \$11.2 billion in all of 1979.

MONTH	REITs		DEBT		EQUITY	
	# Deals	\$ Registered	# Deals	\$ Registered	# Deals	\$ Registered
January	0	0	12	\$ 15,154,000	45	\$1,104,256,192
February	1	6,000,000	11	421,774,000	86	2,331,850,191
March	1	15,000,000	7	30,137,000	73	1,436,959,084
April	2	42,000,000	9	26,197,000	56	914,219,424
May	2	31,810,000	10	195,095,000	74	1,560,327,549
June	0	0	13	305,365,289	89	1,691,183,989

## MAJOR REGULATORY DEVELOPMENTS

### FIXED PRICE DISTRIBUTION SYSTEM TO BE MAINTAINED, SEC INDICATES

The Securities and Exchange Commission has indicated its support for the maintenance of the fixed price distribution system in the securities industry, which was challenged by the 1976 *Papilsky* case. The indication came at an SEC meeting on July 3, 1980, at which the Commission considered the NASD's proposed rule package to prohibit practices which, if permitted, would enable certain customers to obtain discounts from the public offering prices. While the Commission requested changes in two areas of the NASD proposals, Chairman Harold M. Williams said: "It is essential that the Commission's action today not be viewed as suggesting that the current underwriting system which has served this nation so well over the years should, in any way, be dismantled or discarded. Rather, it should be read as supportive of the NASD's efforts to bring much-needed confidence and certainty to the important process by which American business raises the capital which is so crucial to this nation's continued prosperity and growth."

By a letter to the NASD, also of July 3, 1980, the Commission requested revisions of the Association's proposals with respect to (1) soft dollar payments for research, and (2) swaps.

Concerning soft dollar payments for research, the Commission found the NASD's proposals to be too restrictive. It indicated its preference for an alternative approach which the NASD had already suggested, under which *bona fide* research would be considered a sufficient service in distribution and would also place such research in a class by itself so that, unlike other products or services, it could be furnished for soft dollars without being considered to be an improper discount. The Commission noted the view that "soft dollar payments for research have been prevalent for years with no adverse effect on the fixed price underwriting system."

With regard to swaps, on the other hand, the Commission asked the NASD to strengthen its proposed restrictions on overtrading. The NASD proposal presently defines the "fair market price" at which members are to purchase securities taken in trade to mean a price not higher than the lowest independent offer for the securities at the time of purchase. The Commission offered two alternative approaches: (1) to use the lowest offer as a guideline rather than a fixed standard (2) to use as a standard the lowest independent bid, rather than the offer.

The NASD's Special Committee on Section 24 promptly studied the SEC's comments and made a series of recommendations to the NASD Board of

Governors at its July 11 meeting. The Board, in turn, decided to submit revisions to the rule package in the two unresolved areas to the Association's membership for vote. If the membership approves the Board's revisions, the NASD will amend its filing with the SEC.

After the 1976 court ruling in the *Papilsky* case, the NASD mounted a major effort to strengthen its rules regarding the fixed price distribution system. The Association filed its proposed rule package with the Commission in May 1978. The Commission held public hearings on it which concluded in November 1979 and the comment period expired in December 1979.

### CENTRAL REGISTRATION DEPOSITORY BEING BUILT

A Central Registration Depository (CRD) for the entire securities industry is being established by the NASD. As the CRD System develops, it will permit securities firms to register their personnel with any participating exchange and state government and the NASD through the filing of a single registration form and the submission of a single check to one place. The System will thus save the securities industry substantial time and money by eliminating duplicative registration form filings.

The North American Securities Administrators Association in April declared itself in favor of the CRD System and in June signed a contract with the Association under which NASDAQ, Inc. will operate the System. All or virtually all of the states are expected to participate in it. State securities administrations foresee that the System will relieve their personnel of much of the clerical burden of registration processing, and permit the personnel to devote more time to regulatory and investigative activities.

The CRD System, as it is being designed, will receive, check and record all the information on the uniform securities industry registration form (Form U-4) and termination form (Form U-5). It will record approvals of registrations as they are granted by the states and the self-regulatory organizations, and notify them and securities firms of the approval. Also, the System will contain the disciplinary records of all registrants. Further, it will handle registration/examination fee and annual renewal of registration accounting.

NASDAQ, Inc. is selecting a contractor to build the CRD System. Completion is scheduled for early 1981.

