

MEMORANDUM

August 14, 1942

TO: Mr. Treanor, Miss Stieg, Mr. Knudsen and Mr. Vernon

FROM: Mr. Keenan

RE: Market Disclosure Rule

On November 3, 1941, the District Business Conduct Committee for District No. 8 (Chicago and vicinity) filed a complaint against Municipal Securities Corporation specifying, among other things, unfair prices and non-observance of high standards of commercial honor and just and equitable principles of trade, etc.

Among the transactions specified was a sale of Morrison Hotel Certificates of Deposit at more than 30% above the high offer on the trade date and a sale of Baltimore & Ohio RR 4% Bonds of 1944 at approximately 16% above the high offer on the trade date. The Committee held that these prices were unfair and in violation of Section 4 of Article III of the Rules.

The Committee then considered whether these same transactions were in violation of the general provision requiring high standards of honor, etc. On this point, the Committee's decision reads as follows:

“In considering these charges, we wish to emphasize our belief that, in view of the relationship of a securities dealer to its customers, the pricing of a security by a dealer to such customers implies that the price bears a reasonable relationship to the prevailing market price. This implication may of course be negated by specific statement to the contrary or by the customers' own knowledge, but Respondent has not claimed that its customers in the above referred to transactions in Morrison Hotel C/Ds or B. & O. R.R. 4's of '44 knew or were advised of the market prices of the securities sold to them. Respondent itself was familiar with the market prices. Under these circumstances, the representation implicit in Respondent's conduct that the prices at which it sold the securities to its customers were reasonably related to the prevailing market prices was untrue. As previously stated, Respondent had no explanation to make of these transactions or the prices at which it effected them. Consequently we find that Respondent in these transactions violated Sections 1 and 18 of Article III of the Rules of Fair Practice of this Association as charged in paragraph 5 and 6 of the Complaint.”

JAKeeenan, Jr./bfp