## NASD SERVICES TO THE MEMBERSHIP

### DUE DILIGENCE SEMINARS HELD IN FOUR CITIES

The NASD has conducted four well-attended seminars on due diligence investigations performed in connection with corporate and limited partnership offerings. The seminars were held in Los Angeles, Denver, New York and Chicago, and attended by some 400 securities industry professionals. The proceedings of the seminars are being published and will be available from the Corporate Financing Department of the NASD at 1735 K Street, N.W., Washington, D.C. 20006.

Topics covered at the seminars were:

- Legal aspects of due diligence—reviews by leading securities attorneys of the potential liability to underwriters;
- Practical aspects of due diligence—explanations by representatives of underwriting firms of their procedures in performing due diligence investigations; and
- Special considerations for limited partnership offerings and private placements.

Attorneys who spoke at the seminars were:

- Ronald L. Fein, of Jones, Day, Reavis & Payne, Los Angeles;
- Arthur Fleischer, Jr., Fried, Frank, Harris, Shriver & Jacobson, New York;
- Bruce A. Mann, Pillsbury, Madison & Sutro, San Francisco;
- A. A. Sommer, Jr., Morgan, Lewis & Bockius, Washington, D.C.; and

- Linda A. Wertheimer, Jackson, Walker, Winstead, Cantwell & Miller, Dallas.

Representatives of underwriters who addressed the seminars were:

- Peter A. Bernard, Bache Halsey Stuart Shields, Inc., New York;
- Peter J. Eichler, Bateman Eichler, Hill Richards, Inc., Los Angeles;
- William Harman, Morgan, Stanley & Co., Inc., New York;
- Craig L. Johnson, Dean Witter Reynolds, Inc., San Francisco;
- Arnold Kroll, L. F. Rothschild, Unterberg, Towbin, New York;
- Richard E. Landau, E. F. Hutton & Co., Inc., New York;
- James H. Levi, Oppenheimer Management Corp., New York;
- John T. McGuire, Rauscher Pierce Refsnes, Inc., Dallas;
- J. Stephen Putnam, F. L. Putnam & Company, Inc., Boston;
- Robert A. Shive, A. G. Edwards & Sons, St. Louis; and
- Lewis M. Weston, Goldman, Sachs & Co. (Limited Partner), New York.

NASD President Gordon S. Macklin and Dennis C. Hensley, Vice President, Corporate Finance of the NASD took part in the due diligence seminars.

### NEW QUALIFICATION EXAMINATIONS

The NASD is implementing, on August 1, 1980, new qualification examinations for (1) Investment Company Products/Variable Contracts Representatives and for (2) Direct Participation Program Representatives. All persons who apply on or after August 1 for registration in these two categories will be required to take the new examinations.

Study outlines for both examinations, at a cost of \$2.00 each, are available from the NASD District Offices or the Executive Office in Washington, D.C. Both tests are two hours in length, consist of 100 multiple-choice questions and will be administered on the PLATO System in Control Data Corporation's Learning Centers throughout the country.

Passing the Investment Company Products/Variable Contracts Representative Examination qualifies a person to deal in redeemable securities of companies registered pursuant to the Investment Company Act of 1940, securities of closed-end companies registered pursuant to the 1940 Act during the period of original distribution only, and variable contracts and insurance premium funding programs registered pursuant to the Securities Act of 1933.

Successful completion of the Direct Participation Program Representative Examination qualifies an in-

dividual to deal in oil and gas, real estate, agricultural and cattle programs, condominium securities and Subchapter S corporate offerings. It does not qualify persons for the distribution of real estate investment trusts, tax-qualified pension and profit-sharing plans, individual retirement plans, tax sheltered annuities or of securities of companies registered pursuant to the Investment Company Act of 1940.

### BRANCH MANAGERS' TEST

As part of the continuing effort to reduce duplicative regulation, the NASD is working with other self-regulatory organizations to develop a single, industry-wide branch managers' examination. The NASD Board of Governors in May had decided to pursue this effort, to supplant the four different principal examinations currently required for branch managers under NASD, MSRB, NYSE and options exchange regulations.

In June, the NASD, AMEX, CBOE, MSRB, NYSE, and the Midwest, Pacific and Philadelphia Stock Exchanges all agreed to proceed with the project. In July, staff members of the self-regulatory organizations met to consolidate the material from their various principal examinations into a draft outline for the proposed single new test. An industry committee to review the draft outline and specific test questions is in the process of formation.